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Faculty of Economic, Commercial, and Management Sciences

Level: First year

Second Semester



Economic terms such as **Depression**, **Recession**, and **Deflation** are commonly used to describe a declining economic state. However, people often confuse their meanings and specific implications. Below is a detailed breakdown of the differences between these three terms:

Economic Depression: A negative economic state characterized by **profound financial impacts**. It often occurs as a result of a contraction in **Gross Domestic Product (GDP) growth**. As **consumer demand drops**, producers are negatively affected, leading to a decline in output. The true danger of a depression lies in its prolonged **recovery period**, which may span decades.

Economic Recession: A decline and deterioration in economic activity, typically identified by a contraction in GDP growth for **two or more consecutive quarters**. A recession is recognized through various declining **economic indicators**, such as **Real GDP growth, employment and unemployment rates, personal income, industrial production, and retail-wholesale sales**.

The primary difference is that a **Depression** is much deeper and **more severe** than a **Recession**; it is classified as **long-term with a massive impact**. A **Recession** is a **shorter decline in economic activity**, usually not exceeding a few years.

Deflation: The opposite of **Inflation**. It refers to a **general decrease in the price level of goods and services** and an increase in **purchasing power** (the ability to buy more goods with less money). While it may seem positive to consumers, deflation is often a warning sign of an imminent recession and a slowdown in economic activity. This happens because **consumers delay purchases**, expecting prices to drop further in the future. This decrease in demand harms producers and leads to a fall in production.

Causes of Depression:

- **Stock and bond market crashes.**
- **A drop in demand for industrial output.**
- **Price and wage controls and monitoring.**
- **Occurrence of deflationary spirals.**
- **A collapse in consumer confidence regarding economic performance.**

Causes of Recession:

- **External economic shocks and structural shifts in the economy.**
- **Financial factors: Over-leveraging (excessive borrowing) during periods of economic boom.**
- **Psychological factors: Over-investment of capital during expansionary phases followed by a sudden loss of "animal spirits."**

Causes of Deflation:

- **Excess Supply:** Producers lower prices due to intense competition or decreased production costs.
- **Decreased Demand:** Resulting from tight **monetary policies** or consumer fear; people spend less and save more due to anxieties over unemployment and the economic outlook.

3. Economic Impacts

Each state carries distinct negative consequences:

Impact Category	Depression	Recession	Deflation
Labor Market	Massive unemployment spikes.	Rising unemployment as firms cut costs.	Job losses due to shrinking corporate profit margins.
Trade & Finance	Collapse of international trade.	Decline in corporate profits due to lower prices.	High real interest rates , which discourage borrowing.
Asset Markets	Sharp decline in housing prices affecting national wealth.	Volatility in stock and asset markets.	Reduced production leading to lower wages and a feedback loop of low demand.

Task 1: Read the following statements and determine if they are True or False.

1. A depression is simply a recession that lasts for more than six months. (___)
2. During the Great Depression of 1929, U.S. unemployment reached approximately 25%. (___)
3. The Great Recession of 2008 was triggered by a collapse in the housing market. (___)
4. A decline in GDP of 3% is generally enough to classify a downturn as a depression. (___)

Task 2: Match the economic term in Column A with its correct definition in Column B.

Column A	Column B
1. Recession	A. A decade-long slump where the economic system fundamentally breaks down.
2. GDP	B. A significant decline in activity spread across the economy lasting more than a few months.
3. Depression	C. The total value of goods produced and services provided in a country during one year.
4. Recovery	D. The phase of the business cycle following a trough where economy activity begins to increase.

Task 3: Fill in the table below using the following main characteristics

1/Decline in activity, but economic flow continues, 2/Massive spikes reaching 20% or 25%, Total "freeze" in credit, consumer spending, and investment, Rises to single digits or low double digits (e.g.10%), 3/The Great Recession (2008) (lasted 18 months), 4/Significant but relatively limited decline, 5/Severe contraction, typically exceeding 10%, 7/Two years or more (can extend for a decade), 8/A fundamental and structural breakdown of the economic system, 9/A few months up to less than two years (generally), 10/ A standard, albeit difficult, 11/ part of the normal cycle, 12/ The Great Depression (1929) (lasted 10 years).

Feature	Recession	Depression
Duration		
Impact on GDP		
Unemployment Rates		
Credit & Spending		
Business Cycle		
Historical Example		

Task 4: Complete the summary below using the following terms: Contraction, Cycle, Severe, Systemic.

Economic downturns are a standard part of the business While a recession is a painful period of economic it is usually temporary. However, a depression is far more leading to failure where banks close and unemployment stays high for years.

Task 5: Translate the underlined terms or expressions into English Language

Inflation happens when prices rise and purchasing power falls, while deflation occurs when prices drop and purchasing power increases. Both can strain an economy if they move too far in either direction, making it harder for consumers and businesses to plan and spend.

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