Recession and gdp per capita

Finance, Investment

Recession and GDP Per Capita Name: Course: Date: Recession and GDP Per Capita The 2007 financial crisis greatly influenced the economies of many countries. The American economy suffered major setbacks. The recession slowed down Economic growth and reduced per capita GDP. GDP is the full economic value of the output produced by a country during a particular year.

GDP per capita is the total output of a country divided by its population. Per capita GDP can therefore be affected by changes in the population. A high population reduces the per capita income. The GDP of a country will be high if there is a high population, and the productivity per person is high too. When there is a high number of unproductive persons, the GDP per capita will be low, thus a low economic growth. After the global financial crisis, the GDP per capita of the USA declined and to date it has not regained its initial position.

The recession caused a fall in the total output produced in the country and hence the GDP. The reduction in the per capita GDP of the United States during the recession can be attributed to the impact on the banking system. The recession caused a reduction in savings, which in turn led to a fall in investment spending. There has also been a steady increase in the US population and this, given the increasing unemployment rates, has caused a fall in the per capita income. The global financial crisis also caused massive layoffs in some American companies. This increased the number of dependants and the unemployed.

Because of the growing unemployment problem, other sectors of the economy were also affected. The unemployment level meant that the disposable income of the consumer reduced, which in turn caused a reduction in the marginal propensity to consume. As a result, the consumption level and the national output reduced. Companies therefore registered a decrease in income and were forced to layoff more workers thus causing a devastating business cycle. The following graph illustrates the values of GDP in the year 2008 during the recession.

The only economic remedy that the government can adopt to avoid the adverse effects of a recession is to institute a policy that will increase the aggregate demand. This means that the government should enact either fiscal or monetary measures that will encourage investment, consumer spending and international trade. When aggregate demand increases, this indicates that the consumer's marginal propensity to consume is high. A high marginal propensity to consume is good for business. It means that the consumer can now purchase more goods and services. Such an increase in consumption will result in increased incomes for individuals and businesses, and therefore increased production to meet the growing demand for goods and services. An increase in production rates will increase the national output hence causing an increase in per capita GDP.

The curve below shows how increases in aggregate demand cause a rise in GDP. Financial recessions and the cycle they cause lead to a fall in the per capita income of a country. This is devastating because it lowers the general welfare of the people and cause economic strife.

The effects of the recessions can however be avoided by raising the aggregate demand. An increase in Aggregate demand causes an increase in consumption and investment spending which in turn causes an increase in national income. A rise in the national income means a rise in the GDP of the country and therefore an increase in the general wellbeing of the people.

References Mulligan, C. B.

, & National Bureau of Economic Research. (2010). Aggregate implications of labor market distortions: The recession of 2008-9 and beyond. Cambridge, MA: National Bureau of Economic Research.