

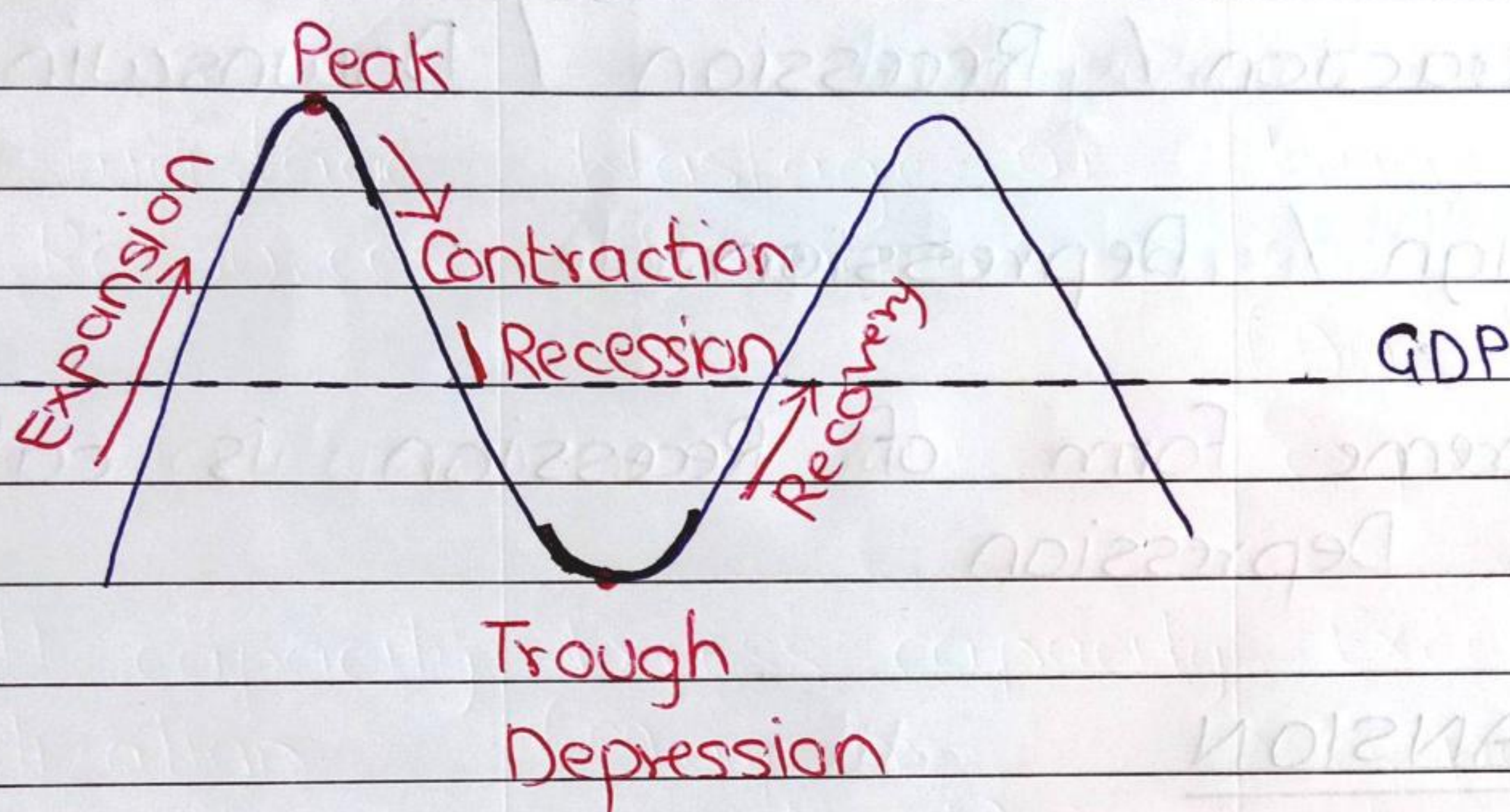
BUSINESS

MODEL

Business cycles

Trade cycle.

Economic cycle.



Business cycle is the periodic fluctuations in Economic activity measured by change in Real GDP → output.

It represents economic growth, followed by slowing growth and even falling growth.

[Expansions followed by contractions]

Decline in Economic activity - Contraction.

Significant in Economic activity - Recession.

DATE / /

* PHASES OF BUSINESS CYCLE

- 1) Expansion / Recovery / Upswing.
- 2) Peak / Boom / Prosperity.
- 3) Contraction / Recession / Downturning.
- 4) Trough / Depression.

