

CFA® Exam Tips – LEVEL III

Study Tips

Capital Market Expectation #5

Business Cycle Analysis

1. **Historical business cycles varies in Duration & Intensity**

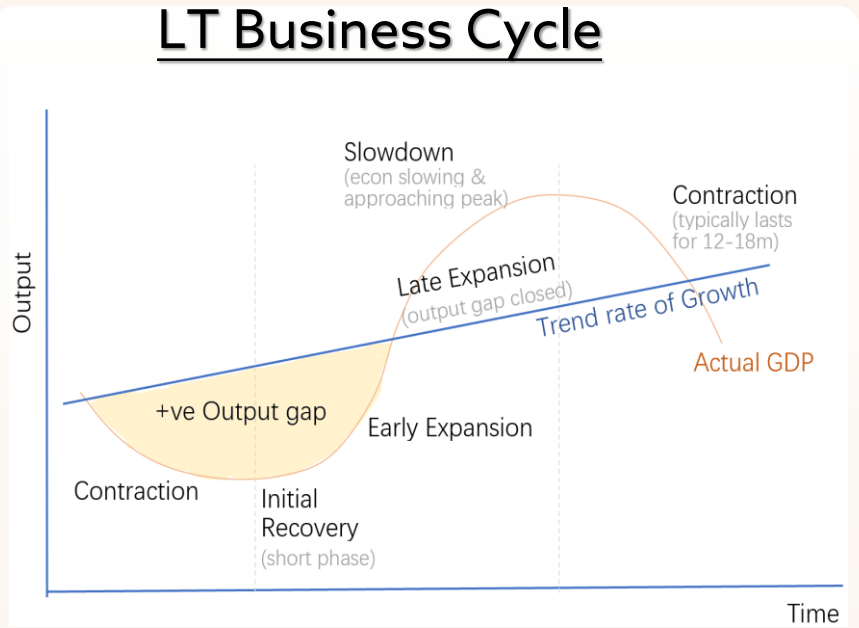
2. **Output gap = Trend GDP - Actual GDP**

Positive output gap opens in times of recession

3. **Inflation is procyclical**

Inflation ↓ during contraction and initial recovery. Output gap is large. ↓ pressure on Prices.

Inflation ↑ during late expansion stage of a business cycle. Output gap closed. ↑ pressure on Prices.



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