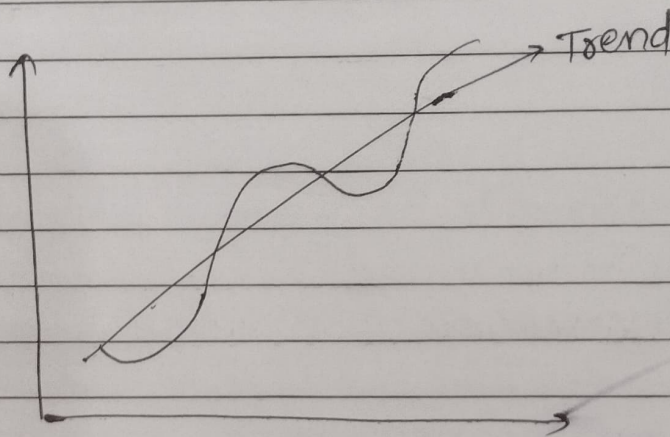
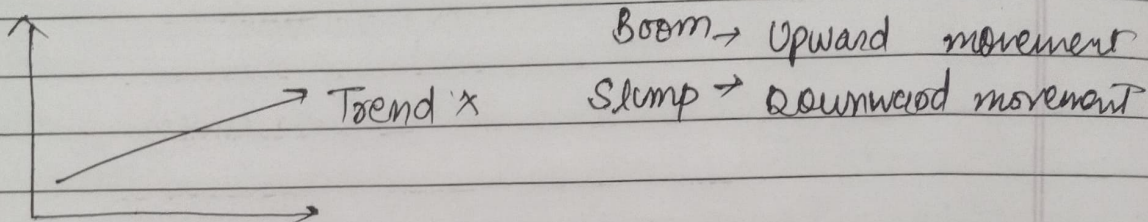


Chapter - 5 Business Cycle



I: Trough \rightarrow Severe form of recession.

[Unemployment $\uparrow\uparrow$] \rightarrow [Income \downarrow]
 \rightarrow [Savings \downarrow] \rightarrow [Demand \downarrow] \rightarrow [Prodⁿ \downarrow]
 \rightarrow [Raw mat^l \downarrow]

II: Recovery \rightarrow Optimism $\uparrow\uparrow$

[Loan $\uparrow\uparrow$] \rightarrow [Money Avail^l $\uparrow\uparrow$] \rightarrow [Labour $\uparrow\uparrow$]
 \rightarrow [Raw mat^l $\uparrow\uparrow$ used]
 \dots [Demand $\uparrow\uparrow$] more Prodⁿ.

III: Expansion \rightarrow Standard of Living $\uparrow\uparrow$

IV: Peak \rightarrow Over Prodⁿ

① Contraction →

② Recession →

To find Trend, we have 5 Indicators →

① Leading → पहले दि जाता देता है कल क्या होगा

② Lagging → Confirm करता है जो सोचा वही हुआ है . . . होने के बाद निकल देता है

③ Coincident / Concurrent → साथ में चलना है - ये Business cycle

Causes of Business cycle.

Internal causes

- Fluctuation in effective demand
- Fluctuation in investment
- Variations in govt. spending
- Macroeconomics policies
- Money supply
- Psychological factors.

External causes

- war.
- Post war Reconstruction
- Technology shock
- Natural factors
- Population growth.

a) Trough / Depression :->

- Extreme form of recession
- Sluggish economic activities
- i) Growth rate is -ve.
- ii) Demand decreases
- iii) Unemployment
- iv) Depression
 - Lower interest rate
 - No investment
 - Bank ruptcies / Liquidation

b) Recovery :->

- There is end of pessimism & Beginning of optimism
- Business started :- labour is available at less wages
 - Good business environment
- Business confidence pickup :- fresh investment
- Employment ↑↑
- Investment ↑ Prodⁿ ↑ Employment ↑ Income ↑ Expcⁿ ↑ demand ↑

c) Expansion :->

- Increase in national income, consumer & capital exp. Prodⁿ, stock prices, demand, income etc.
- Involuntary unemployment is almost zero.
- Increasing prosperity & High standard of living

d) Peak :->

- Inputs are difficult to get.
- Output cost are rising.
- Consumers begin to review their expenditure.

e) Contraction :->

- Increase in demand is halted
- Producer's optimism → Result in excess "Prod"
- Due to imbalance in demand & supply
 - "Prod" Halted - excess labour is laid off
 - demand ↓ Supply ↑ - resulting into fall in prices.
 - Consumer expects more fall in price & therefore postpone their consumption.
 - This results into further produced demand to sell of the produced goods, producers further to sell of the p reduce the price. to sustain, more employees are laid off, investments are reduced & "Prod" is stopped.
- This marks the beginning of pessimism & end of optimism.

Indicators

Leading

Signal the onset of a business cycle.

पहले

Lagging

Confirm the Business cycle

बादमें

Coincident / Concurrent

Which occur simultaneously along with Business cycle.

साथ - 3

Features of Business Cycle: →

- Occur Periodically
- Distinct Phases
- Originate in free market economy
- Affect Disproportionately
- Contiguous & International character
- Complex Phenomena
- Consequences on well being of society

Causes of Business Cycle

Internal

- Fluctuation in Demand
- " in investment
- variation in govt spending
- macro economic policies

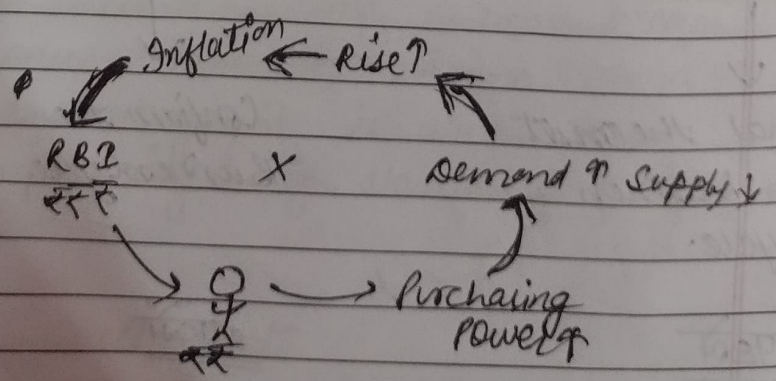
External

- wars ↓
- Post war reconstruction ↑
- Technology ~~etc~~ shocks
- natural factors
- Popⁿ growth

Monetary Policy
↓
CRR
SLR
RR
NRR

Fiscal Policy
↓
Taxes

e) Money supply



f) Psychological factors: optimism | pessimism.

Peak ① Trough / depression

② Expansion (Boom / Upswing)

③ Peak / Boom / Prosperity

④ Contraction / Downturning / Recession
A-81