CHAPTER

5

Business Cycles (Trade Cycles)

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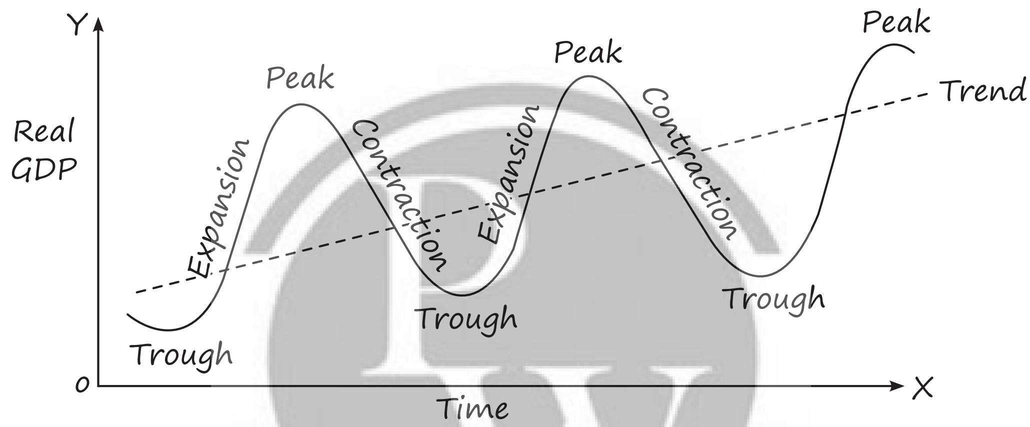
BUSINESS CYCLES

The rhythmic fluctuations in aggregate economic activity that an economy experiences over a period of time are called business cycles or trade cycles. The study of business cycles is an essential aspect of macroeconomics.



A typical business cycle has four distinct phases. These are:

1. **Expansion (also called Boom or Upswing):** The expansion phase is characterised by everything positive. There is increasing prosperity and high standard of living. Other indicators are increase in national output, employment, aggregate demand, capital and consumer expenditure, sales, profits, stock prices and bank credit. Involuntary unemployment is almost zero and the unemployment that exists is either frictional or structural.

   This state continues till there is full employment of resources and production is at its maximum possible level using the available productive resources.

2. **Peak of boom or Prosperity:** The term peak refers to the top or the highest point of the business cycle. 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 (also called Downswing or Recession):** The economy cannot continue to grow endlessly. As mentioned above, once peak is reached, increase in demand is halted and starts decreasing. Producers do not instantaneously recognize the pulse of the economy and continue anticipating higher levels of demand, and therefore, maintain their existing levels of investment and production. The consequence is a mismatch between demand

and supply. Supply far exceeds demand. Business firms become pessimistic about the future state of the economy and there is a fall in profit expectations which induces them to reduce investments in this phase economy is said to be overheated.

4. **Trough or Depression:** Depression means extremely sluggish economic activities. During this phase of the business cycle, growth rate becomes negative and the level of national income and expenditure declines rapidly and interest rate fall. Demand for products and services decreases, prices are at their lowest and decline rapidly forcing firms to shutdown several production facilities. Since companies are unable to sustain their work force, there is mounting unemployment which leaves the consumers with very little disposable income. Large number of bankruptcies and liquidation significantly reduce the magnitude of trade and commerce. At the depth of depression. all economic activities touch the bottom and the phase of trough is reached. It is a very agonizing period causing lots of distress for all. The great depression of 1929-33 is still cited for the enormous misery and human sufferings it caused.

   However, gradually the process of recovery starts.

   Recovery: 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. This reverses the process. The process of reversal is initially felt in the labour market. Pervasive unemployment forces the workers to accept wages lower than the prevailing rates. The producers anticipate lower costs and better business environment. A time comes when business confidence takes off and gets better.

   No economy follows a perfectly timed cycle and the business cycles are irregular and pervasive. They vary in intensity and length. There is no set pattern which they follow. Some cycles may have longer periods of boom, others may have longer period of depression. It is very difficult to predict the turning points of business cycles. Business cycles generally originate in free market economies.

