Quadrant II – Transcript and Related Materials

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Paper Code: ECC 104

Paper Title: Macroeconomics - II

Unit: 04

Module Name: Phases of business cycle

Module No: 17

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Transcript

Business cycle

The term “business cycle” refers to economy-wide fluctuations in production, trade, and general economic activity.

Phases 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 expansion continues till the economic conditions are favorable.

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.

4) Depression

There is a corresponding 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. Recovery continues until the economy returns to steady growth levels.

This completes one full business cycle of boom and contraction.

The extreme points are the peak and the trough.

Every nation goes through different phases of business cycle at different time.

In an economy, businesses also undergo through the different phases of the cycle.

No country can escape these cycles; regardless of the level of economic development prevalent in that country.

The cycles can vary with respect to the length or duration of each phase.

Generally, the expansion and the peak phases are categorized by optimism while the recession and depression phases are a manifestation of pessimism.