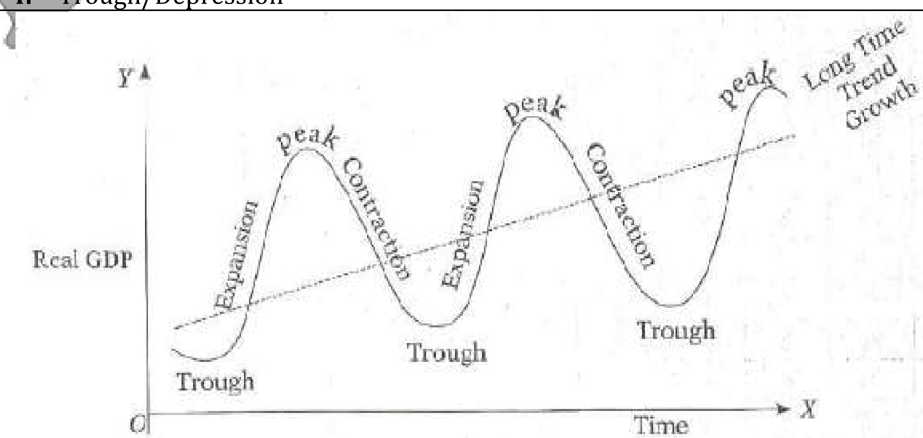
15 BUSINESS CYCLES

1.1 Business Cycles	
Introduction	The economic history of nearly all countries point towards the fact that they have gone through fluctuations in economic activities i.e. there have been periods of prosperity alternating with periods of economic downturns. A noteworthy characteristic of these economic fluctuations is that they are recurrent and occur periodically that is, they occur again and again but not always at regular intervals, nor are they of the same length.
Meaning	These rhythmic fluctuations in aggregate economic activity that an economy experiences over a period of time are called Business cycles or Trade cycles. It has been observed that some business cycles have been long, lasting for several years while others have been short ending in two to three years. Business cycle refers to alternate expansion and contraction of overall business activity as manifested in fluctuations in measures of aggregate economic activity, such as, gross national product, employment and income.
Examples	A trade cycle is composed of periods of good trade characterised by rising prices and low unemployment percentage, altering with periods of bad trade characterised by falling prices and high unemployment percentages. • During 1920s, UK saw rapid growth in Gross Domestic Product (GDP), production levels and living standards. The growth was fueled by new technologies and production processes such as the assembly line. The economic growth also caused an unprecedented rise in stock market values. • China's recent economic slowdown and financial mayhem are fostering a cycle of decline and panic across much of the world, as countries of nearly every continent see escalating risks of prolonged slumps, political disruption and financial losses.
Phases of Business Cycle	1. Expansion/Boom/Recovery/Upswing 2. Peak/Boom/Prosperity 3. Contraction/Recession/Downswing **4.** Trough/Depression
Diagrammatic Presentation	

	In the figure above the four phases business cycles are shown. The broken line represents long time growth trend or potential GDP. It shows rising trend of growth over a period of time. The figure starts from Trough when the overall economic activities i.e. level of production and employment are at the lowest level. With increase in the economic activities the economy moves into Expansion Phase. But expansion phase cannot continue indefinitely, and after reaching Peak, economy starts contracting i.e. Contraction Phase sets in and continues till it reaches the lowest turning point called Trough. Here cycle completes and new cycle starts.
1. Expansion	In the expansion phase, there is increases in output and employment. There is no involuntary unemployment and whatever unemployment exist is only of frictional or structural in nature. The growth ultimately slows down and reaches its peak. **Characteristics of Expansion Phase: -** (i) Increase in national output (ii) Increase in employment (iii) Increase in aggregate demand (iv) Increase in capital i.e. investments (v) Increase in consumer spending (vi) Increase in sales, profits, stock prices, & expansion of bank credit (vii) Increase in standard of living
2. Peak	The term peak refers to the top or the highest point of the business cycle. In the later stages of expansion, inputs are difficult to find as they are short of their demand and therefore input prices increase. Output prices also rise rapidly leading to increased cost of living and greater strain on fixed income earners. Consumers begin to review their consumption expenditure on housing, durable goods etc. Actual demand stagnates. This is the end of expansion and it occurs when economic growth has reached a point where it will stabilize for a short time and then move in the reverse direction.
3. Contraction	There is fall in output and employment levels. There is large scale involuntary unemployment. A severe contraction or recession of economic activities pushes the economy into Depression. **Characteristics of Contraction Phase: -** (i) Fall in the level of investments (ii) Fall in the level of production and employment (iii) Fall in the incomes of people (iv) Demand and consumption of both capital goods and consumer goods fall (v) Bank credit, shrinks as investments fall (vi) Stock prices fall (vii) Firms become pessimistic about future (viii) There is lot of excess production capacity in industries
4. Though & Depression	**Depression:** is the phase of the business cycle, growth rate becomes negative and the level of national income and expenditure declines rapidly. Demand for products and services decreases, prices are at their lowest and decline rapidly forcing firms to shut down several production facilities. A typical feature of depression is the fall in the interest rate. Despite lower interest rates, the demand for credit declines because investors' confidence has fallen. Often, it also happens that the availability of credit also falls due to possible banking or financial crisis. Industries, especially capital and consumer durable goods industry,