   Disturbances in one or more sectors get easily transmitted to all other sectors. Although all sectors are adversely affected by business cycles, some sectors such as capital goods industries, durable consumer goods industry etc, are disproportionately affected. Moreover, compared to agricultural sector, the industrials sector is more prone to the adverse effects of trade cycles. Business cycles are exceedingly complex phenomena. Business cycles are contagious and are international in character. They begin in one country and mostly spread to other countries through trade relations. For example, the great depression of 1930s in the USA and Great Britain affected almost all the countries, especially the capitalist countries of the world. Business cycles have serious consequences on the well-being of the society.

Important Points

- Peak and trough are also called turning points
- Recovery- End of Pessimism and beginning of optimism. Initially felt in the labour market
- Capital goods industries and durable goods industries are more sensitive to business cycles
- According to Schumpeter, trade cycles occur due to innovations

- According to Hawtrey, trade cycle is a purely monetary phenomenon
- According to Pigou, business fluctuations are the outcome of psychological states of mind of businessmen
- According to Nicholas Kaldor (cobweb theory) business cycles result from the fact that present prices substantially influence the production at some future date.
- Business cycles affect society, business cycles are unpredictable and normally occur periodically.
- They do not have any uniform characteristic or causes.
- Different phases of business cycles do not have same length and severity.

Expansion / Boom / Upswing	Peak / Prosperity	Contraction / Recession / Downswing	Trough / Depression
Everything Positive		Everything Negative / Significant Decline	Extremely Sluggish Economic Activities
Increasing Prosperity and standard of living		Increasing Demand is Halted	Growth rate Negative
Increase in GDP and National Output		Demand starts decreasing	National Income falls
Increase in Employment		Supply Exceeds Demand	Expenditure falls
Increase in Consumer and capital expenditure		Fall in Profits	Interest Rate falls
Rising Sales and Profit		Fall in Investments	Demand Decreases
Rising Stock prices and Rising business profits and rising business confidence	Highest point / the top point which Marks the end of expansion	Fall in Income	Firms forced to Shutdown
Rising bank credit		Fall in investor confidence	Bankruptcies of companies increases
Involuntary unemployment is zero		Fall in employment	Unemployment Increases
Any unemployment that exist is Frictional or structural		Rise in Unemployment	Liquidations Increases
		Fall in Output	Trough – When depression or aggregate economic activity touches its lowest point
		Eg: Great Rescission from 2007-2009 & IT Bubble burst 2000	**Eg:** Great depression of 1930 (1929 – 1933)

TRY YOUR UNDERSTANDING 5.1

1. Whose statement out of these is false?
   (a) Hawtrey - "Trade cycle is purely Monetary phenomena"
   (b) Keynes - "Fluctuations in aggregate Demand"
   (c) Pigou - "Fluctuations in investment’’
   (d) Schumpeter - "Innovations"
2. The term 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
3. 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
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
5. The economy is said to be overheated at the _______ phase of business cycle.
   (a) Expansion (b) Peak
   (c) Contraction (d) Depression
6. There is large scale of involuntary unemployment in the _______ phase of business cycle.
   (a) expansion (b) peak
   (c) contraction (d) none of the above
7. Fall in the interest rates is a typical feature of _______.
   (a) recovery (b) boom
   (c) depression (d) contraction
8. There is end of pessimism and the beginning of optimism at _______.
   (a) expansion (b) peak
   (c) trough (d) depression

Answer Key

1. (c) 2. (a) 3. (c) 4. (d) 5. (c) 6. (c) 7. (c) 8. (c)

Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards.

These are called indicators.

