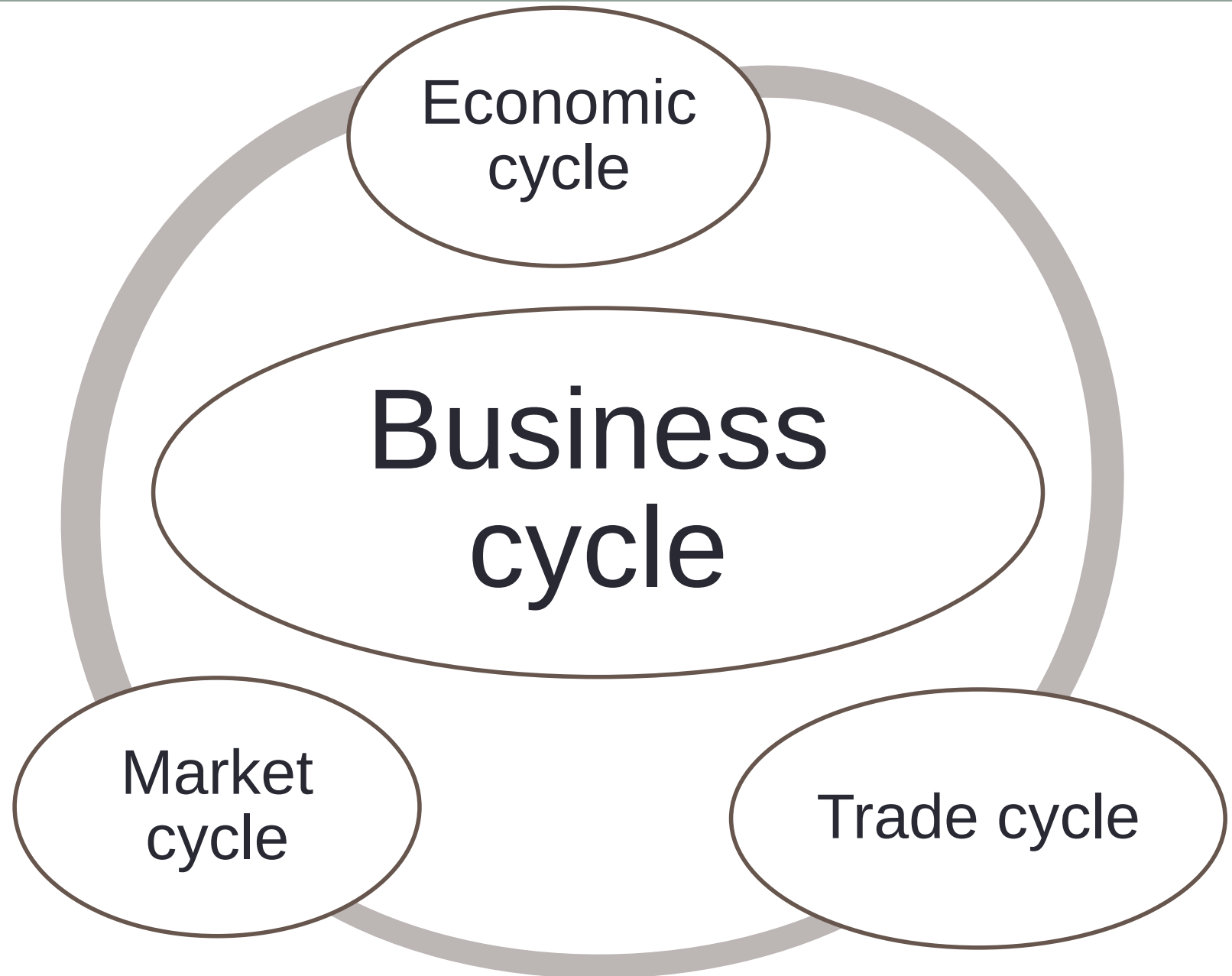
