

Vivekanand College, Kolhapur (Autonomous)

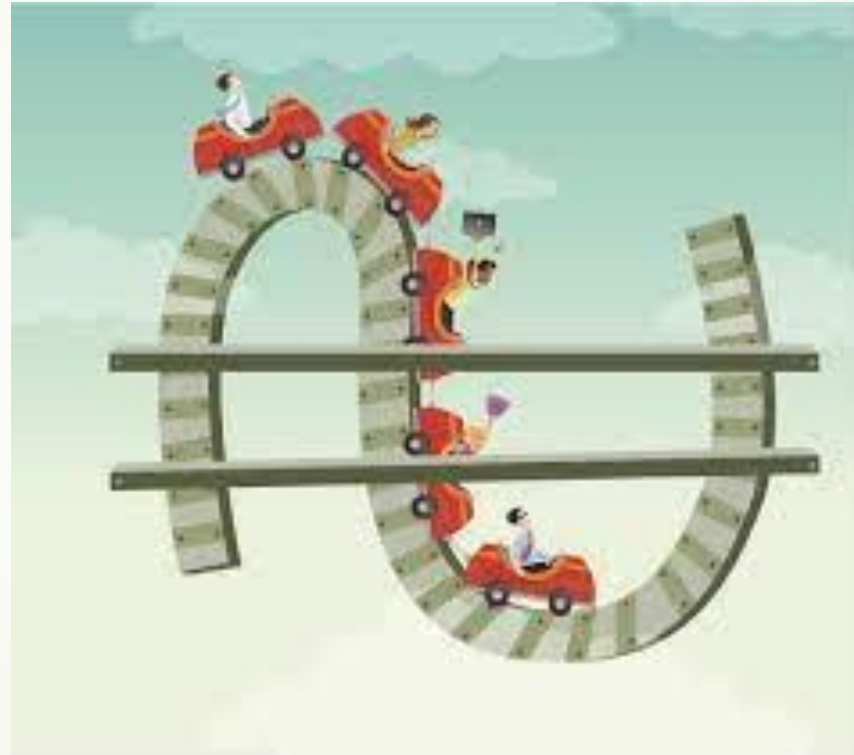
Department of Economics

Subject- Business Economics (Macro)

Topic- Business Cycles: Meaning, Characteristics and Phases

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Business Cycles






Business Cycle- Meaning, Nature & Characteristics

The term “business cycle” (or economic cycle or trade cycle) refers to economic fluctuations in production, trade, and general economic activity.

The business cycle is the upward and downward movements of levels of GDP (gross domestic product).

USA and Great Britain have registered rapid economic growth during the last two centuries. But economic growth in these countries has not followed steady and smooth upward trend.

In short run there are fluctuations in economic activities, that is change in output, income, employment and prices around this long trend.



The period of high income, output and employment has been called the period of *expansion, upswing or prosperity*.

And The period of low income, output and employment has been described as *contraction, recession, downswing or depression*.

The alternating periods of expansion and contraction in economic activity has been called ***Business Cycles***.

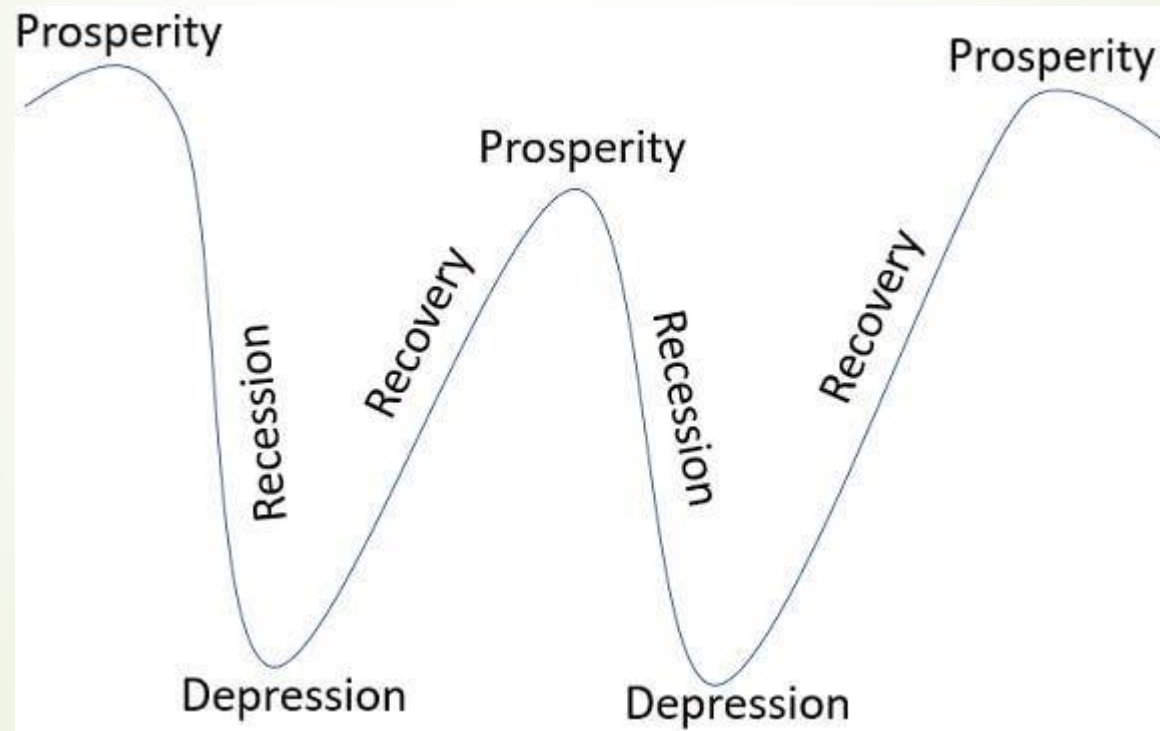
J. M. Keynes write, “*A trade cycle is composed of periods of good trade characterised by rising prices and low unemployment percentages with periods of bad trade characterised by falling prices and high unemployment percentages.*”