	suffer from excess capacity. Large number of bankruptcies and liquidation significantly reduce the magnitude of trade and commerce. **Trough**: The economy cannot continue to contract endlessly. It reaches the lowest level of economic activity called trough and then starts recovering. Trough generally lasts for some time and marks the end of pessimism and the beginning of optimism. A time comes when business confidence takes off and gets better, consequently they start to invest again and to build stocks; the banking system starts expanding credit This acts as a turning point from depression to expansion. As investment rises, production increases, employment improves, income improves and consumers begin to increase their expenditure.

Features of Business Cycles

1. Business cycle occurs periodically. They do not show same regularity, duration and intensity.
2. The length of different phases of business cycles is not definite and hence do not show smoothness and regularity.
3. Business cycles do not bring about changes in one industry or sector but occur simultaneously in all industries and sectors. Further, it passes from one industry to another.
4. Fluctuations take place not only in the level of output but also in other related variables like consumption, employment, investment, interest rates and price level.
5. Cyclical fluctuations affect adversely the consumption of durable goods like capital goods, scooters, cars, houses, refrigerators, etc. Their demand falls. As a result, investments become unstable. However, consumption of non-durable goods and services does not vary much during different phases of business cycle.
6. Business cycles causes lot of uncertainty for businessmen and forecasting becomes difficult. Profits fluctuate.
7. Business cycles affect the inventories of goods. During depression inventories start accumulation more than the desired level. This results reduction in the production. When recovery starts, inventories are below the required level.
8. Business cycles are international in character.

Economic Indicators

1. Meaning	Economists use changes in a variety of activities to measure the Business Cycle and to predict where the economy is headed towards. These care called Indicators. There are three types of Indicators viz. (a) Leading Indicators, (b) Lagging Indicators, and (c) Coincident or Concurrent Indicators.
2. Leading Indicator	**(a)** It is a measureable economic factor that change before the economy starts to follow a particular pattern or trend. **(b)** It represents Variables that change before the Real Output changes, i.e. prior to large economic adjustments **(c) Examples** • Change in Stock Prices, Profit Margin and Profits, Indices like Housing, Interest Rates and Prices, etc. are generally seen as precursors of upturns or downturns. • Value of New orders for Consumer Goods, Capital Goods, Building Permits for Private Houses, fraction of Companies reporting slower deliveries, Index of Consumer Confidence and Money Growth Rate are also used for tracking and forecasting changes in Business Cycles. **(d) Demerits** • Leading Indicators, though widely used to predict changes in the economy, are not always accurate.