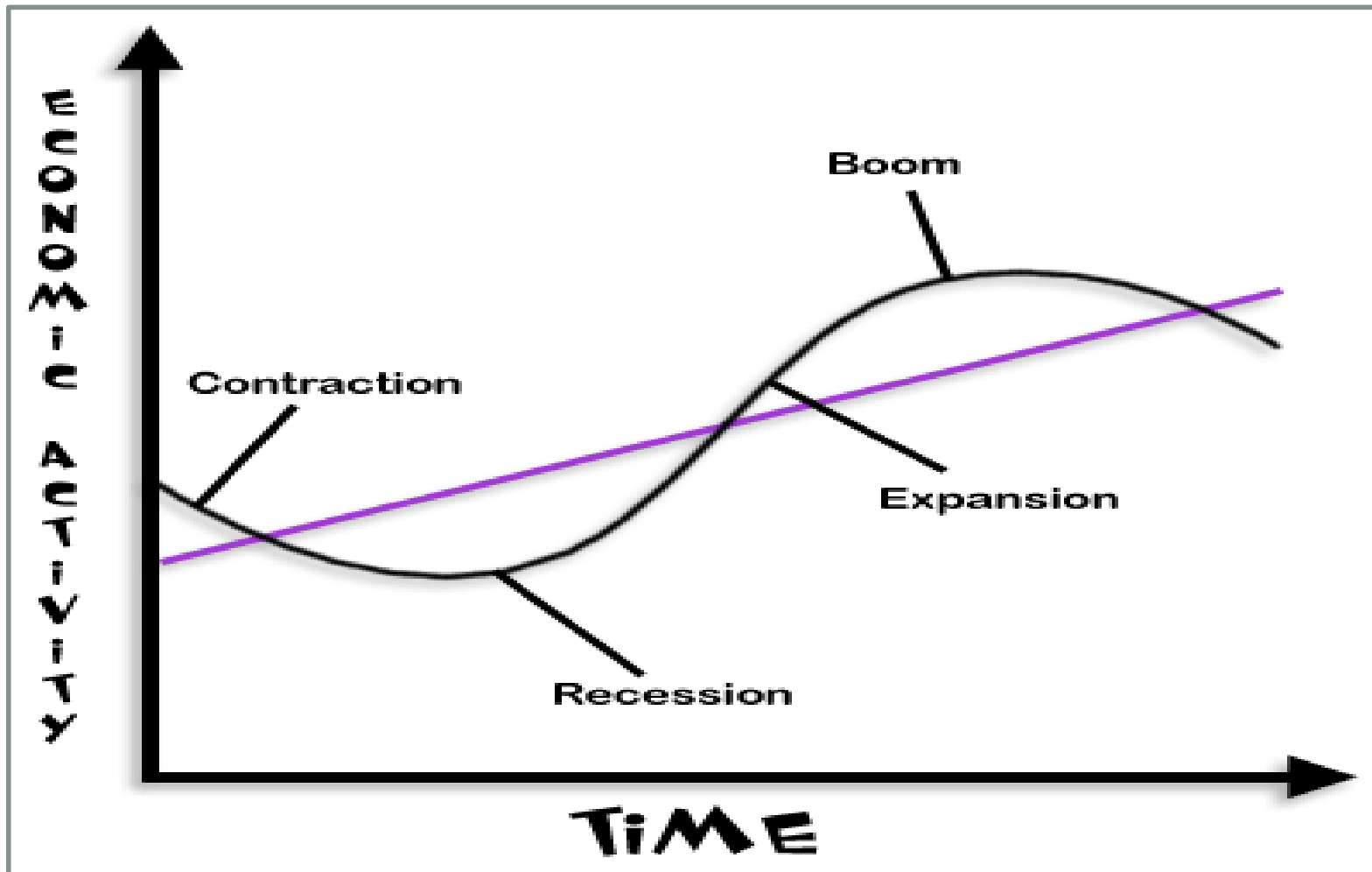