- Economic Indicators
  - Leading Indicators
  - Lagging Indicators
  - Coincident or concurrent Indicators

INDICATORS ARE OF 3 KINDS

1. **Leading indicator:** A leading indicator is a measurable economic factor that changes before the economy starts to follow a particular pattern or trend. Those variables that change before the real output changes are called 'Leading indicators'. Changes in stock prices, profit margins, indices such as housing, interest rates and prices are precursors of upturns or downturns. Value of new orders for consumer goods, new orders for plant and equipment, building permits for private houses, index of consumer confidence are used for forecasting changes in business cycles.
2. **Lagging indicators:** They reflect the economy's historical performance and are observable only after an economic trend or pattern has already occurred. Variables that change after the real output changes are called 'Lagging indicators'.

   If leading indicators signal the onset of business cycles, lagging indicators confirm these trends. Lagging indicators consist of measures that change after an economy has entered a period of fluctuation like unemployment, corporate profits, labour cost per unit of output, interest rates and the consumer price index.
3. **Coincident indicator:** Coincident economic indicators, also called concurrent indicators, coincide or occur simultaneously with the business-cycle movements. Since they coincide closely with changes in the cycle of economic activity, they describe the current state of the business cycle. Examples of coincident indicators are Gross Domestic Product, industrial production, inflation, personal income, retail sales and financial market trends such as stock market prices.

INDICATORS OF BUSINESS CYCLES

Leading Indicators	Leading Indicators	Coincident or Concurrent Indicators
Stock prices and general price levels	Unemployment	GDP
Housing index and index of consumer confidence	Labour Cost	Inflation
Interest Rates	Consumer Price Index	Stock Market Prices
New orders for consumer goods and for Plant and equipment.		Industrial Production
		Retail Sales

TRY YOUR UNDERSTANDING 5.2

1. _______ indicators change before the economy itself changes.
   (a) Lagging (b) Coincident (c) Leading (d) concurrent
2. _______ indicators change after the economy as a whole changes.
   (a) Lagging (b) Coincident (c) Leading (d) Concurrent
3. Changes in stock prices, profit margins and profits, manufacturing activity, etc. are examples of _______ indicator.
   (a) Leading (b) Lagging (c) Concurrent (d) Coincident
4. While _______ indicators forecast economic fluctuation, _______ indicators confirm the trends.
   (a) lagging; leading (b) lagging; coincident
   (c) coincident; leading (d) leading; lagging
5. Which one of the following is not an example of coincident indicator?
   (a) GDP (b) inflation
   (c) retail sales (d) New orders for plant and machinery
6. What is leading indicator in the following?
   (a) Change in GDP (b) Change in Stock
   (c) Unemployment (d) Commercial leading Activity

Answer Key

1. (c) **2.** (a) **3.** (a) **4.** (d) **5.** (d) **6.** (b)

FEATURES OF BUSINESS CYCLES

Different business cycles differ in duration and intensity. But there are certain features which they commonly show:

1. Business cycles occur periodically although they do not exhibit the same regularity. The duration of these cycles vary. The intensity of fluctuations also varies.
2. Business cycles have distinct phases of expansion, peak, contraction and trough. These phases seldom display smoothness and regularity. The length of each phase is also not definite.
3. Business cycles generally originate in free market economies. They are pervasive as well. Disturbances in one or more sectors get easily transmitted to all other sectors.
4. Although all sectors are adversely affected by business cycles, some sectors such as capital goods industries, durable consumer goods industry etc, are disproportionately affected. Moreover, compared to agricultural sector, the industrials sector is more prone to the adverse effects of trade cycles.
5. Business cycles are exceedingly complex phenomena; they do not have uniform characteristics and causes. They are caused by varying factors. Therefore, it is difficult to make an accurate prediction of trade cycles before their occurrence.

6. Repercussions of business cycles get simultaneously felt on nearly all economic variables viz. output, employment, investment, consumption, interest, trade and price levels.
7. Business cycles are contagious and are international in character. They begin in one country and mostly spread to other countries through trade relations. For example, the great depression of 1930s in the USA and Great Britain affected almost all the countries, especially the capitalist countries of the world.
8. Business cycles have serious consequences on the well-being of the society.

