FACULTY OF JURIDICAL SCIENCES

Lecture-30

BUSINESS CYCLES

A business cycle, sometimes called a "trade cycle" or "economic cycle," refers to a series of stages in the economy as it expands and contracts. Constantly repeating, it is primarily measured by the rise and fall of gross domestic product (GDP) in a country.

Business cycles are universal to all nations that have capitalistic economies. All such economies will experience these natural periods of growth and decline, though not all at the same time. However, given the increased globalization, business cycles across countries tend to synchronize more often than they did before.

- A business cycle is the periodic growth and decline of a nation's economy, measured mainly by its GDP.
- Governments try to manage business cycles by spending, raising or lowering taxes, and adjusting interest rates.
- Business cycles can affect individuals in a number of ways, from job-hunting to investing.

STAGES OF BUSINESS CYCLE

1. Expansion

The first stage in the business cycle is expansion. In this stage, there is an increase in positive economic indicators such as employment, income, output, wages, profits, demand, and supply of goods and services. Debtors are generally paying their debts on time, the velocity of the money supply is high, and investment is high. This process continues as long as economic conditions are favorable for expansion.

2. Peak

The economy then reaches a saturation point, or peak, which is the second stage of the business cycle. The maximum limit of growth is attained. The economic indicators do not grow further and are at their highest. Prices are at their peak. This stage marks the reversal point in the trend of economic growth. Consumers tend to restructure their budgets at this point.

3. Recession

The recession is the stage that follows the peak phase. The demand for goods and services starts declining rapidly and steadily in this phase. Producers do not notice the decrease in demand instantly and go on producing, which creates a situation of excess supply in the market. Prices tend to fall. All positive economic indicators such as income, output, wages, etc., consequently start to fall.

4. Depression

There is a commensurate rise in unemployment. The growth in the economy continues to decline, and as this falls below the steady growth line, the stage is called a depression.

5. Trough

In the depression stage, the economy's growth rate becomes negative. There is further decline until the prices of factors, as well as the demand and supply of goods and services, contract to reach their lowest point. The economy eventually reaches the trough. It is the negative saturation point for an economy. There is extensive depletion of national income and expenditure.

6. Recovery

After the trough, the economy moves to the stage of recovery. In this phase, there is a turnaround in the economy, and it begins to recover from the negative growth rate. Demand starts to pick up due to low prices and, consequently, supply begins to increase. The population develops a positive attitude towards investment and employment and production starts increasing.

FEATURES OF BUSINESS CYCLE

Occurs Periodically: The different phases of a Business Cycle occur from time to time. Although, at certain times, these periods will vary according to the Economic conditions of the industry. This duration may last as long as 10-12 years. The intensity of the phases will also change depending on the Economy. For example, at times, the firm will see massive growth followed by a short span of depression.

Synchronous: Another advantageous and prominent feature of the Business Cycle is that it is synchronic. The features of a Business Cycle are not restricted to a single firm or industry. They originate in a free Economy and are prevalent. If there is any kind of disturbance or Business boom in one industry, it will affect the other firms too. Since different kinds of industries are interrelated, the Business in one firm disturbs that in another firm.

Major Sectors are Affected: It's been noticed that fluctuations occur not only at the level of production but also in other variables such as employment, consumption, investment, rate of interest, and price level. The investment and consumption of durable consumer goods like houses and cars are continually affected by the periodical fluctuations. As the process of consumption is deferred the courses of the Business Cycle are also affected widely.

Profit Variation: Another significant feature of the Business Cycle is that the profits fluctuate more than any other income source. This makes any kind of Business a tricky and uncertain profession for many. It is difficult to predict Economic conditions. In situations of depression, profits may even become harmful. That is why many Businesses go bankrupt.

Worldwide Impact: Business Cycles are international in nature. If depression occurs in one country, then it is bound to spread to other nations too. This happens mainly because the countries depend on each other for import and export trades. The 1930 depression in the USA and Great Britain shook the entire world and resulted in a recession.