

Chapter 05 :- Business Cycle

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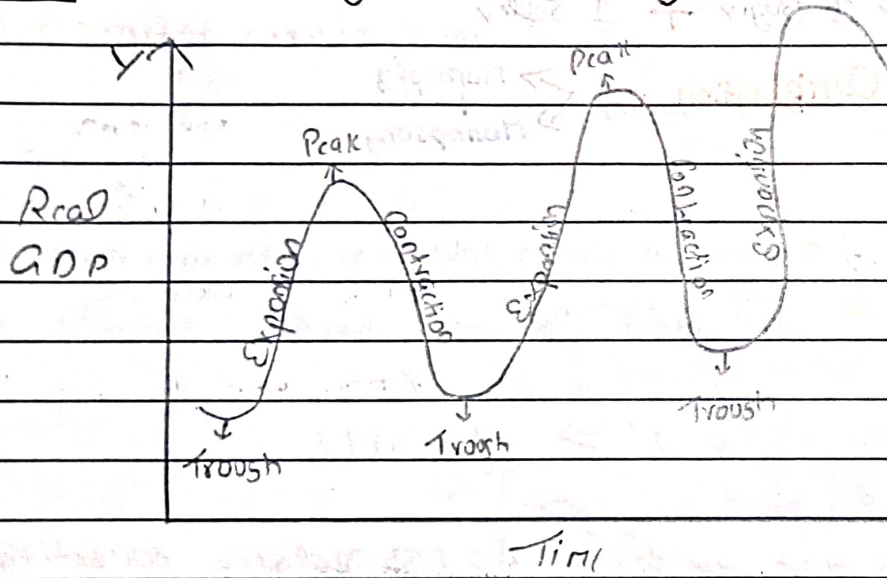
- Business Cycles or Trade cycle
 - Rhythmic fluctuations → In aggregate econ. activity → That an economy experiences over a period of time.
 - Composed of periods
 - (Expansion) Good Trade → P ↑ Unemployment ↓
 - (Contraction) Bad Trade → P ↓ Unemployment ↑

→ In other words → Biz cycle reqs

- alternate expansion + contraction
- overall biz activity

- Characteristic of Economic fluctuation
 - recurrent ✓ + Occurs periodically
 - but ✗ always at
 - Regular intervals
 - Same length

5.1 Phases of Business Cycle



- **Expansion Phase**
 - ↑ in GDP + employment + Prodⁿ ✓
 - ↑ in aggregate Demand ✓
 - ↑ in capital & consumer expenditure ✓
 - ↑ in sales, profit, rising stock prices ✓
 - Bank credit ✓
- **State functions tied there**
 - Good employment of resources ✓
 - Prodⁿ is at its max. possible level ✓

→ **Involuntary unemployment = Almost 0**

- Whatever unemployment
 - Frictional → due to search for jobs
 - Structural → due to structural change in economy

→ Price + Cost → Rise Faster & People enjoy high standard of living

→ Peak Phase

• Rogers → Top / Highest point of Biz cycle

• In the later Stage of expansion → Resources Fully Utilized

Conclusion: - Input Price ↑ BUT Input Factor → Limited
 → Output price ↑ Rapidly
 Input Demand ↑ & Supply is Ltd

* Is the end of expansion

Input prices Increase

Product cost ↑

↳ Output prices ↑

↳ also leading to

cost of living ↑

greater strain on

Fixed income earners

→ Contraction Phase → Aggregate Demand ↓

Do X instantances recognize pulse of the economy

Producer → Supply ↑

Supply > Demand

Producer aware of the fact →

Respond by

Holding back future plan

Cancellation & Stoppage of Order for equipments & All inputs

↳ Turn generate a chain reaction in Input market

→ This is the turning point & Beginning of recession

• Input Demand ↓ → Input Price ↓ → Income ↓ of wage & Interest ↓ → Demand ↓

To Dispose of their inventories → Product Price ↓

Meeting Financial Obligations

Consumer in turn → Future expectation

↓ the price in future
Pastors their pocket

So, Consumer Spending ↓ Aggregate Demand ↓

generally causing fall in price

→ Process gather speed → Recession becomes severe:

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Investment ↓

Prodⁿ & Employment ↓

Income ↓

Demand ↓ → so P ↓ → Profit ↓

Biz Firm → Pessimistic ^{Negative thought} ✓ → about future → falls in profit expectation → Reduce investment

Bank credit ↓ → Borrowing for investment

Investor confidence ↓, Stock price ↓, unemployment ↑

→ Trough & Depression

→ Depression is the severe form of Recession

→ During this phase

Growth Rate (GDP) → -ve

Nation Income + Expenditure → declines rapidly

→ Demand ↓ + Price at their lowest + Decline rapidly

→ Forcing To Shutdown Biz

Mounting Unemployment
→ abn. inv
consume income

→ Typical Feature ⇒ Fall in the Interest Rate

Loan Rate ↓ → low Producer loan in the market as money supply ↓

Deposit Rate ↓ → low Bank chgs for

→ Possible banking or financial crisis

→ At the depth of depression → All economic activities touch the bottom & Reached the phase of trough

* The Great depression of 1929-33

→ Recovery

→ The process of Recovery gets

→ Labour Market ✓

Pervasive Unemployment → workers to accept wages lower than the prevailing rates

Producer know about labour market ↓

Producer anticipate lower costs + get the Biz saving

→ Time comes when → Biz Confidence ↑
 This acts as a turning point from depression to expansion
 Investment ↑ → Prodⁿ ↑ → Employment ↑ → Income ↑ → RD ↑

★ Economic Indicators

जो आपको future के बारे में बताता है

1) Leading Indicator → Measurable economic factor → Δ before the economy starts to follow a particular pattern or trend

In other words, → These variables Δ before real output change.

→ X always accurate

सब कुछ हो गया इसके बाद क्या रहे है

2) Lagging Indicators → Reflects Economy historical performance
 Δ are observed only after an economic trend or pattern has already occurred

→ Leading indicators signal the onset of biz cycle. BUT Lagging Indicators confirm these trends.