CAUSES OF BUSINESS CYCLES

There are 2 types of causes of occurring business cycles i.e. 1. Internal causes 2.external causes

Internal Causes

- Fluctuations in Effective Demand
- Fluctuations in Investment
- Variations in government spending
- Macroeconomic policies
- Money Supply
- Psychological factors

External Causes

- War
- Post War Reconstruction
- Technology shock
- Natural Factors
- Population growth

A. **Internal Causes:** These are internal or endogenous factors of business cycles explained as follows:

 1. **Fluctuations in effective demand:** According to Keynes, fluctuations in economic activities are due to fluctuations in aggregate effective demand (Effective demand refers to the willingness and ability of consumers to purchase goods at different prices).

 A higher level of aggregate demand will induce businessmen to produce more. As a result, there will be more output, income and employment. However, if aggregate demand outstrips aggregate supply. it causes inflation.

 A lower level of aggregate demand will result in lesser output, income and employment. So companies will lay off workers, consumers will lose their jobs and stop buying anything but necessities. That causes a downward spiral.

The difference between exports and imports is the net foreign demand for goods and services. This is also a component of the aggregate demand in the economy, and therefore variations in exports and imports can lead to business fluctuations as well.

Thus, increase in aggregate effective demand causes conditions of expansion or boom and decrease in aggregate effective demand causes conditions of recession or depression. (You will study about these concepts in detail at Intermediate level in Economics for Finance)

2. **Fluctuations in investments:** Investments fluctuate quite often because of changes in the profit expectations of entrepreneurs. New inventions may cause entrepreneurs to increase investments in projects.

   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:** Government spending, especially during and after wars, has destabilizing effects on the economy.

4. **Macroeconomic policies:** Macroeconomic policies like monetary and social policies also cause business cycles. 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.

5. **Money Supply:** According to Hawtrey, trade cycle is a purely monetary phenomenon.

6. **Psychological factors:** According to Pigou, modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism. Business fluctuations are the outcome of these psychological states of mind of businessmen.

   According to Schumpeter's innovation theory, trade cycles occur as a result of innovations which take place in the system from time to time. The cobweb theory propounded by Nicholas Kaldor holds that business cycles result from the fact that present prices substantially influence the production at some future date. The present fluctuations in prices may become responsible for fluctuations in output and employment at some subsequent period.

B. **External Causes:** These are external or exogenous factors of business cycles explained as follows:

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.

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.

4. **Natural Factors:** Weather cycles cause fluctuations in agricultural output which in tum cause instability in the economy. Reduced production of food products also pushes up their prices and thus reduces the income available for buying industrial goods.
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.

   Economies of nearly all nations are interconnected through trade. Therefore, depending on the amount of bilateral trade, business fluctuations that occur in one part of the world get easily transmitted to other parts.

Causes / Reasons Of Business Cycles	
Expansion / Boom / Upswing	**Contraction / Recession / Downswing**
Higher aggregate demand	Lower aggregate demand
Leads to more output	Leads to less output
Leads to more employment	Leads to less employment
Leads to more income	Leads to less income
New inventions lead to increase investments	Companies will lay of workers
Investment also rises since rate of interest are low	Consumers will loose job and stop buying
Increase in investment shift aggregate demand to right	Decrease in investment
Post war reconstruction	Downward spiral starts
New and improved technology	Increased government spending during was
Leads to huge investments	During wars production shifts to weapons, arms etc.
Leads to employment generation, income generation & profits	Increases in taxes

RELEVANCE OF BUSINESS CYCLES IN BUSINESS DECISION MAKING

1. Business cycles affect the demand for products and in turn the profits. Knowledge regarding business cycles and their inherent characteristics is important for a businessman to frame appropriate policies.
2. The phase of the business cycle is important for a new business to decide on entry into the market.
3. The stage of business cycle is also an important determinant of the success of a new product launch.

4. Surviving the sluggish business cycles require businesses to plan and set policies with respect to product, prices and promotion.

5. However, business cycles do not affect all sectors uniformly. Businesses whose fortunes are closely linked to the rate of economic growth are referred to as "cyclical" businesses. These include fashion retailers, electrical goods, house-builders, restaurants, advertising, overseas tour operators, construction and other infrastructure firms. During a boom, such businesses see a strong demand for their products but during a slump, they usually suffer a sharp drop in demand.

