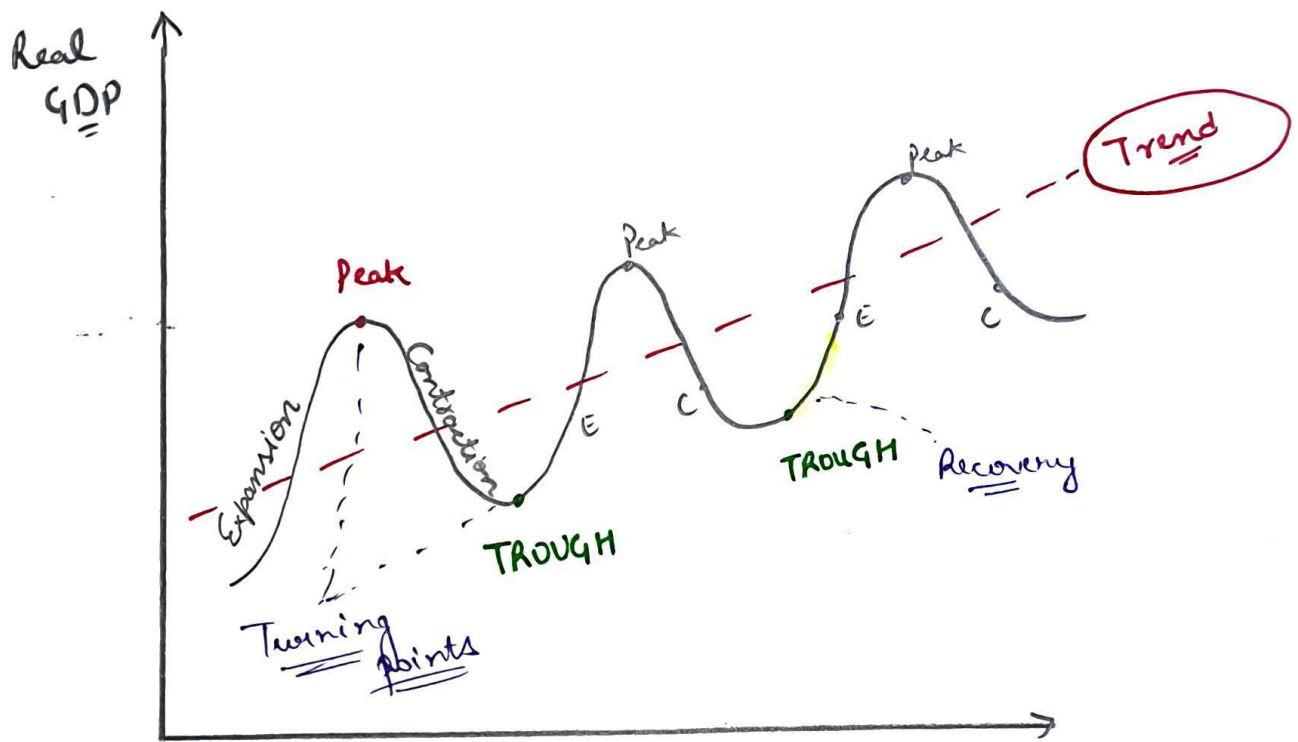


Chapter-5 Business Cycles.

→ Rhythmic fluctuations in aggregate Economic activity that are Economy Experiences over a period of time are called business cycles or trade cycles.

- Eg :-
- 1920 : UK - GDP ↑
 - 2020 : China → Recession
 - 1930 : Great Depression. (US)
 - 2000 : IT Bubble Burst
 - 2008 :- US Banking



Phases of Business Cycle

①

Expansion:-

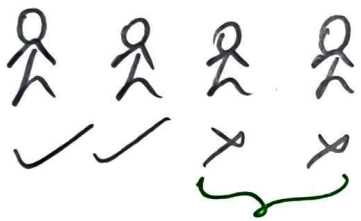
National Output, Employment, AD, Expenditure, Sales, profit, Stock prices, Bank rate, Investment, production, Confidence, factor Income etc.

→ Involuntary Unemployment is almost zero, but frictional & structural unemployment exists.

Change in Job.

change in Structure.

* do not want to work = voluntary unemployment.



willing to work
actual working.

Involuntary Unemployed.

② PEAK

- End of Expansion.
- highest point.
- Inputs are different to find as they are short of their demand.
- Actual demand stagnates

③ Contraction (Down Swings or Recession)

- Supply > Demand.
- Beginning of Recession.



Trough (or depression)

- Growth rate becomes negative
- Occurs when recession is complete.
- National Income & Expenditure declines rapidly.
- people's demand for liquid money 'increases'.
- 1929-1933 Great depression (US)

⑤ Recovery (Refer diagram)

(Beginning of Expansion)

* Economic Indicators *

↑ Leading

- Change in stock price
- Profit margins
- Housing Interest rates
- New Capital ex
Consumer good orders

↓ Lagging

- Unemployment
- Corporate profit
- Labour Cost per
Unit of OUTPUT
- Interest rates (some
-times)
- Consumer price
Index.

↘ Coincidental.

- GDP
- Inflation.
- Industrial
production.
- Retail Sales.
- personal
Income.

Imp

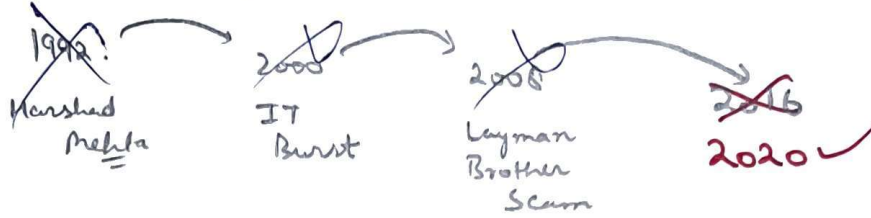
* features of Business Cycles *

*

→ Differ in duration & intensity.

1929-33, महाराष्ट्र
अर्थव्यवस्था
असुर्य
affected

→ No regularity.



→ length of each phase is not definite.

→ Generally originate in free market Economy.
(capitalist)

→ It affects Industrial Sector more than agricultural Sector.

(*) Capital goods Industry (Machines)
Durable Consumer goods. (TV, AC, Car)
Severely affected.

→ Its affect can be felt on all Economic Variables.

→ Business Cycle is Contagious & International.

China → → →
भारत

CAUSES OF Business Cycle *

Internal

- fluctuations in Effective demand.
(Keynes)

$$AD = C + I + G + (u-m)$$

- fluctuation in Investment
MOST VOLATILE

- fluctuation in Govt. Spendings

- fluctuation in monetary & fiscal policies.

- changes in Money Supply.
(by Hawtrey)

- Psychological factors.

→ AC Pigou:- Anticipation of optimism & pessimism.

→ Schumpeter:- due to INNOVATIONS

External

- WAR
- POST war reconstruction
- Technological shocks.
- Natural factors.
(Eg. floods affecting agricultural output)

- population (↑)

Savings (↑)
Investment (↓)

CONCLUSION

→ Business Cycles have tremendous influence on business decisions.

→ Business Cycles do not affect all sectors uniformly.

④ → Business whose fortunes are closely linked to the rate of Economic ~~rate~~ growth are referred to as **CYCLICAL BUSINESS**



Restaurants, Construction firms,
fashion retailers, Electrical goods etc.

→ Economic forecasts are NOT perfectly reliable but **Can help** the business to prepare for changes.