THE BUSINESS CYCLE



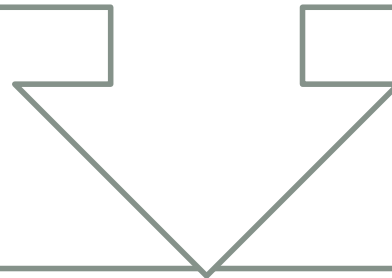
Business cycle

a cycle that records the periodical fluctuations of the levels of economic activity



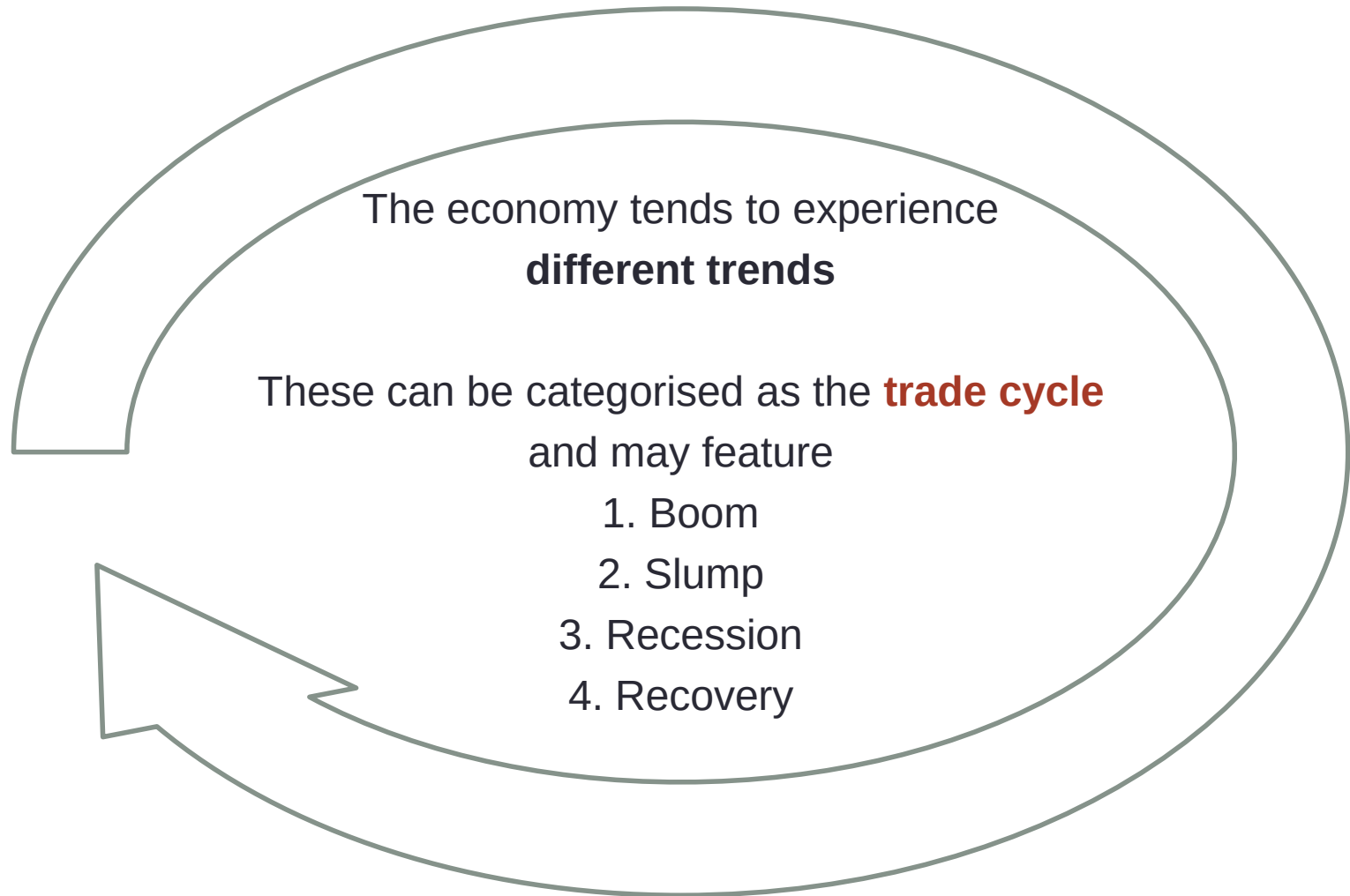
The cycle involves shifts over time between

- periods of relatively rapid growth of output
(expansion, recovery and prosperity)
- periods of relative stagnation or decline
(contraction or recession).