जब वो फिर उठ रही है तब उसके बाद क्या

3) Coincident Indicators or Concurrent Indicators

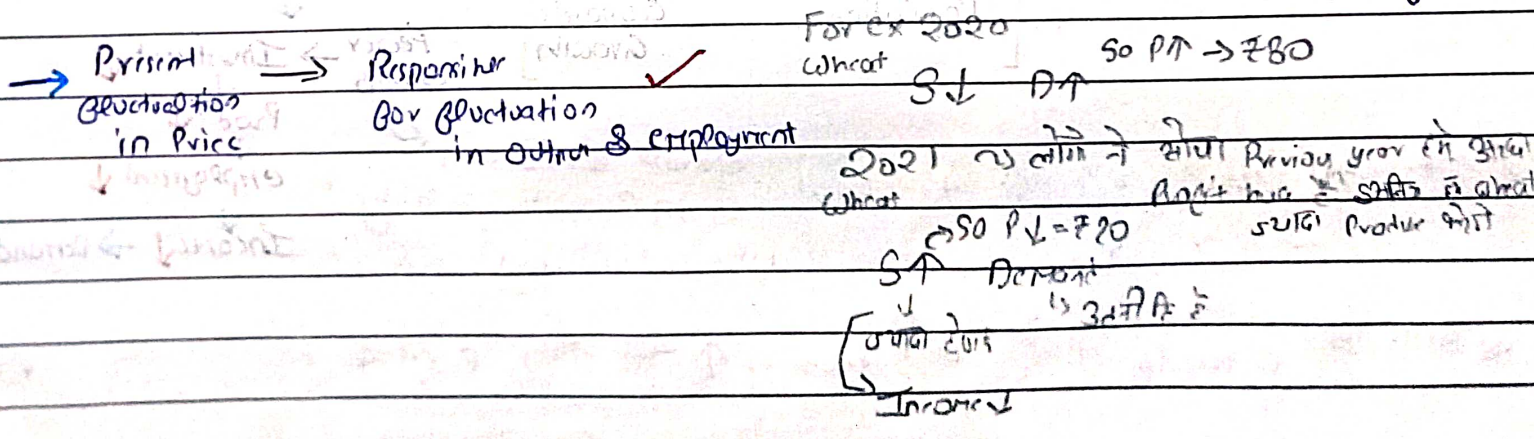
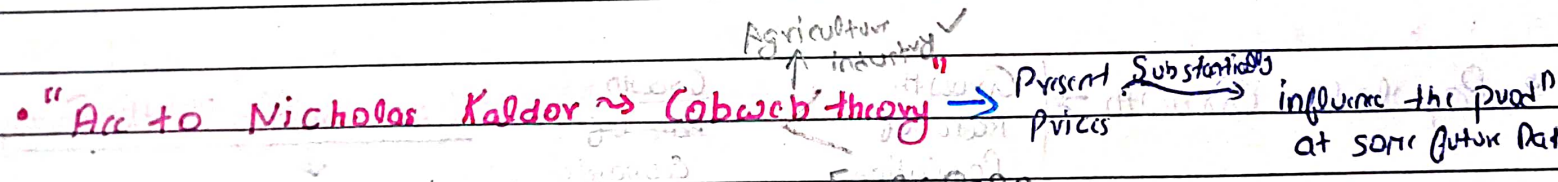
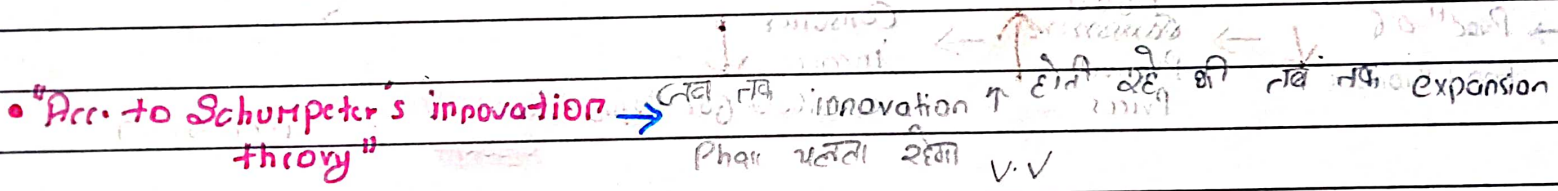
