* Introduction :-

1). Economics is concerned with fluctuation in economic activities

2). There have been Periods of prosperity alternating with periods of economic downturn.

3). Economic fluctuations are occur periodically but not always at regular intervals

* Phases of business cycle :-

1). Expansion
2). Peak
3). Contraction
4). Depression.

⇒ Expansion (પૈસા હી પૈસા)

National output ↑
employment ↑
A.D ↑
capital and consumer Exp ↑
sales ↑
profits ↑
Stock prices ↑
Bank credit ↑

=) Involuntary unemployment is zero
=) Whatever unemployment is there is either - frictional
- structure

=) Prices and cost ↑
Prosperity ↑
Standard of living ↑
The growth rate eventually slows down and reaches its pea

⇒ Peak (પૈસા હી પૈસા કી ચરમસીમા)

=) Highest Point of business cycle
=) Later stage of expansion, inputs are difficult to fin
=) Input supply < Input demand
=) Input prices ↑ -> output prices ↑
=) Cost of living ↑
=) Greater strain on fixed on fixed income earners
=) Actual demand stagnates
=) End of expansion.

⇒ Contraction (हर पक्ष से निश्चित है की सुख के बाद दुःख है)

=) Economy can not continue to grow endlessly
=) once Peak is reached, ↑ in demand is halted and starts decreasing in certain sectors
=) Producers do not recognise the pulse of economy an continue anticipating higher level of demand, maintai same level of inv. and Prodn.
=) Supply > Demand
=) Initially this happens only in few sectors but rapi spreads to all sectors
=) Producers being awar of the fact (फसजाएं)
Respond
=) future inv ×
=) Cancellation of orders ✓

=) input demand < input supply
=) income of wage and int earners ↓
=) In order to dispose off their inventories, producers lower their prices.
=) consumers in turn expect more dec ↓ in prices
=) This process gathers speed and recession become severe.

⇒ Trough and depression [ઈ.સ ની ઈ.સ ની ઘટમાળમાં)

=
=) severe from of recession.
=) sluggish economic activities
=) Growth rate - negative
=) very little disposable income
=) Typical feature - fall in int rate

People's demand for holding liquid money ↑

also demand for credit ↑

Bank crisis

inventor confidence

=) Large number of bankruptcies and liquidation
=) All economic activities touch the bottom.
=) lots of distress for all.

=) Recovery :- [દુઃખ ભરે દિન બીતે રે ભૈયા અબ સુખ આયો રે]

=) The economy can not continue to contract endlessly.
=) lowest level called trough and then starts recovering
=) End of Pessimism and begining of optimism.
=) The process of reversal is initially felt in labour market
=) High unemployment.

↓ forces

workers to accept wages < Prevailing rates

=) Producers anticipate lower costs and better business enviornment.
=) Business confidences takes off
=) They will inv. more

improves.

Economic indicators

- **Leading indicators** → variables that changes before real output changes → Changes in stock prices, Profit margins and Profits etc.
- **Lagging indicators** → variables that changes after real output changes → Unemployment, Corporate Profits, int Rate
- **Concurrent indicators** → occur simultaneously with the business cycle movement → GDP, industrial Production.

⇒ features of business cycle:-

=) Not regularly
=) Distinct phases
=) originate in freemarket
=) All sectors are adversely affected
=) capital goods, durable consumer goods, industries

⇓

Disproportionately affected.

=) complex
=) international in character.
=) Not uniform characteristics
=) felt on nearly all economic variables

v> serious consequences on well-being of society

⇒ causes of business cycle:-

* Internal causes:-

- fluctuation in effective demand
- fluctuation in investment
- variation in goverment spending
- macro economic policies
- money supply
- psychological factors.

1). fluctuation in effective demand:-

=) Acc to keynes
fluctuations in economic activities are due
effective demand

=) In free market economy, maximization of profit
↓
Aim of businesses "to make profit."

=) A.D ↑ → ↑ inv. → ↑ Prodⁿ
↓
↑ spending ← ↑ income ← ↑ employment
↓
Leads to expansion

=) variation in exports and imports can lead to business fluctuations as well.

=) ↑ in AD → expansion
↓ in A.D → contraction

2). fluctuations in investment:

=) According to some economists fluctuations in investments are the prime cause of business cycle.