	• Markets disagree on the timing of these Leading Indicators, e.g. it may be weeks or months after a Stock Market Crash before the economy begins to show signs or receding. Further , it may never happen.
3. Lagging Indicators	**(a)** It reflects the economy's historical performance and changes in these indicators are observable only after an economic trend or pattern has already occurred. **(b)** It represents variables that change after the Real Output changes, i.e. measure that change after an economy has entered a period of fluctuation. **(c)** If leading Indicators signal the onset of Business Cycles, Lagging Indicators confirm these trends. **(d)** Examples : Unemployment , Corporate Profits, Labour Cost per unit of Output, Interest Rates, Consumer Price Index, Commercial Lending Activity, etc.
4. Coincident or Concurrent Indicators	**(a)** It coincides or occurs simultaneously with the business-cycle movements. (b) It gives information about the rate of change of the expansion or contraction of any economy more or less at the same point of time it happens. **(b)** It coincides fairly closely with changes in the cycle of economic activity, and describes the current state of the Business Cycle. **(c)** Examples : Gross Domestic Product, Industrial Production, Inflation, Personal Income, Retail Sales and Financial Market Trends like Stock Market Prices , etc.
Examples of Business Cycles	
1. The Great Depression of 1930	**(a)** The world economy suffered the longest, deepest, and the most widespread depression of the 20th century during 1930. It started in the us and became worldwide. **(b)** The Global GDP fell by around 15% between 1929 and 1932. **(c)** British Economist John Maynard Keyes regarded lower aggregate expenditures in the economy to be the cause of massive decline in income and employment. However, Monetarists opined that the Great Depression was caused by the Banking Crisis and low money supply. Other Economists blamed deflation, over-indebtedness, lower profits and pessimism to be the main causes of Great Depression. **(d)** The Depression caused wide-spread distress in the world as Production, Employment, Income and Expenditure fell. **(e)** The economies of the world began recovering in 1933. Increased money supply, huge international inflow of Gold, increased Government's spending due to World War II, etc. were some factors which helped economies slowly come out of recession and enter the phase of expansion and upturn.
2. Information Technology Bubble Burst of 2000	**(a)** Information Technology (IT) Bubble or Dot.Com roughly covered the period 1997-2000. **(b)** During this period, many new Internet-based companies (referred as Dot-Com Companies) were started. **(c)** The low interest rates in 1998-99 encouraged the start-up Internet Companies to borrow from the markets. Seeing vast scope in the growth of Internet, venture Capitalists invested huge amount in these companies. **(d)** Due to over-optimism in the market, Investors were less cautious. There was a great rise in the Stock Prices of Dot.Com Companies. **(e)** These Companies offered their service or end product for free with the expectation that they could build enough brand awareness to charge profitable rates for their services later. As a result, these companies saw high growth and a type of bubble developed. However, the collapse of the Bubble took place during 1999-2001. **(f)** Companies could not sustain long, due to factors like the "growth over profits"

	mentality, lavish internal spending, elaborate business facilities without Revenue Models, etc. The Companies ran out of capital and were acquired or liquidated / shut-down. **(g)** Stock Markets crashed, and slowly the economies began feeling the downturn in their economics activities.
3. Global Economic Crisis (2008-09)	**(a)** The recent global economic crisis owes its origin to US Financial Markets. **(b)** Following it bubble burst of 2000, the Us economy went into recession. **(c)** The take the economy out of recession, the US Federal Reserve (The Central Bank of Us) reduced the rate of interest. This led to large liquidity or money supply with the Banks. With lower interest rates, credit became cheaper and the Households, even with low credit worthiness, began to buy houses in increasing numbers. **(d)** Higher demand for Houses led to higher prices, and led both Households and Banks to believe that prices would continue to rise. **(e)** Excess Liquidity with Banks and availability of new Financial Instruments led Banks to lend without checking the creditworthiness of borrowers. Loans were given even to sub-prime households and also to those persons who had no income or assets. **(f)** Houses were built in excess during the boom period and due to their oversupply in the market, House Prices began to decline in 2006. **(g)** The Housing Bubble burst in the second half of 2007. With fall in prices of houses which were held as Mortgage , the sub-prime households started defaulting on a large scale in paying of their installments. This caused huge losses to the Banks. Losses in Banks and other Financial Institutions had a chain effect and soon the whole US economy and the world economy at large felt its impact.

Internal Causes of business cycle are those, which are built within the economic system.	
1. Fluctuations in Effective Demand	Fluctuations in economic activities is due to fluctuations in aggregate effective demand. When aggregate demand falls, it results in lower output, income and employment. This causes a downward spiral. Increase in aggregate demand causes conditions of expansion and boom.
2. Fluctuations in Investment	Fluctuations in investments are the prime cause of business cycles. Investments fluctuate quite often because of changes in the profit expectations of entrepreneurs. New inventions may cause entrepreneurs to increase investments in projects which are cost-efficient or more profit inducing. Or investment may rise when the rate of interest is low in the economy. Increases in investment shift the aggregate demand to the right, leading to an economic expansion. Decreases in investment have the opposite effect.
3. Variations in government spending	Fluctuations in government spending with its impact on aggregate economic activity result in business fluctuations. Government spending, especially during and after wars, has destabilizing effects on the economy.
4. Monetary and Fiscal policies OR Macroeconomic Policies	Expansionary policies such as increased government spending and/or tax cuts, are the most common method of boosting aggregate demand. This results in booms. Anti-inflationary measures, such as reduction in government spending, increase in taxes and interest rates cause a downward pressure on the aggregate demand and the economy slows down. At times, such slowdowns may be drastic, showing negative growth rates and may ultimately end up in recession.