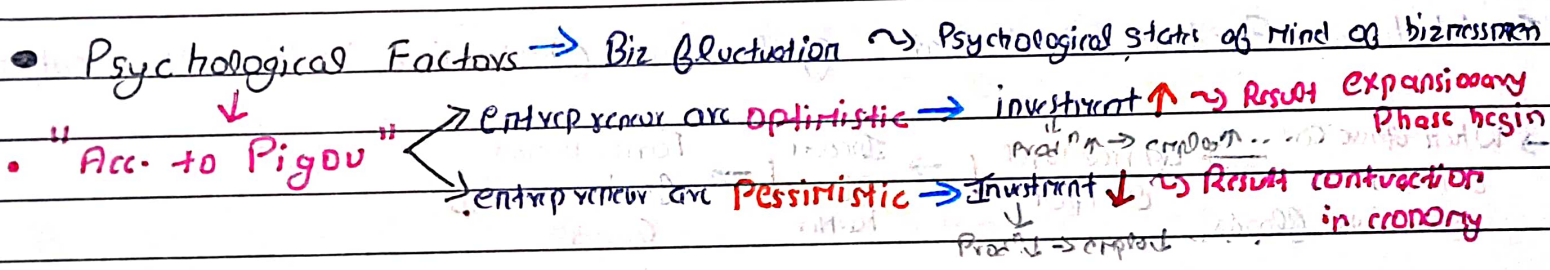
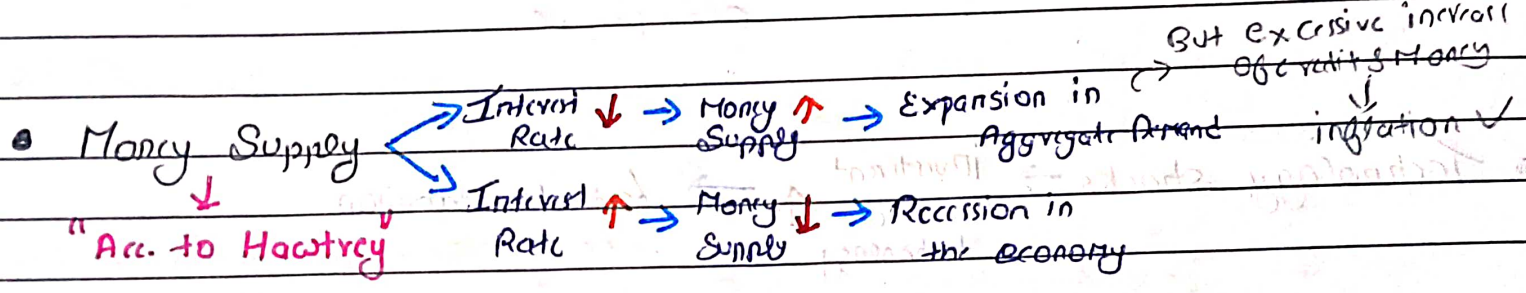
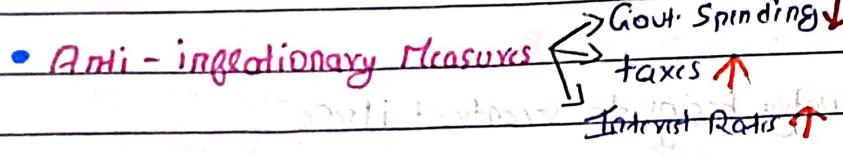
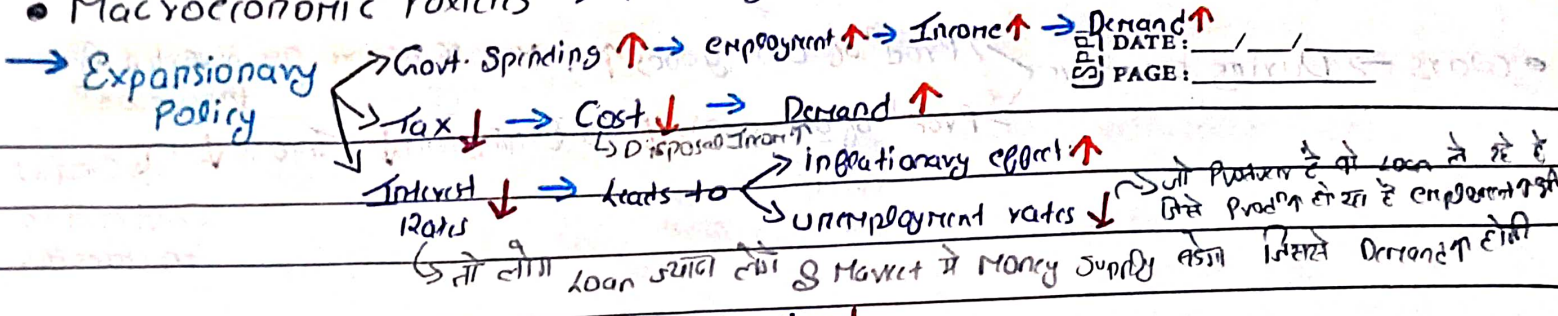
→ [Simultaneously + Describe the current state] → Biz cycle ✓