TRY YOUR UNDERSTANDING 5.3

1. Which one of the following is not the characteristic of business cycle?
   (a) They are recurrent
   (b) They are not at regular intervals
   (c) They have uniform causes
   (d) All the above

2. Internal Cause for Business Cycle include
   (a) Money Supply
   (b) Wars
   (c) Weather Cycles
   (d) Changing Technology

3. Business cycle is contagious and ________ in character?
   (a) Local
   (b) Regional
   (c) National
   (d) International

4. Which External Factor affect the business cycle?
   (a) Population growth
   (b) Variation in government spending
   (c) Money supply
   (d) Macro economic policies

5. Which internal factor affect the Business cycle?
   (a) Fluctuations in investment
   (b) Natural factors
   (c) Technology shocks
   (d) Population growth

6. What of the following are not external causes ?
   (a) Past war reconstruction
   (b) Population growth
   (c) Technology factors
   (d) Fluctuation in effective demand

8. The most important feature of business cycle is :
   (a) Persuasive nature
   (b) Regular length
   (c) Periodic intensity
   (d) None

9. Which of the following is the characteristic of business cycle?
   (a) It is sporadic in nature
   (b) It is contagious
   (c) It is complex in nature
   (d) They have uniform characteristics

10. Which of the following is not the main feature of business cycle?
   (a) Occurs periodically
   (b) Profit variation
   (c) Worldwide impact
   (d) Asynchronous

Answer Key

1. (c) 2. (a) 3. (d) 4. (a) 5. (a) 6. (a) 7. (b) 8. (d)

EXAMPLES OF BUSINESS CYCLES

1. **Dotcom Bubble (1997-2001):** During the late 1990s, there was a rapid expansion in internet-based companies and technology stocks. Stock markets experienced a significant increase in valuations, driven by investor optimism. However, the bubble burst in 2000, leading to a contraction phase marked by the collapse of many dotcom companies and a decline in stock prices.
2. **Global Financial Crisis (2007-2009):** The global financial crisis was triggered by the bursting of the U.S. housing bubble and the subsequent subprime mortgage crisis. The crisis resulted in a contraction phase characterized by a severe credit crunch, financial institution failures, and a deep global recession. Many countries experienced declining GDP, rising unemployment rates, and financial market turmoil.
3. **Great Depression (1929-1939):** The Great Depression was one of the most severe economic downturns in history. It began with the stock market crash of 1929, which led to a contraction phase characterized by widespread bank failures, mass unemployment, deflation, and a sharp decline in industrial production. The depression lasted throughout the 1930s and was only alleviated by World War II.
4. **Post-World War II Economic Boom (1945-1973):** After World War II, many countries experienced a prolonged period of economic expansion. This period, often referred to as the "Golden Age of Capitalism," was marked by rising living standards, high employment rates, increased consumer spending, and rapid economic growth in industries such as manufacturing and construction.
5. **Oil Crisis (1973-1975):** The oil crisis of the 1970s resulted from the OPEC oil embargo, which caused a sharp increase in oil prices and supply disruptions. The crisis led to a contraction phase characterized by stagflation—a combination of high inflation and high unemployment rates. Many countries faced economic recession and struggled with rising energy costs and reduced economic activity.
6. **Tech Boom (1990s-early 2000s):** The tech boom of the 1990s was characterized by a period of strong economic expansion driven by the growth of the technology sector, particularly internet-related industries. This expansion phase was marked by high stock market valuations, increased investment in technology companies, and the emergence of new digital business models.
7. **COVID-19 Pandemic (2020-2021):** The COVID-19 pandemic caused a global economic downturn, resulting in a contraction phase in many countries. Lockdown measures and restrictions to control the spread of the virus led to reduced economic activity, widespread job losses, and disruptions in supply chains. Governments implemented various fiscal and monetary measures to mitigate the economic impact and support recovery efforts.

