# CA FOUNDATION JAN 2025

## FREE AGASTYA BATCH

# BUSINESS ECONOMICS

# BUSINESS CYCLES

## ONE SHOT

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अच्छे दिन → Boom | Expansion | Upswing

अच्छे दिन → Boom | Expansion | Upswing

↑ in national output

- Involuntary unEmp. → almost Zero
- ↑ Employment
  - change in job ✓
  - strike ✓
  - → frictional unemployment & Structural unemployment
    - ↓ skill mismatch

अच्छे दिन → Boom | Expansion | Upswing

↑ in national output → ↑ Employment

↓ in later stage

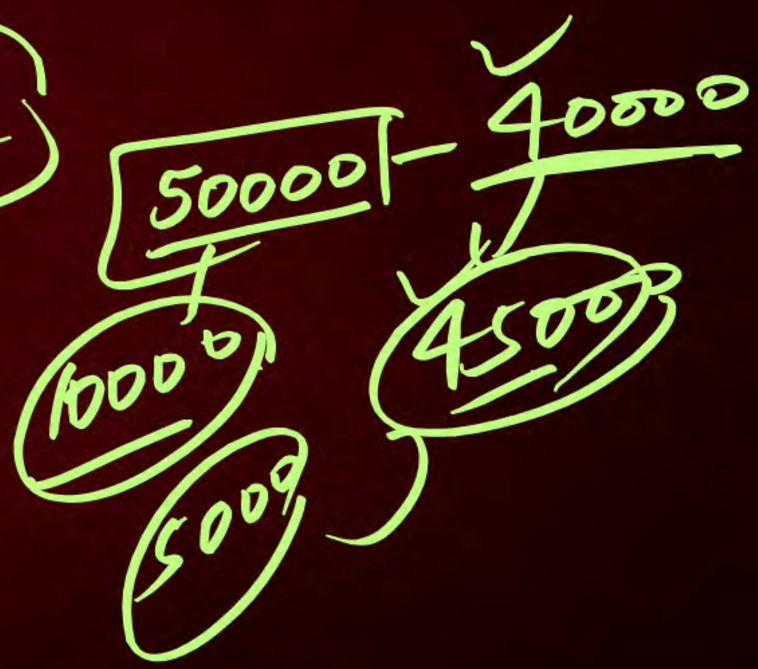
inputs are difficult to find

Price/input ↑

input Price ↑ → Output price ↑

सबसे पहले परेशान कौन होगा?

Fixed Income



input Price ↑ → Output price

सबसे पहले परेशान कौन होगा?

Fixed income Earners

input Price ↑ → Output price

↓

सबसे पहले परेशान कौन होगा ?

