CONCEPT: OVERVIEW OF THE REAL BUSINESS CYCLE MODEL

● The ***real business cycle model of economics*** focuses on changes in aggregate supply rather than aggregate demand

- □ Fluctuations between inflation and recession are caused mainly by changes in:
  - > Technology → Increases in aggregate supply
  - > Availability of resources → Generally speaking, decreases in aggregate supply
- □ The other models tend to focus on changes in spending
  - > Keynesian Model → use monetary/fiscal policy to fight recessions by increasing aggregate demand
  - > Monetarist Model → increases in the money supply will lead to increased spending

EXAMPLE: An increase in oil prices causes the input prices of many firms to increase, lowering production and employment

Recession in Real Business Cycle