[Extreme form of Recession is called as Depression]

o EXPANSION

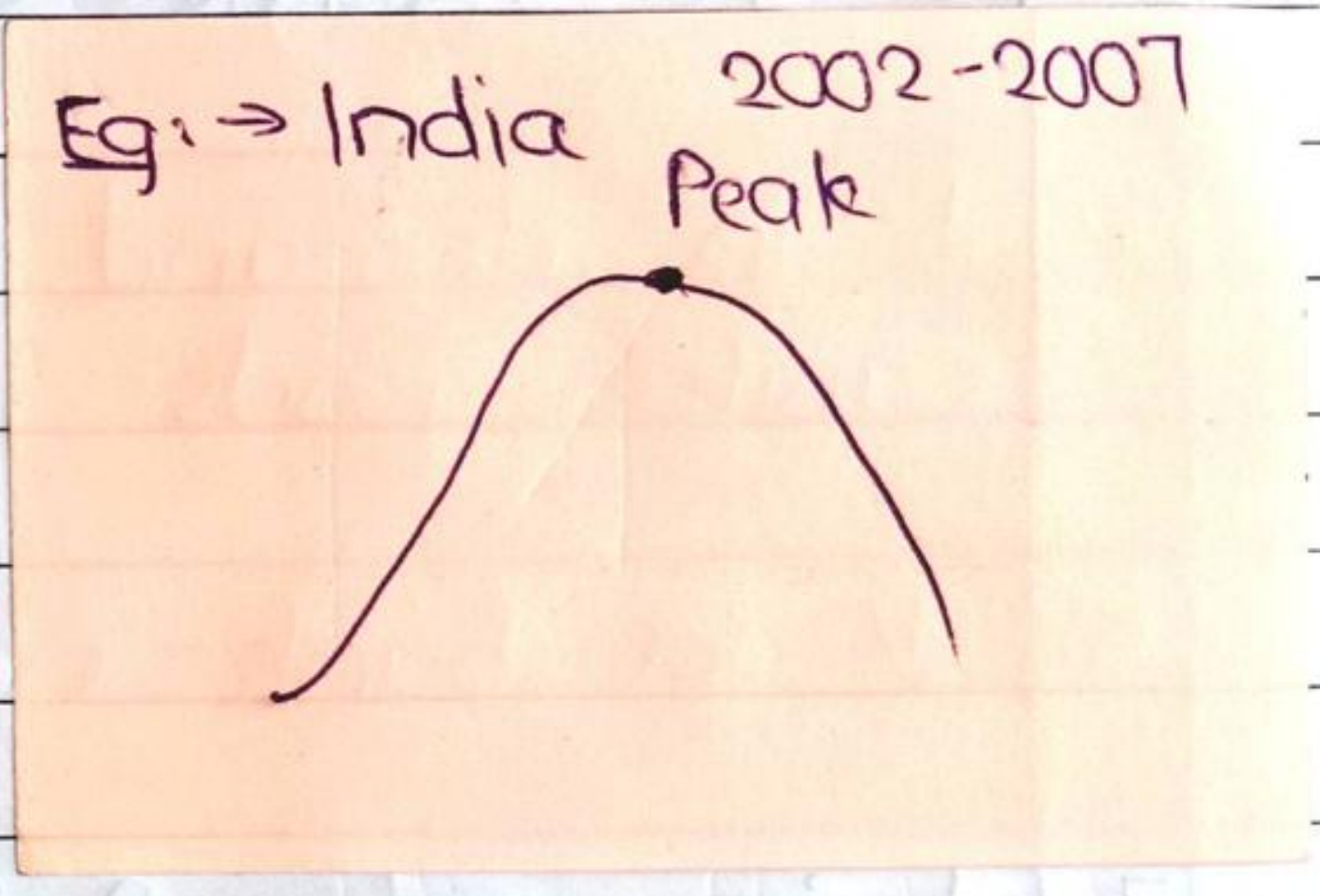
1. ↑ in national Income and output.
2. ↑ in Employment
3. ↑ in Aggregate demand.
4. ↑ in consumer spending.
5. ↑ in sales, profit, stock prices etc.
6. ↑ in Standard in Living.
7. ↑ in bank credit.

Growth ultimately slows down and Reaches the 'PEAK'

There is no Involuntary unemployment only structural or Frictional unemployment is seen
↳ Temporary

2. PEAK

1. Highest point of Business cycle.
2. Economy producing at maximum.
3. Economy becomes overheated and unsustainable. (inflation)
4. Price of Input \uparrow (Raw.M.)
5. Cost of Production \uparrow
6. Price of output \uparrow (MRP)
7. \uparrow cost of living
8. Fixed income consumers may suffer.
9. Growth stagnates at Peak.
10. After peak downfall starts.



3. CONTRACTION / RECESSION

1. ↓ in level of Investments
 2. ↓ in Production
 3. ↓ in Employment
 4. ↓ in Income of people.
 5. ↓ in demand for consumption and capital goods.
 6. ↓ in banks credit.
 7. ↓ in sales, Profits, Stock prices.
 8. Firm becomes pessimistic → Negative
 9. Lot of Excess capacity.
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0 TROUGH / DEPRESSION

1. Severe form of Recession.
 2. Growth becomes negative.
 3. Rapid decline in NI and GDP.
 4. Rapid decline in demand for goods and services.
 5. Highest unemployment
 6. Demand for loan credit falls at faster rate.
 7. Large Bankruptcies and Liquidations
 8. Lowest Level of economic activity.
- [In this phase Rate of Interest Falls]

RECESSION

Tax ↓
 P-E ↑
 Jobs ↑
 Income ↑
 Spend ↑
 A.D ↑
 (Aggregate demand)

INFLATION

Tax ↑
 Spending ↓
 PE ↓
 Employment ↓
 Y ↓