These fluctuations are often measured
using the real gross domestic product
(GDP)

Business cycle



The business cycle/text 1

The **business cycle or trade cycle** is a permanent feature of market economies: gross domestic product (GDP) fluctuates as booms and recessions succeed each other.

During a **boom**, an economy (or at least parts of it) expands to the point where it is working at full capacity, so that production, employment, prices, profits, investment and interest rates all tend to rise.

The business cycle/text 2

During a **recession**, the demand for goods and services declines and the economy begins to work at below its potential.

Investment, output, employment, profits, commodity and share prices, and interest rates generally fall.

A serious, long-lasting **recession** is called a **depression** or a **slump**.

The business cycle/text 3

The highest point on the business cycle is called a **peak**, which is followed by a **downturn** or **downswing** or a **period of contraction**. The lowest point on the business cycle is called a **trough**, which is followed by a **recovery** or an **upturn** or **upswing** or a **period of expansion**. Economists sometimes describe contraction as “negative growth”.

Phases of the business cycle

Boom/expansion/growth/1

- The economy expands
- Period of economic growth
- Production, employment, prices, profits, investments, interest rates tend to rise
- Businesses produce more goods and invest in more machinery

Phases of the business cycle

Boom/expansion/growth/2

- Consumers spend more money. There is a FEELGOOD FACTOR
- Less money is spent by the Government on unemployment benefits
- More money is collected by the Government in income tax and VAT
- Prices tend to increase due to extra demand

Phases of the business cycle

Slump/depression

- Output slows down due to a reduction in demand
- High level of unemployment
- Business will rapidly close down creating serious consequences for the economy
- Serious, long-lasting recession

Phases of the business cycle

Recession/contraction/downturn/1

- Economic growth slows down
- Output may decrease / Businesses cut back on production
- Firms may lose confidence and reduce investment
- Individuals may save rather than spend / Consumers spend less money >> Fall in FEELGOOD FACTOR
- Individuals may lose their jobs / Unemployment is likely to increase

