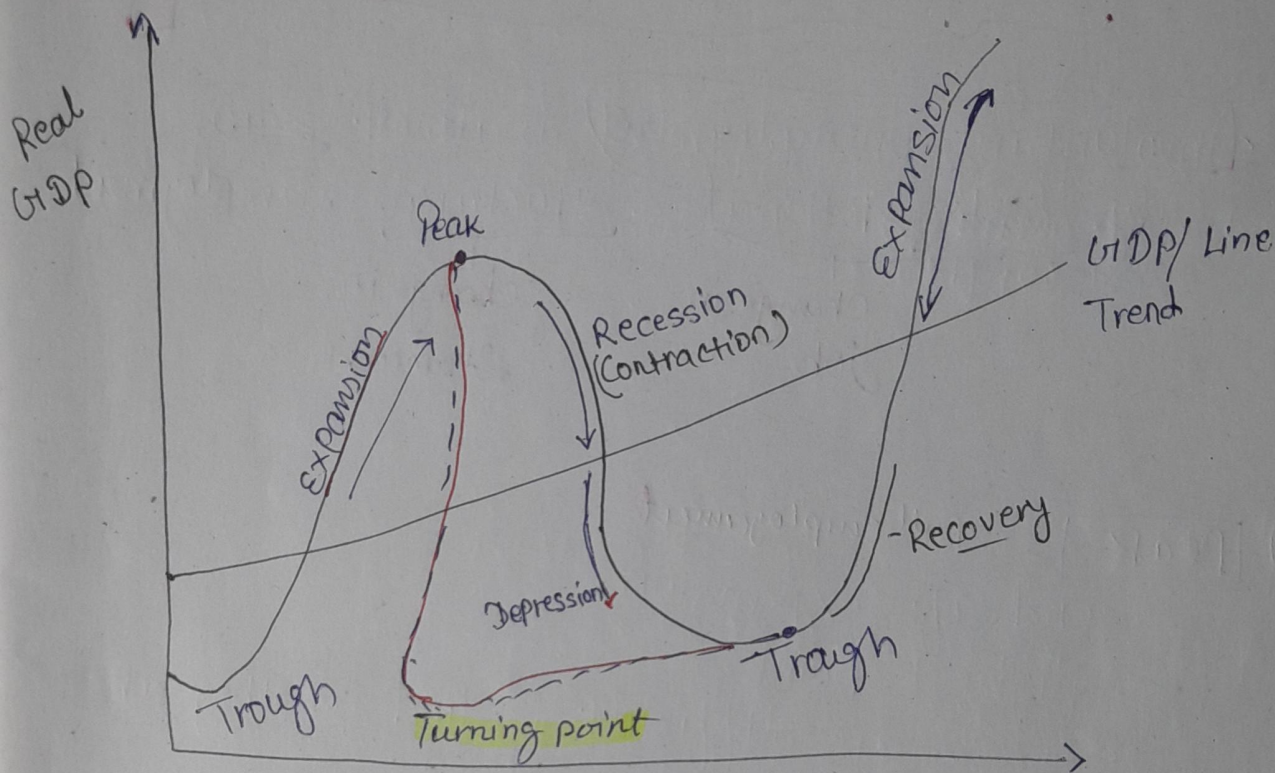


# Trade cycle / Business cycle (Macro concept)

→ Rhythmic fluctuations in aggregate economic activity that an economic experiences over a period of time are called business cycles or trade cycles.

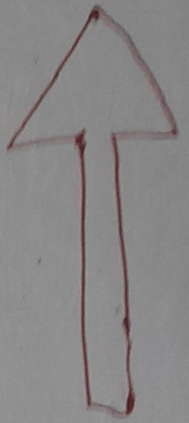
Eg:- 1920 : UK - GDP ↑  
2020 : China - Recession



- ① Expansion / up swing / Boom / Inflation
- ② Peak / Prosperity / Boom
- ③ Contraction / downswing / Recession / downfall
- ④ Trough / Depression

# Phases of Business cycle

Inflation



## ① Expansion

Nation output, Aggregate demand  
Interest rate, Expenditure, Sales  
Profit, Investment, Production  
Confidence, factor income etc

→ Involuntary unemployment is almost zero,  
only ~~frictional~~ frictional & structural unemployment  
exists.

change in job                      change in structure

## ② Peak

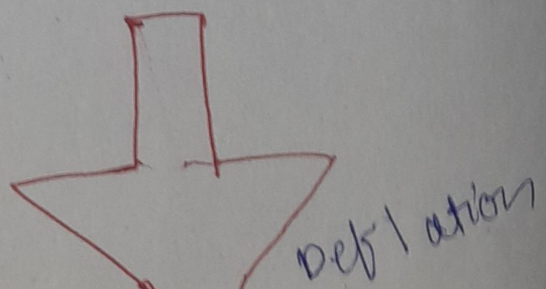
Full employment

- end of expansion
- highest point
- Inputs are difficult to find as they are short of their demand.
- Actual demand stagnates

