

Phase of the Business Cycle

The phase of the business cycle are known as:

1. Growth
2. Peak
3. Recession
4. Trough
5. Recovery

Definition

“The Business cycle in the general sense may be defined as an alternation of periods of prosperity and depression of goods and service”

-Harberler

In simple words “A business cycle represents the different stages which every business organisation faces throughout its tenure, in the form of a wave like structure”

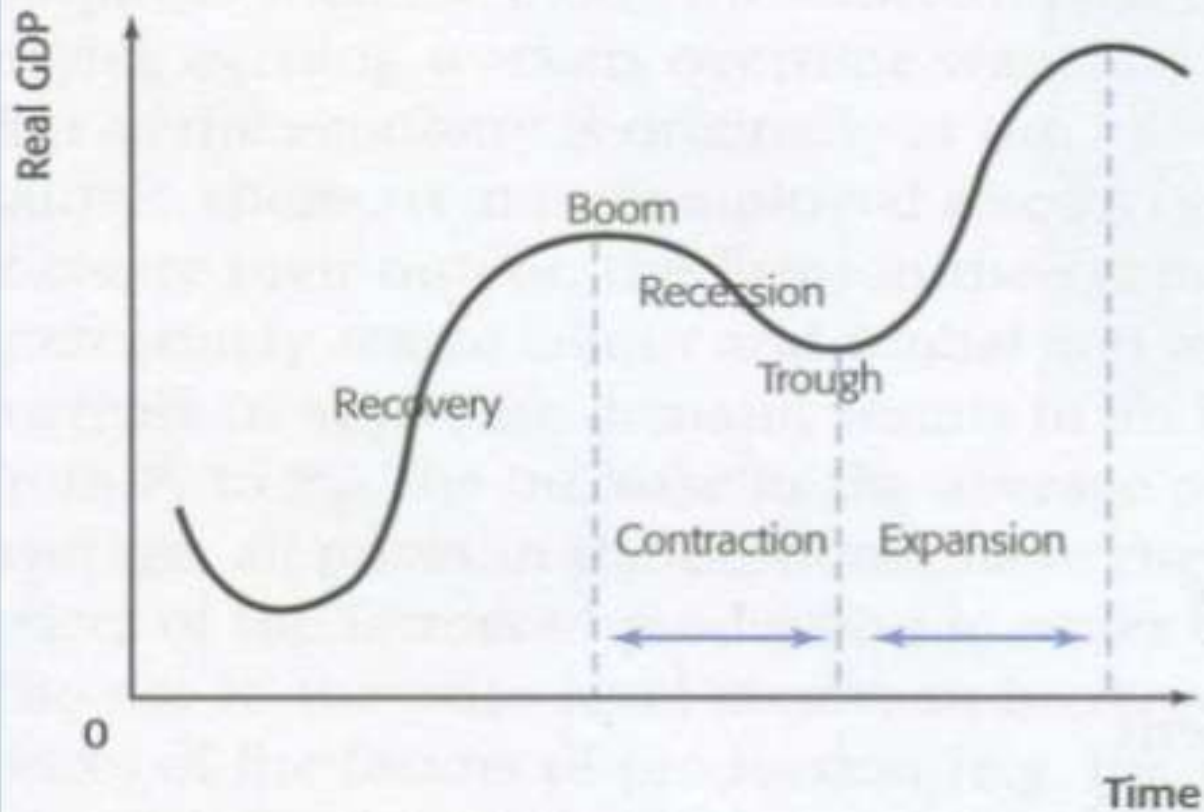


Figure 18.13 The standard business cycle

While fluctuations are in practice highly irregular, the most common illustration shows a standard periodic cycle.

Growth

- Can be viewed as a "virtuous cycle"



Following are the Causes of Growth :

Includes the following:

- Business is newly formed
- Numbers of new branches of the business are opened
- It creates or rises the need of product increases.
- Introduction of new or improved product

The Peak

- Accounts for the time when business activity has reached a maximum, including:
 - It includes full employment
 - Level of output at or near capacity
- These often causes higher prices
- These acts as a Transition point from growth to recession

Following are the Causes for the Peak

Include the following:

- The increase or boom in the economy
- The sudden need or wants of the product
- The products are easily available
- Those products are unique for the time being

Recession

- The Recession is also referred as contraction
- It follows the peak
- It is commonly defined as two consecutive quarterly declines in GDP
- Accounts for a decline in:
 - Total output
 - Income
 - Employment
 - trade


- Recession occurs in all the sector of the economy .
- Recession rarely causes price level to fall unless severe and prolonged , as in a depression
- GDP Differs from depression occurs when GDP drops by more than 10% while a recession experience a less severe drop



Some Causes of recession are as follows:

- The product will fall behind in usefulness, technology or want
- The value of US dollar decline
- Customers debts increases





The Trough means the lowest levels are during a recession.

In Trough situation accounts are amounts to least of output and employment

Trough can be for short or long lived

Trough ends the period of recession and begins growth

Following are the causes of the trough

- The Product becomes severely outdated
- The need or want for the product is at an all-time low
- The product has not changed over time
- Most of the customers has already possess the product

The Recovery means the following points

- Turning point from depression to expansion
- It shows steady rise in output , income, employment, prices and profits
- All the banks expand their credits in the economy
- Revival slowly emerges into prosperity, and the business cycle is repeated

Measures of Controlling Business Cycle

- Fiscal policy
- Monetary policy
- State Control of Private Investment
- International Measures
- Reorganization of Economic System

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