Phases of the business cycle

Recession/contraction/downturn/2

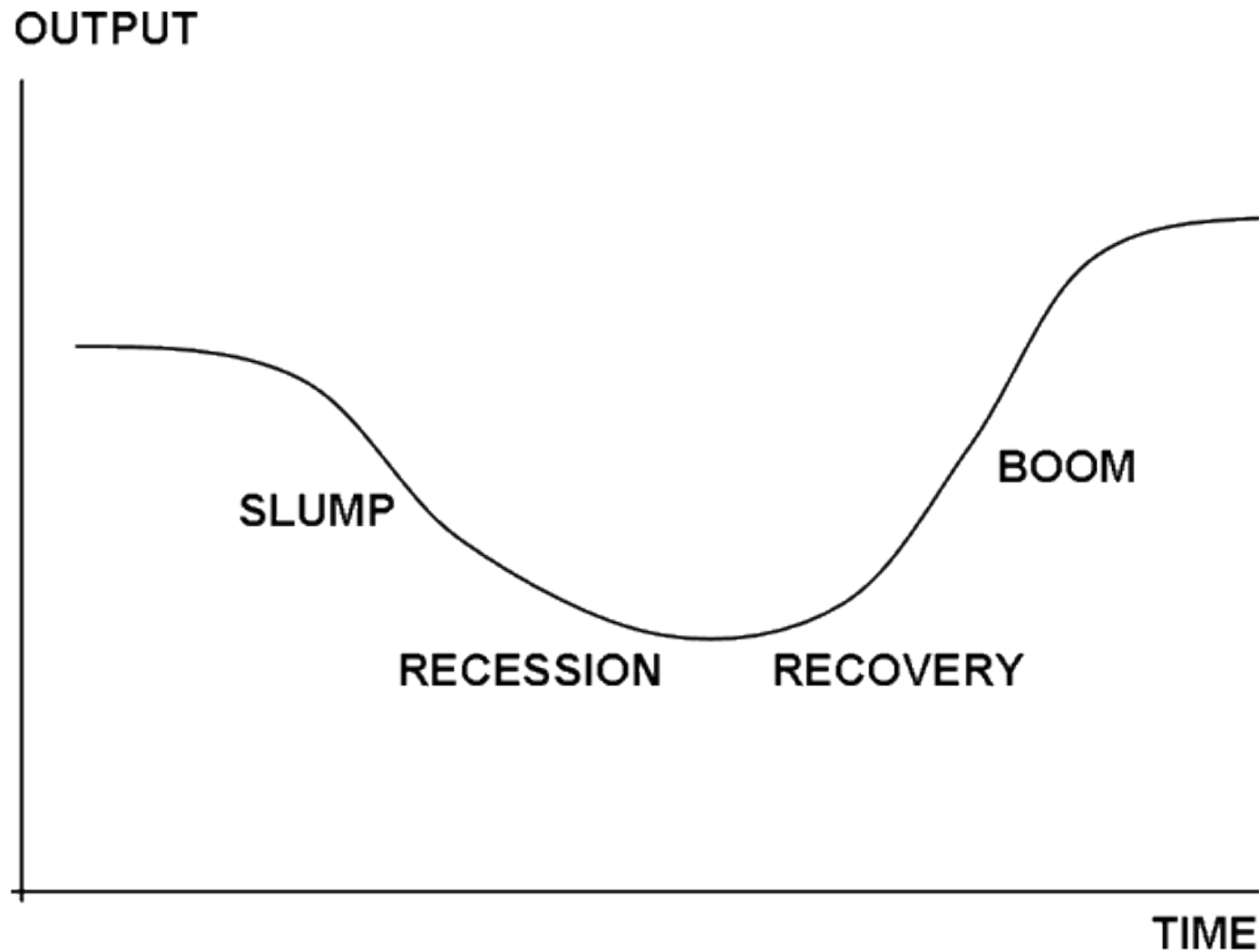
- More money is spent by the Govt on unemployment benefits
- Less money is collected by the Govt in income tax and VAT
- Prices start to fall
- A recession will have a **trough** at the lowest point. A trough occurs with GDP, consumption expenditure and investment expenditures at the lowest levels.