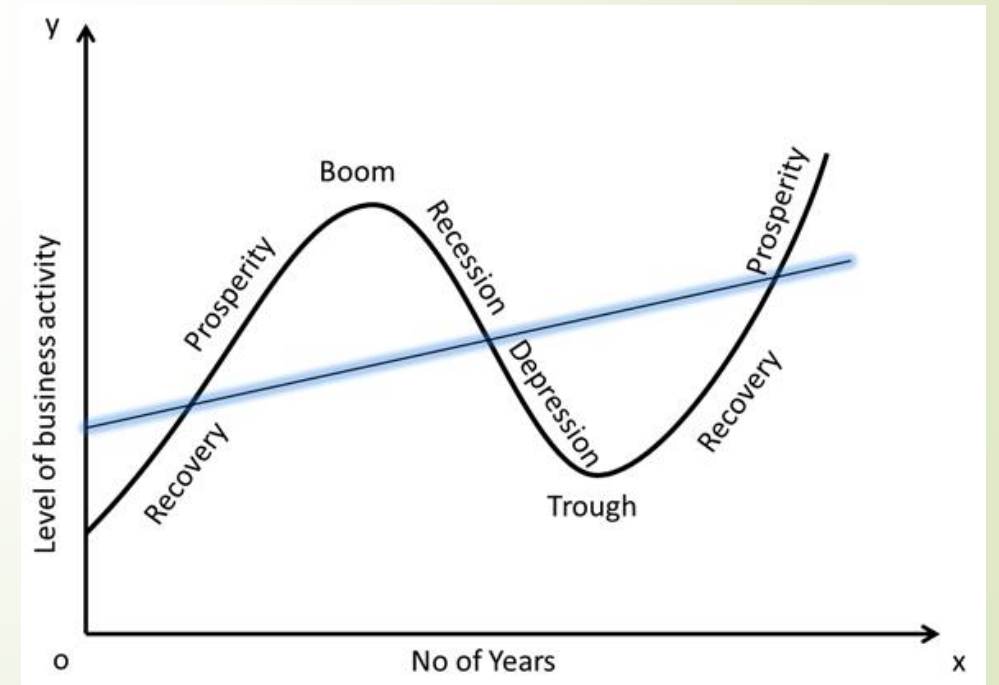
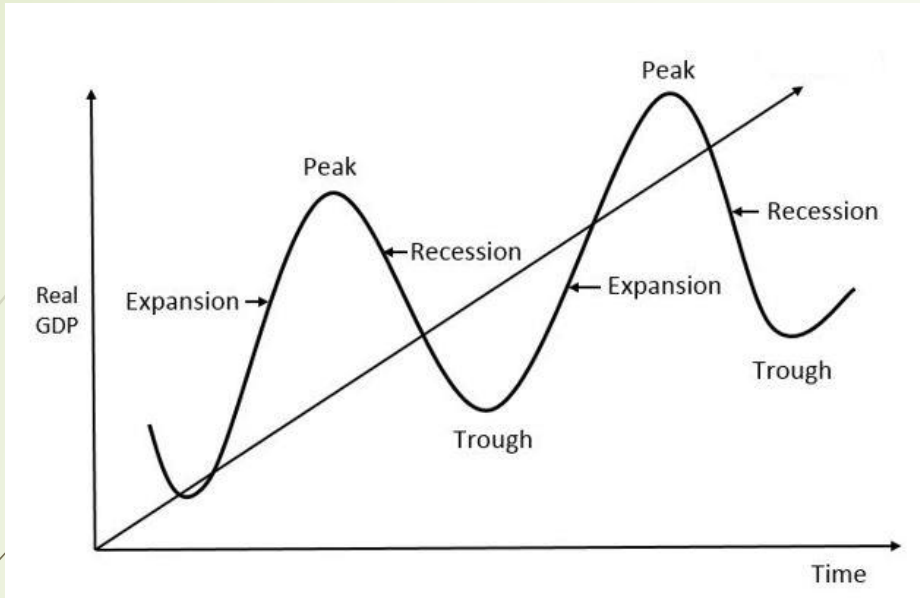
It may be noted that, calling these fluctuations in economy as ‘**cycles**’ mean they are periodic and occur regularly.