5. Money Supply	Trade cycle is a purely monetary phenomenon. Unplanned changes in supply of money may cause business fluctuation in an economy. An increase in the supply of money causes expansion in aggregate demand and in economic activities. However, excessive increase of credit and money also set off inflation in the economy. On the other hand, decrease in the supply of money may reverse the process and initiate recession in the economy
6. Psychological factors	Business fluctuations are the outcome of these psychological states of mind of businessmen. If entrepreneurs are optimistic about future market conditions, they make investments, and as a result, the expansionary phase may begin. The opposite happens when entrepreneurs are pessimistic about future market conditions. Investors tend to restrict their investments. With reduced investments, employment, income and consumption also take a downturn and the economy faces contraction in economic activities.
7. Other Factors	According to Schumpeter, business cycles occur due to innovations that take place from time to time in economic system. (Innovation Theory). According to Nicholas Kaldor, the present fluctuations in prices are responsible for fluctuations in output and employment in future (Cobweb Theory).

External Causes OR Exogenous Factors which may lead to boom or bust are	
1. Wars	During war times, production of war goods, like weapons and arms etc., increases and most of the resources of the country are diverted for their production. This affects the production of other goods – capital and consumer goods. Fall in production causes fall in income, profits and employment. This creates contraction in economic activity and may trigger downturn in business cycle.
2. Post War Reconstruction	After war, the country begins to reconstruct itself. Houses, roads, bridges etc. are built and economic activity begins to pick up. All these activities push up effective demand due to which output, employment and income go up.
3. Technology shocks	Growing technology enables production of new and better products and services. These products generally require huge investments for new technology adoption. This leads to expansion of employment, income and profits etc. and give a boost to the economy. For example, due to the advent of mobile phones, the telecom industry underwent a boom and there was expansion of production, employment, income and profits.
4. Natural Factors	Weather cycles cause fluctuations in agricultural output which in turn cause instability in the economies, especially those economies which are mainly agrarian. In the years when there are draughts or excessive floods, agricultural output is badly affected. With reduced agricultural output, incomes of farmers fall and therefore they reduce their demand for industrial goods. Reduced production of food products also pushes up their prices and thus reduces the income available for buying industrial goods. Reduced demand for industrial products may cause industrial recession.
5. Population growth	If the growth rate of population is higher than the rate of economic growth, there will be lesser savings in the economy. Fewer saving will reduce investment and as a result, income and employment will also be less. With lesser employment and income, the effective demand will be less, and overall, there will be slowdown in economic activities.

Relevance of Business Cycle in Business Decision making
1. Understanding the business cycle is important for all types of business enterprises because it affects the demand for their product and in turn their profits. **2.** Knowledge of business cycles, its phases and characteristics help the business enterprises to frame appropriate policies. E.g. New opportunities for investment, employment and production opens up at the time of prosperity. So understanding the economic environment is important while making business decisions. **3.** Business managers have to advantageously respond in complex time during the whole business cycle through boom, downswing, recession and recovery to arrive at sound strategic environment. **4.** We have seen that business cycles do not affect all the sector uniformly. Some business are more vulnerable while others are not or less valued able to changes in business cycle. Businesses like fashion retailers, electrical goods, restaurants, constructors, advertising, foreign tour operators, etc. are directly linked with economic growth. Such business is called cyclical businesses. So during recession such businesses slump and vice versa. **5.** The phase of the business cycle is important to decide on entry into the market by a new firm or to decide about launch of a new product.

MULTIPLE CHOICE QUESTIONS

Q.1. The terms business cycle refers to-
(a) fluctuations in aggregate economic activity over time.
(b) ups and down in the production of goods
(c) increasing unemployment
(d) declining savings

Q.2. Expansion phase all but one of the following characteristics.
(a) Increase in national output (b) Increase in consumer spending
(c) Excess production capacity of industries (d) Expansion of bank credit

Q.3. Which one of the following is not the characteristic of business cycle? [SM-17]
(a) They are recurrent (b) They are not at regular intervals
(c) They have uniform causes (d) All the above

Q.4. The turning points of the business cycle are
(a) Expansion and Peak (b) Peak and Contraction
(c) Contraction and Trough (d) Peak and Trough

Q.5. _______ refers to the top or the highest point of business cycle.
(a) Expansion (b) Peak
(c) Expansion and Peak (d) None of the above

Q.6. Involuntary unemployment is almost zero in the ________ phase of business cycle.
(a) Expansion (b) Contraction (c) Trough (d) Depression

Q.7. The economy is said to be overheated at the ______ phase of business cycle.
(a) Expansion (b) Peak (c) Contraction (d) Depression

Q.8. Cost of living increases when business cycle is ________
(a) Expanding (b) Contracting (c) At peak (d) At lowest point

Q.9. There is large scale of involuntary unemployment in the _________ phase of business cycle.
(a) Expansion (b) peak (c) Contraction (d) none of the above

Q.10. Fall in the level of investments, fall in production, fall in employment, fall stock prices, etc. are found during ________ phase of business cycle.
(a) Expansion (b) Boom (c) Peak (d) Contraction

Q.11. All but one are the not endogenous factors of business cycle
(a) War (b) Changes in government spending
(c) Money supply (d) Fluctuations in investments

Q.12. ________ is the severe form of recession with lowest level of economic

(a) Upswing (b) Depression
(c) Downswing (d) Peak

Q.13. Fall in the interest rates is a typical feature of __________.

