**Chapter 2**

1. We would require information related to interest rates, credit conditions, financial markets, and overall GDP growth.

2. The four stages are peak, recession, trough and expansion; comparing potential and actual output.

3. A recession is typically measured as two consecutive quarterly declines in real GDP.

4. The four components are consumption, business investment, government spending, and net exports.

5. The three goals are price stability, maximizing employment, and moderating long-term interest rates.

6. Low and steady inflation is important because it removes uncertainty related to costs and prices.

7. Deflation is a decrease in the level of prices.

8. The first hypothesis that explains the shape of the yield curve is the unbiased expectations hypothesis: long-term rates are the market's best guess of average expected short-term rates. The second hypothesis is the liquidity preference hypothesis: investors wish to be compensated for holding longer-term bonds.

9. An upward sloping yield curve is associated with an expansion. An upward sloping yield curve at lower yields is associated with a trough. An inverted yield curve is associated with a pre-recession stage.

10. In stage 2 of the life-cycle profits are becoming positive as revenues are growing rapidly. In stage 3 there are positive profits from improving efficiencies and cost controls but with squeezed margins due to increased competition.

11. The five key forces are: threat of new entrants, threat of substitutes, bargaining power of suppliers, bargaining power of customers, and intensity of rivalries.

12. Key success factors might include the efficiency of operations, investment in technology, labor management, relationships with customers, reliability, and delivery.

13. High supply risk is associated with: poor quality product, high costs and prices, out-of-date technology, insufficient production capacity or operability, ineffective inventory management system, and poor labor relations. High demand risk is associated with: poorly defined value proposition, ineffective targeting, and an inappropriate marketing mix.