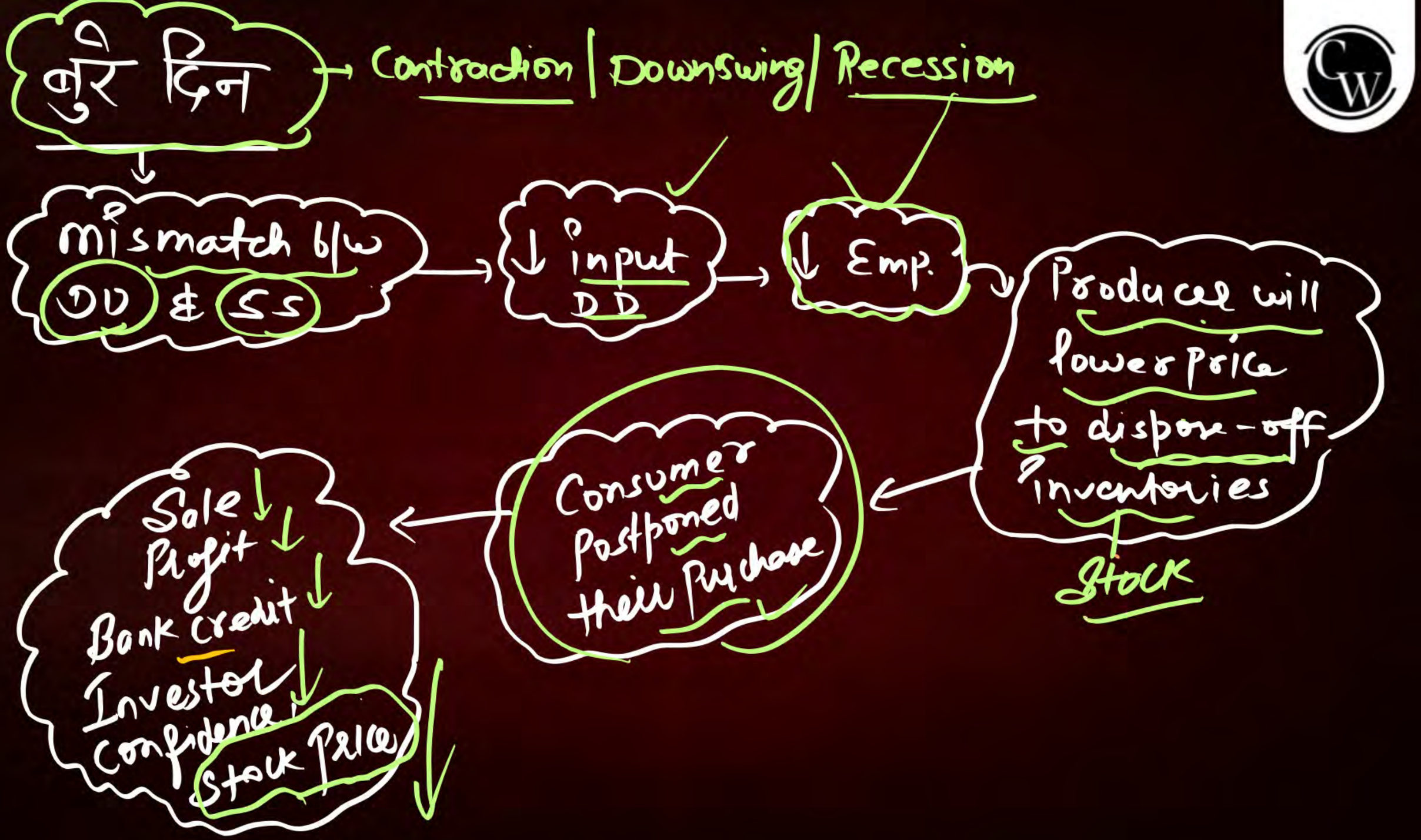
↓

Fixed income Earners

↓

They will start reviewing their Exp$^{n}$ on housing, durable goods etc.

Seller


बुरे दिन
Contraction | Downswing | Recession
Mismatch b/w
DD & SS
↓ Input
DD
↓ Emp.
Producer will
lower Price
to dispose-off
inventories
Stock
Consumer
Postponed
their Purchase
Sale
Profit
Bank Credit
Investor
Confidence
Stock Price

Fall in Aggregate Economic Activity

Contraction

Fall in Aggregate Economic Activity over a Period of time

↓

Recession

बहुत बुरे दिन ⟶ Trough / Depression

↓

growth rate becomes -ve

↓

National income ↓

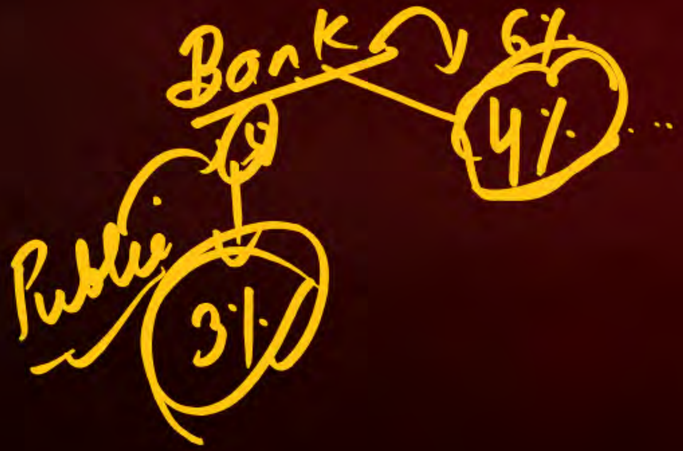
# बहुत बुरे दिन

↓

growth rate becomes -ve.