Phases of the business cycle

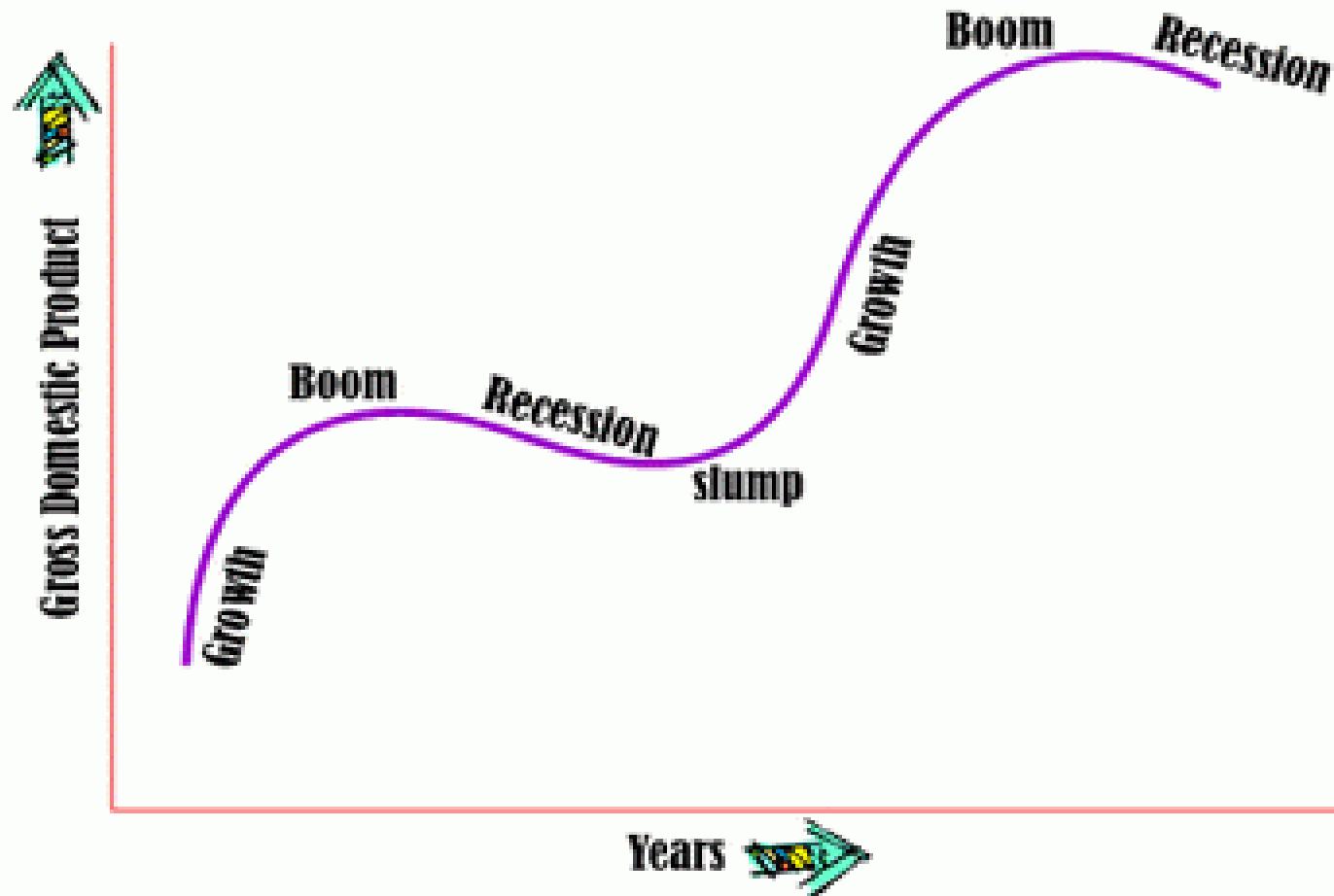
Recovery/upswing

- Economy moves between recession and a boom
- Rising levels of GDP
- Consumption expenditure
- Investment expenditure
- Decreasing levels of unemployment
- This usually leads to a boom, characterised by high levels of GDP with businesses operating at close to full capacity