(a) Recovery (b) boom
(c) depression (d) contraction

Q.14. During depression _______ industry suffer from excess production capacity.

(a) Capital goods (b) Consumer durable goods
(c) non-durable goods (d) both 'a' and 'b'

Q.15. The great depression of _______ caused enormous misery and human Sufferings

(a) 1929 - 33 (b) 1919 – 23 (c) 1940 - 53 (d) 1950 – 63

Q.16. The lowest level of economic activity is called _______

(a) Contraction (b) Trough (c) Recovery (d) None of the above

Q.17. There is end of pessimism and the beginning of optimism at ______

(a) Expansion (b) Peak (c) Trough (d) Depression

Q.18. Which of the following is not the features of business cycle?

(a) Business cycle follow perfectly timed cycle
(b) Business cycle vary in intensity
(c) Business cycle vary in length
(d) Business cycle have no set pattern

Q.19. The trough of a business cycle occur when _______ hits its lowest point.

(a) The money supply (b) The employment level
(c) Inflation in the economy (d) Aggregate economic activity

Q.20. Industries that are most adversely affected by business cycles are the___________

(a) Durable goods and services sector
(b) Non-durable goods and services
(c) Capital goods and Non-durable goods sectors
(d) Capital goods and durable goods sectors

Q.21. _______ indicators change before the economy itself changes.

(a) Lagging (b) Coincident (c) Leading (d) Concurrent

Q.22. ________ indicators change after the economy as a whole changes.

(a) Lagging (b) Coincident (c) Leading (d) Concurrent

Q.23. Changes in stock prices, profit margins and profits, manufacturing activity, etc. are examples of ________ indicator.

(a) Leading (b) Lagging (c) Concurrent (d) Coincident

Q.24. A variable that moves later than aggregate economic activity is called ________

(a) a leading variable
(b) a coincident variable
(c) a lagging variable
(d) a cyclical variable

Q.25. While ________ indicators forecast economic fluctuation, ________ indicators confirm the trends.

(a) lagging; leading
(b) lagging; coincident
(c) Coincident; leading
(d) leading; lagging

Q.26. A variable that occur simultaneously with the business cycle movements is ________ indicator.

(a) Leading (b) Lagging (c) Coincident (d) Cyclical

Q.27. Coincident indicators show ________

(a) the current state of business cycle
(b) the rate of change of expansion
(c) the rate of change of contraction
(d) all the above

Q.28. At the time of Great Depression of 1930s, the global GDP fell by around ________

(a) 12% (b) 14% (c) 15% (d) 10%

Q.29. Which one of the following is not correct about business cycle?

(a) They occur simultaneously in all industries and sectors
(b) They affect not only output level but also other related variables
(c) They are international in character
(d) None of the above.

Q.30. Which of the following describes best a typical trade cycle?

(a) Economic expansions are followed by economic contractions
(b) Inflation is followed by rising income and employment
(c) Economic expansions are followed by economic growth and development
(d) Stagflation followed by rising employment

Q.31. During upswing, the unemployment rate ________ and output ______

(a) rises; falls
(b) rises; rises
(c) falls; rises
(d) falls; falls

Q.32. Which of the following does not occur during expanses phase?

(a) Consumer spending increases
(b) Employment increases as demand for labour rises
(c) Business profits and business confidence increase
(d) None of the above

Q.33. When aggregate economic activity is declining, the economy is said to be in ________

(a) Contraction
(b) an expansion
(c) a trough
(d) a turning point

Q.34. Which one of the following is not an example of coincident indicator? [SM-20]

(a) GDP
(b) Inflation
(c) retail sales
(d) New orders for plant and machinery

Q.35. Which one of the following is not an example of lagging indicator?

(a) personal income
(b) new orders for plant and equipment
(c) the consumer price index
(d) slower deliveries

Q.36. _______ is of the view that fluctuations in economic activities are because of fluctuations in aggregate effect demand.

(a) Keyens
(b) Schumpeter
(c) Nicholas Kaldor
(d) Joan Robinson

Q.37. High rate of investment brings _______

(a) high level of employment
(b) increase in the aggregate demand
(c) increase in output
(d) all the above

Q.38. If any unemployment exists during expansion phase of business cycle, it is__________ unemployment.