The duration of a business cycle has not been of the same length.

It has varied from a minimum of two years to a maximum ten to twelve years.

Business cycles are very costly on the economic sense.





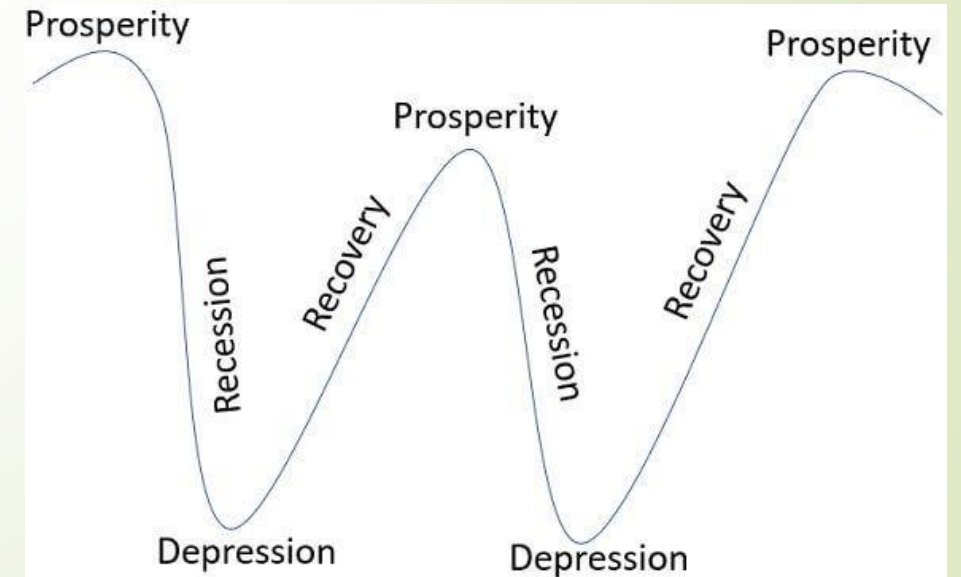
Features/Characteristics of Business Cycles

1. Business Cycles occur periodically.
2. Business Cycles are synchronic/Aggregated phenomenon.
3. Consumption and investment of durable consumer goods such as cars, houses, refrigerators are affected most by the cyclical fluctuations.
4. Consumption of non-durable goods and services does not vary much during different phases of business cycles.
5. Business cycles are international in character.
6. Profit fluctuate more than any other type of income.
7. The expansion and contraction phases can have different durations.
8. Business cycles do not have any uniformity.

Phases/Stages of Business Cycles

Generally there are FOUR phases of Business Cycles

1. **Expansion/ Prosperity** (*Boom, Upswing or Peak*)
2. **Recession** (*Downswing*)
3. **Depression/Trough**
4. **Recovery**





Expansion/ Prosperity (*Boom, Upswing or Peak*)

In this stage, there is an increase in positive economic indicators such as employment, output, wages, profits, demand and supply of goods and services.

- This is the first stage of business cycle
- No idle resources
- Income and production is the maximum
- Full employment by removing unemployment
- Prices rise very high
- Wage rates is very high
- Traders earn huge profits
- There is expansion in bank credits
- Increase in consumption expenditure
- All entrepreneurs and traders become optimist



Recession (*Downswing*)

The recession is the stage that follows the peak phase. The demand for goods and services states declining rapidly in this phase.

- There is fall in income and output
- Workers are rendered unemployed
- Prices begin to fall
- Wages fall
- Profit fall
- Contraction of bank credit
- Fall in investment
- Demand falls
- There is a feeling of doubt and fear among the people.



Depression/Trough

In this stage growth in the economy continues to decline. It adversely affects the economy.

- ▶ Level of output and income is low
- ▶ High unemployment
- ▶ Price level falls
- ▶ Wages are very low
- ▶ Profits fall sharply
- ▶ Demand for credit falls
- ▶ Old machines are not replaced hence demand for capital goods falls
- ▶ Decline in investment



Recovery

In this stage there is a turnaround from the trough and the economy starts recovering from the negative growth rate.

- Demand start to pick up due to the lowest prices and consequently supply starts reacting too.
- Employment start to increase
- Demand for consumption goods and capital goods rise
- Profit start to increase
- Demand for bank loans
- Pessimism gives place to optimism