## ④ Contraction / Downswing (or Recession)

- Supply > Demand
- Beginning of Recession

Expansion  
all over



Deflation



## ④ Trough (or Depression)

→ Growth rate becomes negatives

→ occurs when recession is complete

→ National Income & Expenditure declines rapidly

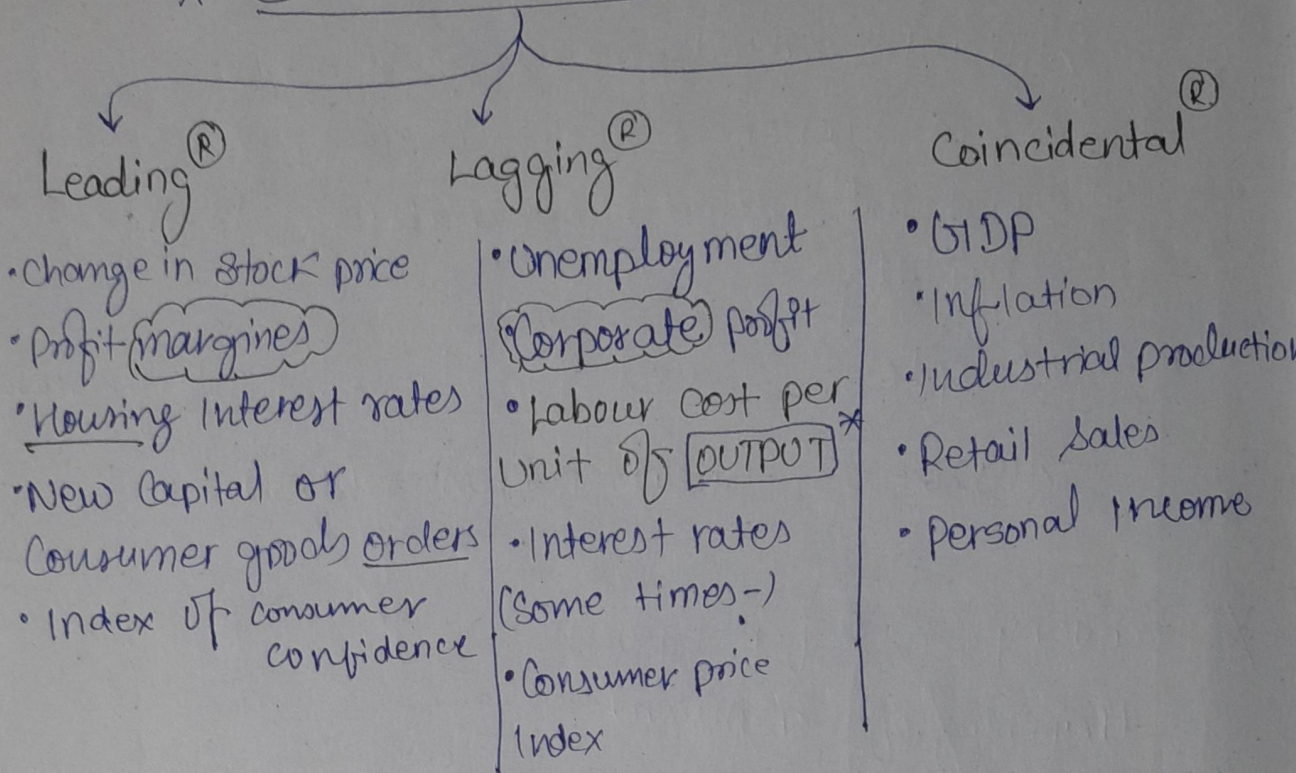
→ People's demand for liquid money increases

→ 1926-33 Great Depression (US)

\* Recovery - Refer Diagram  
(Beginning of expansion)

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# \* Economic Indicators \*



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## \* Features of B. Cycle \*

→ Differ in duration & intensity <sup>affect</sup>

→ NO regularity.

→ Length of each phase is not definite

→ Generally originate in free market economy (Capitalist)

→ It affects industrial sector more than agricultural sector.

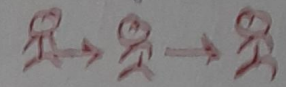
⊗ Capital goods industry (Machine)  
Durable consumer goods (TV, AC, Car)

Severely affected.

→ Its affect can be felt on all economic variables.



→ Business cycle is Contagious & International.



↓  
↓

China → India → ...

## \* CAUSES OF BUSINESS cycle \*

### Internal

- Fluctuations in effective demand  
(Keynes)

$$AD = C + I + G + NX$$

- fluctuation in investment -  
MOST VOLATILE
- fluctuation in Govt. Spendings
- Fiscal & Monetary 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

→ B. cycle have tremendous influence on business decisions.

→ B. Cycle do not affect all sectors uniformly

\* → Business whose fortunes are closely linked to the rate of Economic growth are referred to as

CYCLICAL BUSINESS



Restaurants, Construction firms,  
Fashion retailers, electrical goods etc.

→ Economic forecasts are Not perfectly reliable, but Help the Business to prepare for changes.

\* Leading economic indicators

Are generally used to forecast economic fluctuation



## Causes of BC

Nicholas Kaldar

### ★ Price fluctuations

#### • Economic Indicators

Business cycle involves periodic fluctuations of economic activity, such as production & employment.

Economist uses statistical tools to predict the future performance of Business cycle & analyse it, they are called as **Indicators**.

→ They try to predict next phase of Business cycle

→ They are not always Accurate.

#### Types of Indicators

##### ① Leading Indicators

It is a measurable economic factor that changes **before** the economy starts to follow a particular change / trend / pattern.

##### ② Lagging Indicators

It is a measurable economic factor that changes **only after** the economy starts to follow a particular change / trend / pattern.

##### ③ Co-~~incidental~~ Incidental Indicator

It is measurable / measurement that shows the current state of economy, this indicator move along with the economy but it does not show which way the economy is heading, but it tells us where we are at present.