P-Glossary

Depression

A depression is a severe recession lasting over a long time. However, there is no widely accepted definition. A depression is, however, understood to be any economic downturn lasting over a long period when real GDP declines by more than 10%.

When discussing the nature of a "recession" and "depression," the cause of a downturn can be viewed from different perspectives. A standard recession usually follows a period of tight monetary policy, while a depression is the result of a bursting asset and credit bubble, a contraction in credit, and a decline in general price levels.

Another important factor in the definitions of a recession and a depression is the difference in policy responses. A recession triggered by tight monetary policy can be cured by lower interest rates, but fiscal policy tends to be less effective because of the time lags involved. By contrast, in a depression caused by falling asset prices, a credit crunch, and deflation, conventional monetary policy is much less potent than fiscal policy.

See also: See also Recession