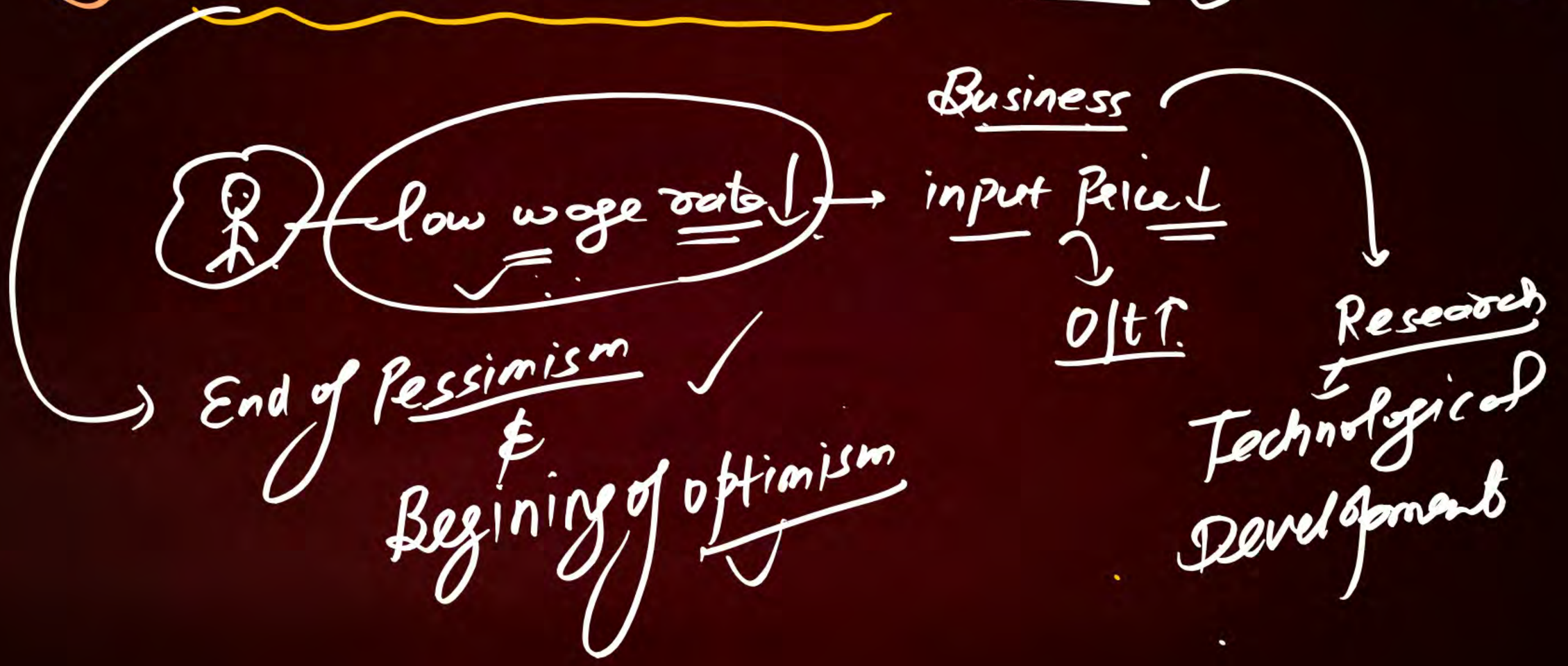
↓

national income ↓ → ↓ in interest rate → People hold more liquid money