(a) voluntary and frictional
(b) technological and structural
(c) frictional and structural
(d) structural and involuntary

Q.39. The most probable outcome of increase in aggregate demand is ___

(a) expansion of economic activity
(b) contraction of economic activity
(c) stable economic activity
(d) volatile economic activity

Q.40. According to _________ a trade cycles is a purely monetary phenomena

(a) Keyens
(b) Hawtery
(c) Schumpeter
(d) Nicholas Kaldor

Q.41. Optimistic and pessimistic mood of the business community also affects the economic activities the view of ____

(a) Hawtry
(b) Schumpeter
(c) Pigou
(d) Keyens

Q.42. According to ________ trade cycles occur due to onset of innovations.

(a) Hawtery
(b) Adam Smith
(c) JM Keyens
(d) Schumpeter

Q.43. Business cycles appear due to present fluctuations in prices affecting the output and employment in future is ____
(a) Cobweb theory by Nicholas Kaldor
(b) Ordinal theory by Allen & Hicks
(c) Cobweb theory by J.M. Keyens
(d) None of the above

Q.44. Production of ______ goods fall during the war times.
(a) arms and ammunition
(b) non-durable and capital
(c) capital and weapons
(d) capital and consumer

Q.45. During war times most of the productive resource are diverted for the production of ___
(a) capital goods (b) consumer goods
(c) weapons and arms (d) service

Q.46. Economic recession is characterized by all of the following except___
(a) Decline in investments, employment
(b) Increase in the price of inputs due to increased demand for inputs
(c) Investors confidence is shaken
(d) Demand for goods, services decline

Q.47. Production of new and better goods and services using new technology results in _______
(a) expansion of employment
(b) increase in the incomes and profits
(c) boost to economy
(d) all the above

Q.48. Understanding the business cycle is important for business managers because _______
(a) they affect the demand for their products
(b) they affect their profits
(c) to frame appropriate policies and forward planning
(d) all the above

Q.49. Businesses whose fortunes are closely linked to the rate of economic growth called _____
(a) Cyclical business
(b) Capital goods business
(c) Both ‘a’ and ‘b’
(d) None of the above

Q.50. If the population growth rate is higher than the economic growth rate it will result in ______

(a) higher income; lower savings; lower employment
(b) lower income; lower savings; lower investment
(c) higher investment; lower income; higher saving
(d) lower income; lower saving; higher employment.

Q.51. The term business cycle refers to [SM-1]

(a) the ups and downs in production of commodities
(b) the fluctuating levels of economic activity over a period of time
(c) decline in economic activities over prolonged period of time
(d) increasing unemployment rate and diminishing rate of savings

Q.52. A significant decline in general economic activity extending over a period of time is [SM-2]

(a) business cycle (b) contraction phase (c) recession (d) recovery

Q.53. The trough of a business cycle occurs when _____ hits its lowest point [SM-3]

(a) inflation in the economy (b) the money supply
(c) aggregate economic activity (d) the unemployment rate

Q.54. The lowest point in the business cycle is referred to as the[SM-4]

(a) Expansion. (b) Boom (c) Peak (d) Trough.

Q.55. A leading indicator is[SM-5]

(a) a variable that tends to move along with the level of economic activity
(b) a variable that tends to move in advance of aggregate economic activity
(c) a variable that tends to move consequent on the level of aggregate economic activity
(d) None of the above

Q.56. A variable that tends to move later than aggregate economic activity is called [SM-6]

(a) a leading variable. (b) a coincident variable.
(c) a lagging variable. (d) a cyclical variable.

Q.57. Industries that are extremely sensitive to the business cycle are the [SM-7]

(a) Durable goods and service sectors.
(b) Non-durable goods and service sectors.
(c) Capital goods and non-durable goods sectors.
(d) Capital goods and durable goods sectors.

Q.58. Decrease in government spending would cause [SM-8]

(a) the aggregate demand curve to shift to the right.
(b) the aggregate demand curve to shift to the left.
(c) a movement down and to the right along the aggregate demand curve.
(d) a movement up and to the left along the aggregate demand curve.

Q.59. Which of the following does not occur during an expansion? [SM-9]

(a) Consumer purchases of all types of goods tend to increase.
(b) Employment increases as demand for labour rises.
(c) Business profits and business confidence tend to increase
(d) None of the above.

Q.60. Which of the following best describes a typical business cycle?[SM-10]

(a) Economic expansions are followed by economic contractions.
(b) Inflation is followed by rising income and unemployment.
(c) Economic expansions are followed by economic growth and development
(d) Stagflation is followed by inflationary economic growth.