In other words, Give info. → About Rate of Δ of expansion/contraction → Economy
 More or less at same point of time it happens.

5.2 Features of Business Cycles

(a) Biz cycle →
 - occur periodically + DO NOT exhibit the same regularity
 - Distinct phases + Phase seldom display regularity
 - Length of each phase → X Definite

• Macroeconomic Policies → Monetary + Fiscal Policies also civic Biz cycles



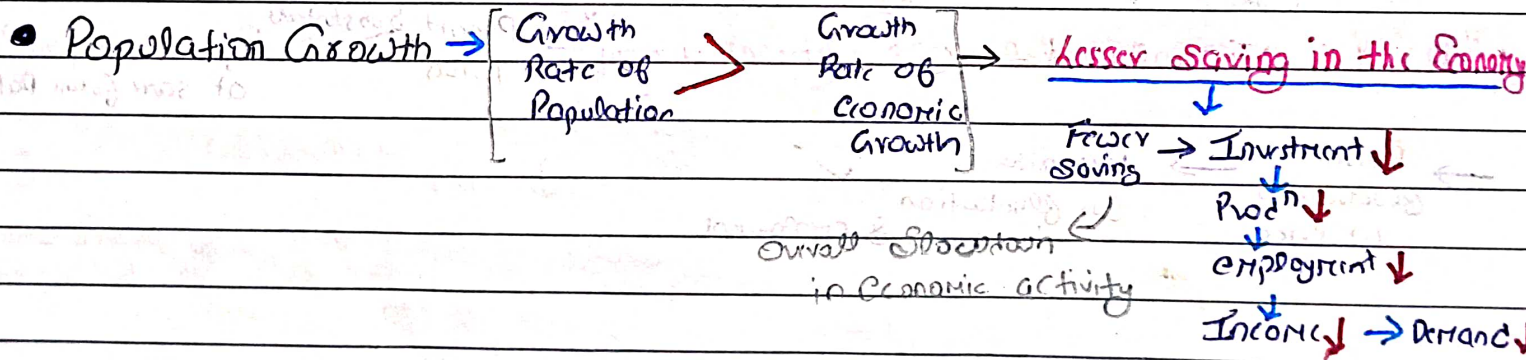
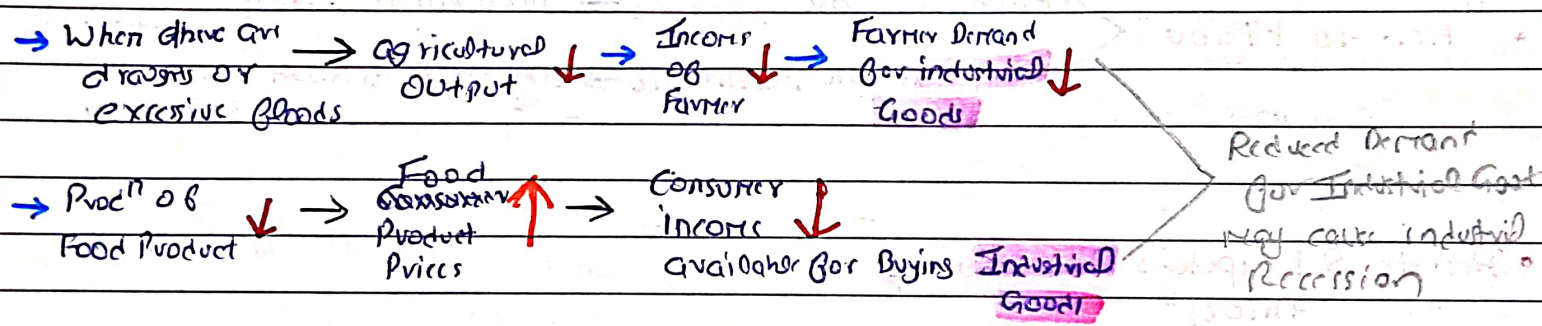
→ ~~External~~ External Causes: ^{weapons, arms etc}

- Wars → During war time
 - Prodⁿ of War goods ↑ + Most of resources are diverted Gov their prodⁿ
 - Prodⁿ of oth. goods ↓ → Employment ↓ → Income ↓ → Create contraction in economic

- Post War Reconstruction → Country begins to reconstruct itself ^(houses, roads, bridges etc.)
Expansion ✓

- Technology shocks → investment for new technology ↑ → leads to expansion
↳ ex. Mobile industry & Telecom

- Natural Factors → Weather cycle cause fluctuations in agricultural output



* 3112 3114 expansion में ही 3114 capacity ↑ करो और Profit ↑ है

+ 3111 3114 contraction में ही ही Prodⁿ ↓ करो और cost ↓ है

- Cyclical Businesses → Businesses whose fortunes are closely linked to the economic growth.
 ↓
 Means the Country's Economic Growth ↑ एता है तो बिजनेस भी ↑ होता है।

For ex: Fashion retailers, electrical goods, home-builders, restaurants etc.

- During a Boom → Strong Demand for their products

- During a Slump → Suffer a sharp drop in Demand
 ↓
 Downward

* Phase of Biz cycle is imp. for new business to decide on entry into the market or New Product launch

* Turning point of Biz cycle is predicted by leading ind. or lagging ind. or coincidental.

* Typical Business cycle → economic expansions are followed by contraction

* Globalization indicate rapid → Integration between countries

* Collectively } Peaks } Turning points
 } troughs }

* More prone to adverse effects of Biz cycle → Industries