दुख भरे दिन बीते रे भैया

Recovery



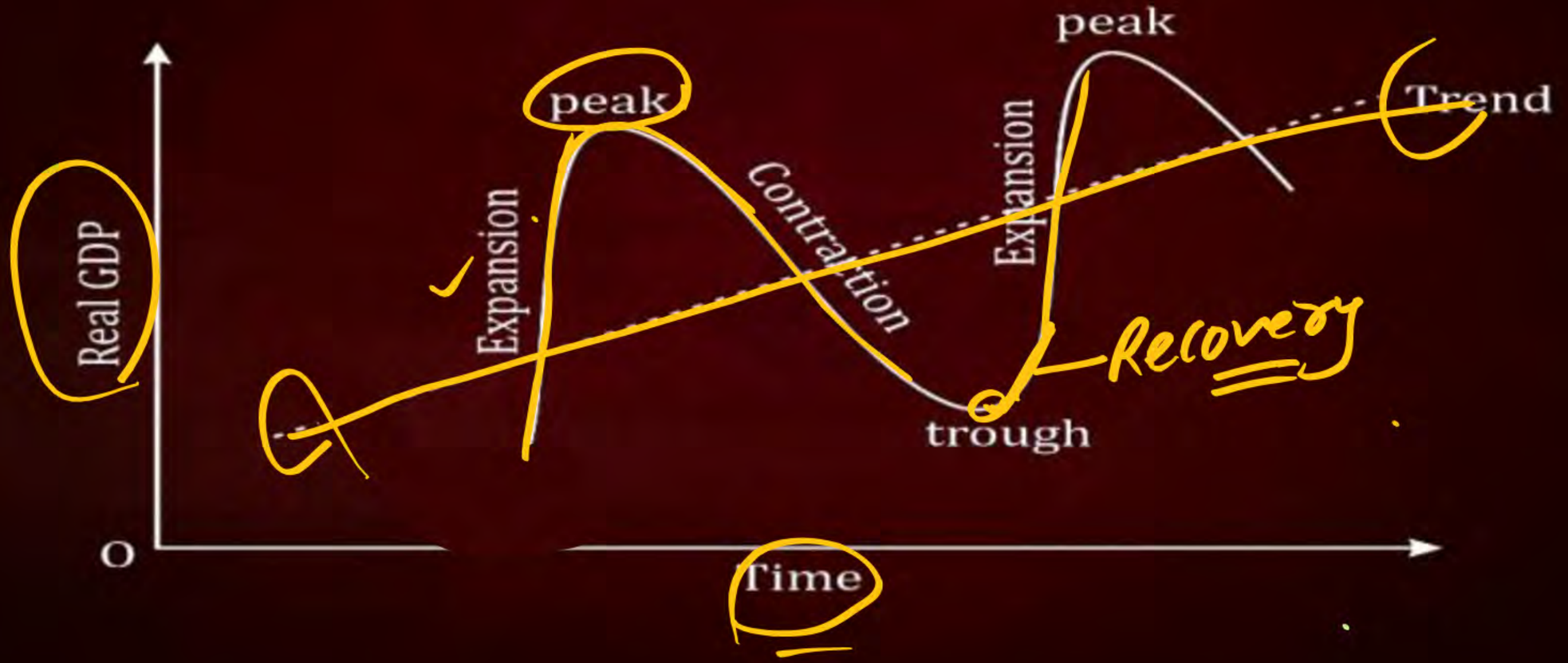
Peak
Turning Point
Contraction
Boom
Trough