=) high profit expectations of enterpreneurs, New inventions, low rate of interest may cause increase the invest

=) Increases in investments will lead to expansion in the economy & vice versa.

3). variation in goverment spending.

=) increase in govt. spending will lead higher money supply & expansion in economy.

=) Decrease in govt. spending will lead lower money supply & contraction in economy

4). Macro economic Policy:-

- fiscal Policy
  eg - Govt spending
  - Tax rates
- Monetary Policy
  e.g - int. rates.

=) inc. in govt. spending, tax cuts, softening int rate are the most common method of boosting aggregate demand and vice-versa.

5). Money Supply:

=) According to Hawtrey, trade cycle is a purely monetary phenomenon.

=) ↑ in money supply → leads AD ↑ → create expansion
↓ in money supply → leads AD ↓ → create contraction

6). Psychological factors:-

=) According to Pigou, modern business activities are based on anticipation of business community and are affected by optimism or pessimism.

=) According to Schumpeter's innovation theory, trade cycles occur as a result of innovations which takes place in the system from time to time.

=) Nicholas Kaldor holds that business cycles result from the fact that present prices substantially influence the production at some future date.

* External causes:

- war
- Post war reconstructions
- Techonology shocks
- Natural factors
- Population growth.

1). War:

=) During war times, Production of war goods increases this affects production of capital and consumer goods.

=) Prod^n ↓,
income ↓,
Profits ↓,
employment ↓,   leads to contraction

2). Post war Reconstruction :-

=) After war the country begins to reconstruct itself.

=) All economic activities push up.

=) Prod^n ↑   leads to expansion.

3). Technology shocks:-

=) Growing technology $\xrightarrow[\text{to}]{\text{leads}}$ Prodn of New and better Production and services.

=) Growing technology $\xrightarrow{\text{require}}$ huge investment leads to ↓ Prodn ↑

leads to expansion

4). Natural factors:-

=) weather cycles affect mainly agrarian economy.

=) when there are draughts or excessive floods, agricultural output is badly affected.

=) Income of farmers fall and therefore they reduce their demand for industrial goods.

=) Reduced demand for industrial Products may cause industrial recession.

5). Population growth:

=) Growth rate of population > Rate of economic growth.

=) there will be lesser savings in the economy

=) Investments ↓
Prodn ↓
leads to contraction.

Page No.:
Date:
YOUVA

3). Technology shocks:-

=) Growing technology $\xrightarrow[\text{to}]{\text{leads}}$ Prodⁿ of New and better Production and services.

=) Growing technology $\xrightarrow{\text{require}}$ huge investment leads to ↓ Prodⁿ ↑

leads to expansion

4). Natural factors:-

=) Weather cycles affect mainly agrarian economy.

=) When there are draughts or excessive floods, agricultural output is badly affected.

=) Income of farmers fall and therefore they reduce their demand for industrial goods.

=) Reduced demand for industrial Products may cause industrial recession.

5). Population growth:

=) Growth rate of population > Rate of economic growth.

=) there will be lesser savings in the economy

=) Investments ↓
Prodⁿ ↓
leads to contraction.

3). Technology shocks:-

=) Growing technology $\xrightarrow[to]{leads}$ Prod^n of New and better Production and services.

=) Growing technology $\xrightarrow{require}$ huge investment leads to ↓ Prod^n ↑ leads to expansion

4). Natural factors :-

=) Weather cycles affect mainly agrarian economy.

=) When there are draughts or excessive floods, agricultural output is badly affected.

=) Income of farmers fall and therefore they reduce their demand for industrial goods.

=) Reduced demand for industrial Products may cause industrial recession.

5). Population growth:

=) Growth rate of population > Rate of economic growth.

=) there will be lesser savings in the economy

=) Investments ↓
Prod^n ↓
leads to contraction.

M T W T F S S
Page No.:
Date:
YOUVA

* Relevance of business cycles in business Decision making:-

=) Business cycle affect all aspect of an economy.

=) Business cycle have tremendous influence on business decision.

=) The stage of business cycle is crucial regarding expansion or down-sizing.

=) It should be kept in mind that business cycle do not affect all sector Uniformly

=) Businesses whose fortunes are closely linked to the rate of economic growth are referred to as "cyclical" businesses.

=) for e.g fashion, retailers, house. builders, advertising etc. --