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~~CH-~~ BUSINESS CYCLE

→ Rhythemic fluctuations in aggregate economic activity that an economy experiences over a period of time are called Business cycles or Trade cycles.

↓ composed of Periods

Good Trade
- → Demand ↑, Supply ↑
- → Rising Prices
- → Low Employment

Bad - Trade
- → falling Prices
- → High Employment

→ The Economic fluctuations are Recurrent & Occur Periodically.

✳ PHASES OF BUSINESS CYCLE

1.) Expansion | Boom | UP-swing
2.) Peak | Prosperity
3.) Contraction | Downswing | Recession
4.) Trough | Depression.

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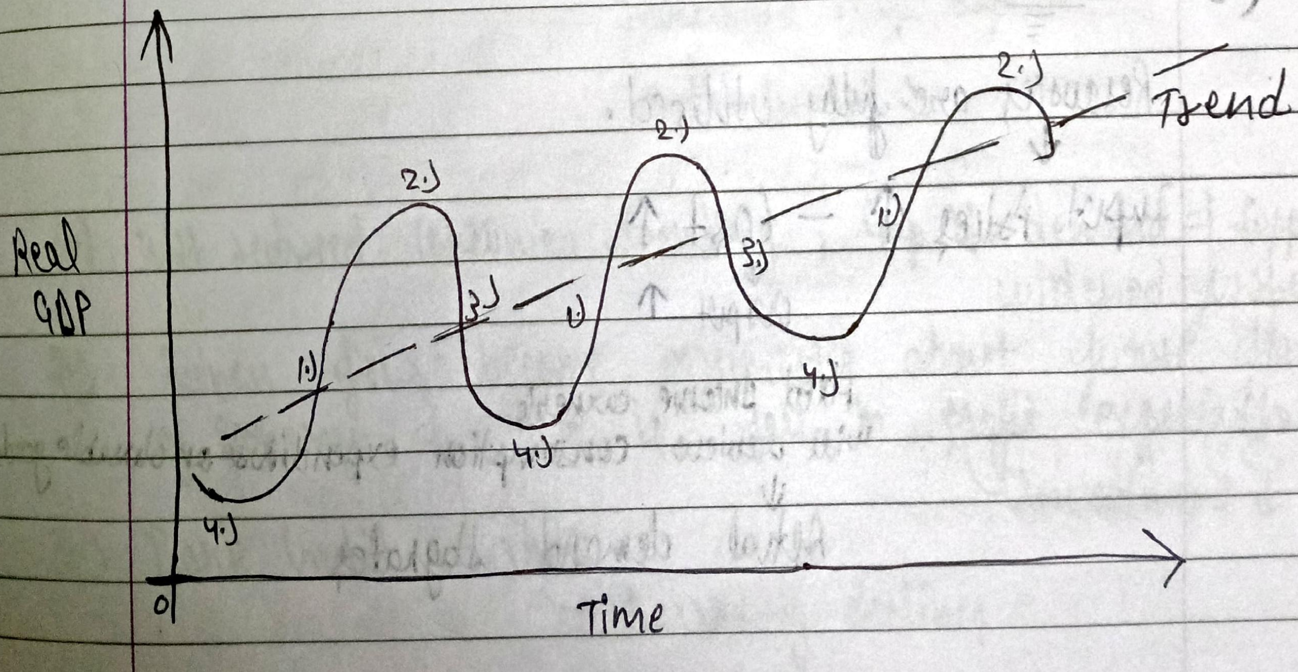

"TREND" represents the steady growth line or growth of the economy

1.) Expansion → GDP↑ - Production↑
↓ employment ↑ → Consumer Income ↑
→ Aggregate Demand ↑ → Supply ↑ - Investment ↑ → Capital Expen.↑
→ Profit ↑ → Stock Prices ↑ → Bank Credit ↑

1.) → This stage continues till there is full employment of resources. Production is at its maximum possible level.

2.) Involuntary Unemployment is zero.

* Unemployment is either:–

(a) Frictional → due to change of jobs, suspended due to ~~strikes~~.
(b) Structural → structural changes in economy.
↳ mismatch b/w skill workers have & skill required in market.