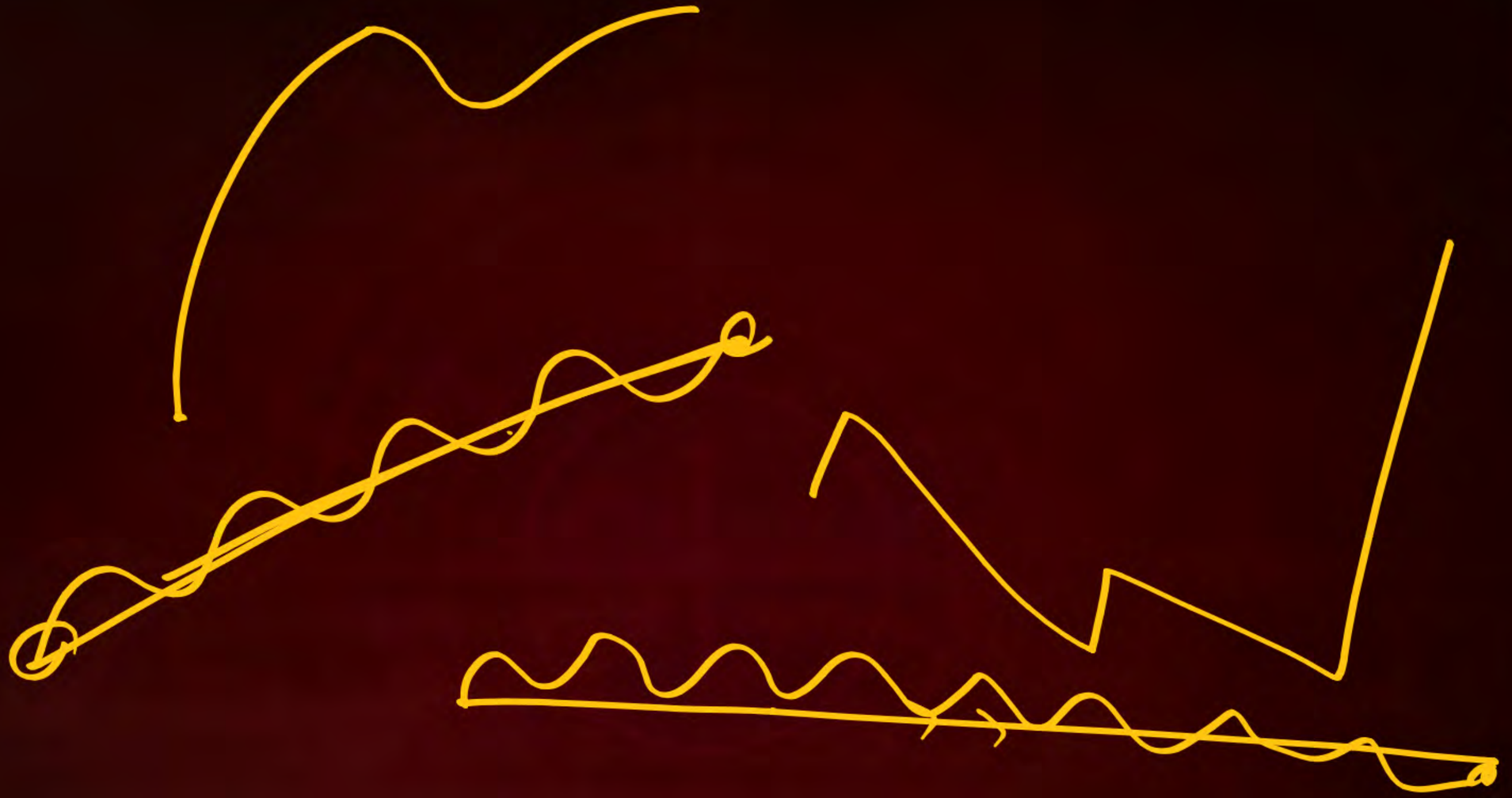
# Topic: Meaning of term "Business Cycles"

There have been periods of prosperity followed by periods of downturns in economic activity.

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

Expansion → Boom → Contraction → Depression





QUESTION

#Q. The lowest point in the business cycle is referred to as the

A Expansion

B Boom

C Peak

D Trough

**Expansion/Upswing/Boom–**

- Increase in national output, employment, aggregate demand etc.
- This state exists till there is full employment of resources and production is at maximum level.
- Involuntary employment is 0, and unemployment is fictional or structural.
- Price and cost raises faster.

**Peak of Boom/Prosperity-**

- Top/ highest point of business cycle.
- End of expansion, economic growth stabilized for a short time, and then move in reverse direction.