Q.61. During recession, the unemployment rate ____ and output ______[SM-11]

(a) Rises; falls (b) Rises; rises (c) Falls; rises (d) Falls; falls

Q.62. The four phases of the business cycle are [SM-12]

(a) peak, recession, trough, and boom
(b) peak, depression, trough, and boom
(c) peak, recession, trough, and recovery
(d) peak, depression, bust, and boom

Q.63. Leading economic indicators [SM-13]

(a) are used to forecast probable shifts in economic policies
(b) are generally used to forecast economic fluctuations
(c) are indicators of stock prices existing in an economy
(d) are indicators of probable recession and depression

Q.64. When aggregate economic activity is declining, the economy is said to be in [SM-14]

(a) Contraction. (b) an expansion.
(c) a trough. (d) a turning point.

Q.65. Peaks and troughs of the business cycle are known collectively as [SM-15]

(a) Volatility. (b) Turning points.
(c) Equilibrium points. (d) Real business cycle events.

Q.66. The most probable outcome of an increase in the money supply is [SM-16]

(a) interest rates to rise, investment spending to rise, and aggregate demand to rise
(b) interest rates to rise, investment spending to fall, and aggregate demand to fall
(c) interest rates to fall, investment spending to Rise, and aggregate demand to rise
(d) interest rates to fall, investment spending to fall, and aggregate demand to fall

Q.67. Economic recession shares all of these characteristics except.[SM-18]

(a) Fall in the levels of investment, employment
(b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
(c) Investor confidence is adversely affected and new investments may not be forthcoming
(d) Increase in the price of inputs due to increased demand for inputs

Q.68. The different phases of a business cycle [SM-19]

(a) Do not have the same length and service
(b) expansion phase always last more than ten years
(c) Last many years and are difficult to get over in short periods
(d) None of the above

Q.69. According to __________ trade cycles occur due to onset of innovations.[SM-21]

(a) Hawtrey (b) ADAM Smith (c) J M Keynes (d) Schumpeter

Q.70. Which statement is incorrect? [N-19]

(a) Depression of Severe form of trough (b) Depression causes fall in Interest rate
(c) Peak is highest point (d) All of the above

Q.71. During recession the employment rate --------- and output--------- [N-19]

(a) Rises-falls (b) Rises-rises (c) falls-rises (d) Falls-falls

Q.72. The internal cause of business cycle is - [N-19]

(a) Technology shocks (b) Fluctuation in effective demand
(c) Post war reconstruction (d) Population Growth

Q.73. According to some economists which is not the prime cause of Business Cycles? [N-19]

(a) Fluctuations in investment (b) Micro Economic policy
(c) Impact on aggregate economic activity (d) Psychological factors

Q.74. The four phases of Business Cycle are - [N-19]

(a) Peak, Construction , Depression and Boom
(b) Prosperity, Recession, Depression and Expansion
(c) Boom, Downswing , Expansion and Prosperity
(d) Peak, Recession , Trough and Recovery

Q.75. Chinas recent slowdown causes - [N-19]

(a) Cycle of decline and panic across the world
(b) Countries across the Globe were able to insulate themselves from the crisis
(c) Stock markets in the Emerging Economics largely remained unaffected
(d) Old technology fuelled the economic decline

Q.76. Friction unemployment is the characteristic of which of the following stages [N-19]
(a) Expansion (b) Peak (c) Construction (d) Recovery

Q.77. Excess capacity in capital industries is the characteristics of which of the following stage? [N-19]
(a) Trough (b) Recovery (c) Depression (d) Peak

Q.78. Economic indicators are – [SM-22]
(a) A one stroke solution to check the phase of economy
(b) Indicators showing the movement of economy
(c) Some activities which predict the direction of economy
(d) Just an illusion

Q.79. Which economic indicator is required to predict the turning point of business cycle – [SM-23]
(a) Leading indicator
(b) Lagging indicator
(c) Coincident
(d) All of the above

Q.80. Business cycle generally originate in free market economies, what is a free market economy? [SM-24]
(a) The economy where government is in possession of major assets
(b) The economy where private firms control major assets
(c) The economy where decisions of productions are taken by public sector undertakings
(d) The economy where price is controlled by government.