3.) Prices & costs tend to rise faster,
output ` Input

4.) Increasing ~~poop~~ prosperity, people enjoy high stand of living.
5.) Growth rate eventually slows down & reaches its peak.

2.) PEAK

Resources are fully utilised.
↓
Input Prices ↑ – Cost ↑
↓
Output ↑

Fixed Income earner's will review consumption expenditure on durable goods
↓
Actual demand stagnates

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1.) Highest Point of Business Cycle
2.) In later stages of Expansion → Input prices increases (Demand > Supply)
→ output prices rises rapidly.

3.) End of Expansion.
It occurs when economic growth stabilizes for a short time & then move in reverse direction.

5.) CONTRACTION.

→ Demand ↓ in certain sectors (but producers do not recognise this & continues anticipating higher levels demand)
↓
Supply > Demand

This generates a chain reaction in Input markets
→ Holding back future Investment plans.
→ Cancellation of equipment order/ all types of inputs.
→ in chain, (consumer stop, agent stop purchasing, wholesaller also, then producer stop producing.

↓
Begining of [redacted]. Recession.

{ Output Prices ↓, (Customer except's further decline)
↓
Unemployment ↑ → fall in the price of inputs
↓ Income ↓
Aggregate Demand ↓
↓
Investment / Cap Exp. ↓
↓
Bank Credit ↓

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1.) With reduced consumer spending, Gap b/w demand & suppl widened further

2.) Business firms become pessimistic about future state of economy & there is fall in profit expectation
Investment ↓

3.) Bank Credit Shrinks
borrowing declines.

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4.) Investor confidence is at lowest. — Stock Price fall

5.) Severe contraction pushes economy into Depression.

4.) TROUGH or DEPRESSION

→ Trough is the severe form of contraction.
→ Growth rate becomes **Negative.**
→ Extremely sluggish economic activities
→ Level of National Income & expenditure declines rapidly.

• Demand ↓
  - Prices are at lowest.
  - forcing firms to shutdown.
  - Mounting unemployment.
  - Very little disposable income.

* Fall in interest rate.
  - People hold more cash.
  - Despite lower interest rate, demand for credit declines because investors / entrepreneurs confidence has fallen.

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→ Possible banking or financial crisis.
→ Excess capacity in capital & consumer durable goods industries.
→ Large no. of bankruptcies & liquidators reduce magnitude of trade & commercial.

Ex:- Great Depression of 1929-33

5.) RECOVERY

→ Process of Recovery is initially felt in Labour Market.

→ Workers accept wages lower than prevailing prices.

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Producers anticipate lower cost.
→ Business confidence takes off.
→ Banking system starts expanding credit.
→ Fresh Investment into machines & capital goods.
→ Employment increase ⟶ Income increase
→ Aggregate Demand picks up & gradually rises.
→ encouragement to invest
The upswing of investment causes recovery of economy.
* ↓
This ~~curve~~ acts as a turning point from Dep to Exp

→ ECONOMIC INDICATOR'S

→ Economist's use changes in a variety of activities to measure the business cycle & to predict where the economy is headed.
→ These are called Indicators:
- Leading
- Lagging
- Co-incident / concurrent.

1.) Leading Indicator's →
→ Measurable economic factor that changes before economy starts to follow a particular pattern or trend.

Example: →
1.) Change in stock price
2.) Interest Rate.
3.) Value of new order for plant & equipment, consumer goods.
4.) Building permits for private houses.
5.) Index of consumer confidence.
6.) Profit Margin.

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2.) Lagging Indicator's.
→ Reflect Economy's historical performance.

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-> Changes in these indicators are observable only after economic trend / pattern has already occurred.

* Leading Indicators signal onset of business cycles, Lagging Indicators confirm these trends.

Example:-> 1.) Unemployment, 2.) Corporate Profit's 3.) Consumer price Index (CPI) 4.) Labour cost per unit.

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3.) Co-incident / Concurrent Indicators.

-> Coincide or occur simultaneously with business cycle movements.

-> Describe the current state of business cycle.

-> Gives Information about Rate of Change of exp. & con. at same time, it happens.

Example:-> (GDP, Inflation, Industrial production, Per capita Inc.) rate.

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