**Contraction/Downswing–**

- Once peak is reached, increase in demand is halted and starts to decrease.
- Producers do not instantaneously recognize the pulse of economy and continue to anticipate higher level of demand. Thereof, maintain the existing level of investment and production.
- Business firms become pessimistic.
- Fall in profit expectations.
- Hence reduce investment and economy over-heats.

↓ Sale ↓
Profit ↓
Bank Credit ↓

**Trough/Depression-**

- 'Trough'- When overall economic activities are at the lowest level.
- Growth rate becomes negative.
- Level of national income, expenditure declines rapidly.
- Price are at the lowest.
- Shut down of various production facilities.
- Fall in interest rate.
- Demand for holding money increases.

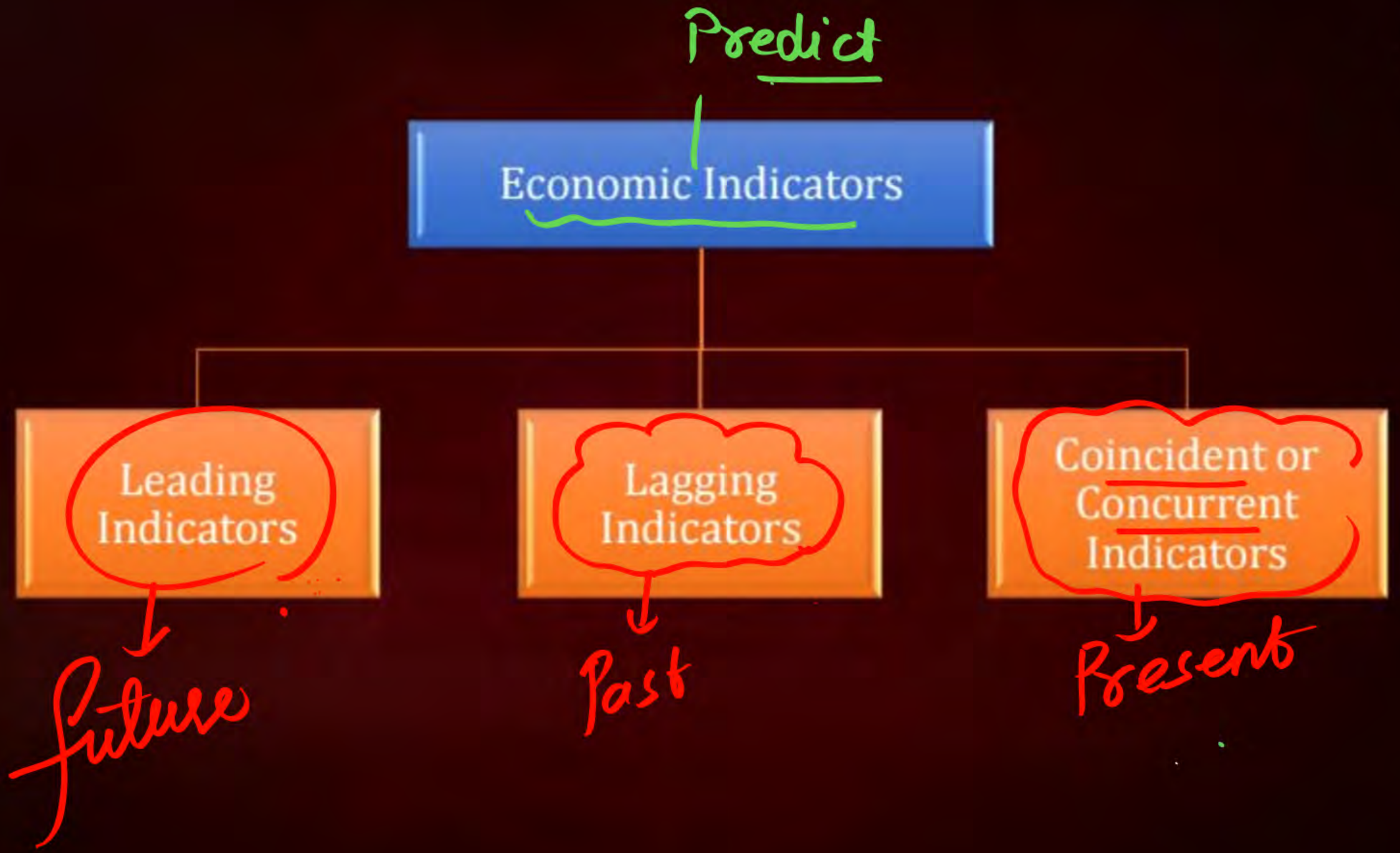
## RECOVERY-

- Economy reaches its lowest trough and starts recovery.
- Through marks end of pessimism and beginning of optimism.
- Labour starts to accept except the existing low wages.
- Business expect lower returns.
- Slowly the confidence comes back and they start investing again.

*Capital goods industries are more sensitive to business cycle (durable goods).

# Topic: Features - Business Cycle

1. Occurs periodically, do not exhibit same regularity, duration varies, intensity of fluctuation also varies.
2. Length of each phase is not difinite (expansion Boom, contraction, depression).
3. Originates in free market.Disturbances in one or more sectors can get easily transmitted to all the other sectors.
4. Capital/durable goods industry are more sensitive to business cycle changes.
5. Business cycles are complex phenomena, effected by varying factors.It is difficult to make accurate prediction of trade cycles before their occurance.
6. Repercussions of business cycles get simultaneously felt on nearly all economic variables (employment, output etc.)
7. Business cycles have impact on well-being of society.
8. contagious and international in character.


Predict
Economic Indicators
Leading Indicators
Lagging Indicators
Coincident or Concurrent Indicators
Future
Past
Present

# Topic: Economic Indicators

(1) **Leading**

Variable that changes before the real output changes.