Q.81. Which of the following statements is correct? [SM-25]
(a) The business cycle largely affects the agricultural sector
(b) The business cycle largely affects small employees
(c) The business cycle generally affects all sectors of economy but business sector in particular.
(d) The business cycle affects low wages workers

Q.82. According to Keynes, fluctuations in Economic activities are due to-. [SM-26]
(a) Fluctuation in aggregate effective demand.
(b) Innovations
(c) Changes in money supply
(d) Fluctuation in agricultural output

Q.83. Which of the following is the cause of business cycles – [SM-27]
(a) Fluctuations in aggregate effective demand
(b) Fluctuations in investments
(c) Fluctuations in government spending
(d) All of the above

Answer Key

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
a	c	c	d	b	a	b	c	c	d	a	b	c	d	a	b	a	a	d	d
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
c	a	a	c	d	c	d	c	d	a	c	d	a	d	c	a	d	c	a	b
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
c	d	a	d	c	b	d	d	a	b	b	b	c	d	b	c	d	b	d	a
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
a	c	b	a	b	c	d	a	d	d	d	b	b	d	a	a	a	b	d	b
81	82	83																	
c	a	d																	

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TOTAL MARKS : ———

1	A	B	C	D	41	A	B	C	D	81	A	B	C	D	116	A	B	C	D
2	A	B	C	D	42	A	B	C	D	82	A	B	C	D	117	A	B	C	D
3	A	B	C	D	43	A	B	C	D	83	A	B	C	D	118	A	B	C	D
4	A	B	C	D	44	A	B	C	D	84	A	B	C	D	119	A	B	C	D
5	A	B	C	D	45	A	B	C	D	85	A	B	C	D	120	A	B	C	D
6	A	B	C	D	46	A	B	C	D	86	A	B	C	D	121	A	B	C	D
7	A	B	C	D	47	A	B	C	D	87	A	B	C	D	122	A	B	C	D
8	A	B	C	D	48	A	B	C	D	88	A	B	C	D	123	A	B	C	D
9	A	B	C	D	49	A	B	C	D	89	A	B	C	D	124	A	B	C	D
10	A	B	C	D	50	A	B	C	D	90	A	B	C	D	125	A	B	C	D
11	A	B	C	D	51	A	B	C	D	91	A	B	C	D	126	A	B	C	D
12	A	B	C	D	52	A	B	C	D	92	A	B	C	D	127	A	B	C	D
13	A	B	C	D	53	A	B	C	D	93	A	B	C	D	128	A	B	C	D
14	A	B	C	D	54	A	B	C	D	94	A	B	C	D	129	A	B	C	D
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16	A	B	C	D	56	A	B	C	D	96	A	B	C	D	131	A	B	C	D
17	A	B	C	D	57	A	B	C	D	97	A	B	C	D	132	A	B	C	D
18	A	B	C	D	58	A	B	C	D	98	A	B	C	D	133	A	B	C	D
19	A	B	C	D	59	A	B	C	D	99	A	B	C	D	134	A	B	C	D
20	A	B	C	D	60	A	B	C	D	100	A	B	C	D	135	A	B	C	D
21	A	B	C	D	61	A	B	C	D	101	A	B	C	D	136	A	B	C	D
22	A	B	C	D	62	A	B	C	D	102	A	B	C	D	137	A	B	C	D
23	A	B	C	D	63	A	B	C	D	103	A	B	C	D	138	A	B	C	D
24	A	B	C	D	64	A	B	C	D	104	A	B	C	D	139	A	B	C	D
25	A	B	C	D	65	A	B	C	D	105	A	B	C	D	140	A	B	C	D
26	A	B	C	D	66	A	B	C	D	106	A	B	C	D	141	A	B	C	D
27	A	B	C	D	67	A	B	C	D	107	A	B	C	D	142	A	B	C	D
28	A	B	C	D	68	A	B	C	D	108	A	B	C	D	143	A	B	C	D
29	A	B	C	D	69	A	B	C	D	109	A	B	C	D	144	A	B	C	D
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31	A	B	C	D	71	A	B	C	D	111	A	B	C	D	146	A	B	C	D
32	A	B	C	D	72	A	B	C	D	112	A	B	C	D	147	A	B	C	D
33	A	B	C	D	73	A	B	C	D	113	A	B	C	D	148	A	B	C	D
34	A	B	C	D	74	A	B	C	D	114	A	B	C	D	149	A	B	C	D
35	A	B	C	D	75	A	B	C	D	115	A	B	C	D	150	A	B	C	D
36	A	B	C	D	76	A	B	C	D										
37	A	B	C	D	77	A	B	C	D										
38	A	B	C	D	78	A	B	C	D										
39	A	B	C	D	79	A	B	C	D										
40	A	B	C	D	80	A	B	C	D										

Max. Marks	Min. Marks	Right Ans.	Wrong Ans.	Blank Que.	Neg. Marks	Obt. Marks	Sub. Wise P/F