NAME OF ECONOMISTS USED IN THIS CHAPTER

Schumpeter	Innovation theory
JM Keynes	Fluctuation in effective demand , Aggregate effective demand
Nicholas Kaldor	Cobweb theory
Hawtrey	Trade cycle is purely monetary phenomenon

EXERCISE

1. The term business cycle refers to
   (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
2. A significant decline in general economic activity extending over a period of time is
   (a) business cycle
   (b) contraction phase
   (c) recession
   (d) recovery
3. The trough of a business cycle occurs when ________ hits its lowest point.
   (a) inflation in the economy
   (b) the money supply
   (c) aggregate economic activity
   (d) the unemployment rate
4. The lowest point in the business cycle is referred to as the
   (a) Expansion. (b) Boom. (c) Peak. (d) Trough.
5. A leading indicator is
   (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
6. A variable that tends to move later than aggregate economic activity is called
   (a) a leading variable.
   (b) a coincident variable.
   (c) a lagging variable.
   (d) a cyclical variable.
7. Industries that are extremely sensitive to the business cycle are the
   (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.
8. A decrease in government spending would cause
   (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.
9. Which of the following does not occur during an expansion?
   (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.

10. Which of the following best describes a typical business cycle?

(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.

11. During recession, the unemployment rate _______ and output _______.

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

12. The four phases of the business cycle are

(a) expansion, peak, contraction and trough

(b) contraction, expansion, trough and boom

(c) expansion contraction, peak, and trough

(d) peak, depression, bust, and boom

13. Leading economic indicators

(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

14. 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.

15. Peaks and troughs of the business cycle are known collectively as

(a) Volatility. (b) Turning points.

(c) Equilibrium points. (d) Real business cycle events.

16. The most probable outcome of an increase in the money supply is

(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

17. Which of the following is not a characteristic of business cycles?

(a) Business cycles have serious consequences on the well-being of the society.

(b) Business cycles occur periodically, although they do not exhibit the same regularity.

(c) Business cycles have uniform characteristics and causes.

(d) Business cycles are contagious and unpredictable.

18. Economic recession shares all of these characteristics except.

(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

19. The different phases of a business cycle
(a) do not have the same length and severity
(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

20. Which of the following is not an example of coincident indicator?
(a) inflation
(b) Industrial production
(c) Retail sales
(d) New orders for plant and equipment

21. According to _______ trade cycles occur due to onset of innovations.
(a) Hawtrey (b) Adam Smith (c) JM Keynes (d) Schumpeter

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

23. Which economic indicator is required to predict the turning point of business cycle?
(a) Leading indicator
(b) Lagging indicator
(c) Coincident
(d) All of the above

24. Business cycle generally originates in free market economies, what is a free market economy?
(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.

25. Which of the following statements is correct?
(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.

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

27. Which of the following is the cause of business cycles?
(a) Fluctuations in aggregate effective demand
(b) Fluctuations in investments
(c) Fluctuations in government spending
(d) All of the above

28. Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called _______.

(a) Signals (b) Indicators (c) Barometer (d) Clues

29. If the growth rate of population is higher than the rate of economic growth, there will be _______ in the economy.

(a) more savings (b) no effect on savings

(c) lesser savings (d) none of these

30. The cobweb theory was propounded by.

(a) Haw trey (b) Adam Smith

(c) JM Keynes (d) Nicholas Kaldor

Answer Key

1. (b)	**2.** (b)	**3.** (c)	**4.** (d)	**5.** (b)	**6.** (c)	**7.** (d)	**8.** (b)	**9.** (d)	**10.** (a)
11. (a)	**12.** (a)	**13.** (b)	**14.** (a)	**15.** (b)	**16.** (c)	**17.** (c)	**18.** (d)	**19.** (a)	**20.** (d)
21. (d)	**22.** (c)	**23.** (d)	**24.** (b)	**25.** (c)	**26.** (a)	**27.** (d)	**28.** (b)	**29.** (c)	**30.** (d)

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