Eg.: Change in stock, new orders for capital and consumer goods

(2) **Lagging**

Variable that changes after the real output changes.

Eg.: Unemployment, corporate profit, Labour cost per unit.

(3) **Coincident/Concurrent**

That occurs simultaneous with business cycle movements.

Eg.: GDP, Inflation, Industrial production

# Topic: Causes – Business Cycle

**Internal** → Endogeneous

- Money Supply
- Psychological factors – AC Pigou → Optimism / Pessimism
- Microeconomic policies
- Variation – Govt. Spending
- Fluctuations – Investment
- Fluctuations – Effective demand → Keynes

**External** – Exogeneous

- War
- Post war reconstructions
- Technology shock
- Natural factors
- Population growth

# Topic: Examples of Business Cycles

- Great Depression of 1930 :-
- Information Technology bubble burst of 2001( dot-com bubble)

- Recent Example of Business Cycle:
- Global Economic Crisis (2008-09):-
- covid 19

# QUIZ!

QUESTION

#Q. 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"

QUESTION

#Q. Which of the following is not an example of coincident indicator?

A. Industrial production

B. Inflation

C. Retail sales

D. New orders for plant and equipment

leading (D)

QUESTION

#Q. According to ____?____ trade cycles occur due to onset of innovations.

A. Hawtrey

B. Adam Smith

C. J M Keynes

D. Schumpeter

QUESTION

#Q. 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

D

QUESTION

#Q. A leading indicator is

Future

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

QUESTION

#Q. Business Cycles may occur due to _____.

A External Causes

B Internal Causes

C Both (A) and (B)

D None

QUESTION

#Q. Endogenous factors refers to ____?____ causes:

A Internal

B External

C Economic

D Ecological

# Topic: Relevance of Business Cycle – Decision Making

- It affects the demand of products, and hence the profits.
- It affects the decision of entry of new firms
- Important for success of new product launch.
- Surviving the sluggish (सुस्त) business cycle, business plans policies with respect to products, prices etc.
- Business cycles do not affect all sectors uniformly.

→ 4 phase → 1-2-3

- Feature
- Indicator
- Causes

Chap. 4

Yewley Tea

Which Type of mkt. ?

THANK
YOU