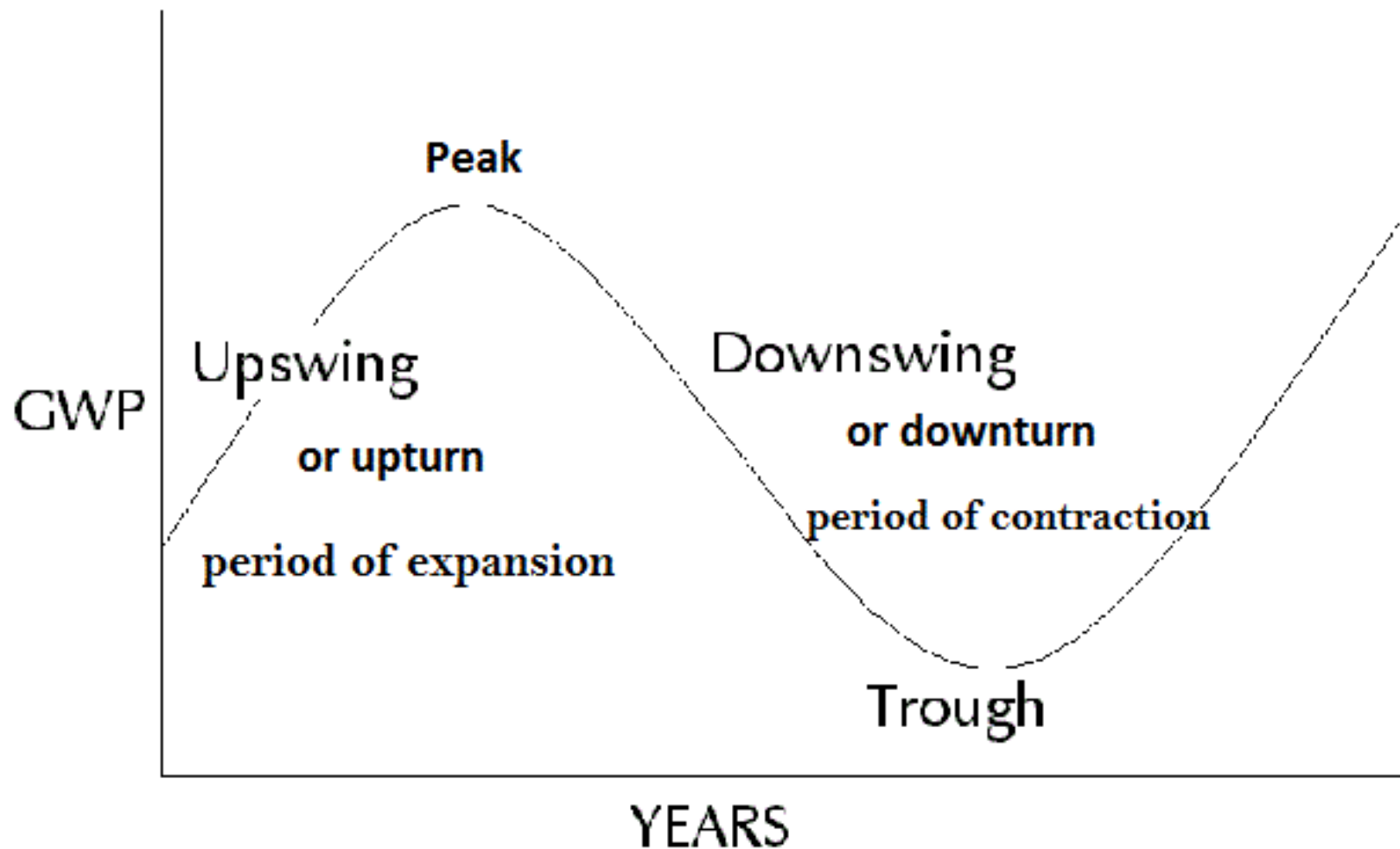
The business cycle



Business Cycle



Contraction/expansion Trough / peak



Complete the sentences about the business cycle

During a _____, an economy expands.

Peak is followed by _____, or _____ or _____.

During a _____, the demand for goods and _____ declines.

A _____ is the lowest point on the business cycle, followed by _____, _____, _____, _____.

Theories of the business cycle

Internal

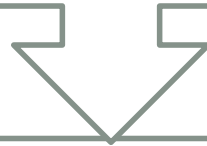
- Or endogenous

External

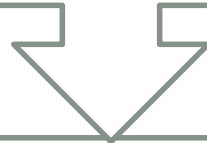
- Or exogenous

Internal theories

People begin to consume less



People infect one another with optimistic/pessimistic expectations



Investment

1. Is closely linked to consumption
2. Takes place when demand and output are growing

Psychological factors



When economic times are good or when people feel good about the future they spend and run up debts.



If interest rates rise too high, a lot of people find themselves paying more than they anticipated on their mortgage or rent, and so they have to consume less.



If people are worried about the possibility of losing their jobs in the near future they tend to save more.

A MATTER OF CHOICE



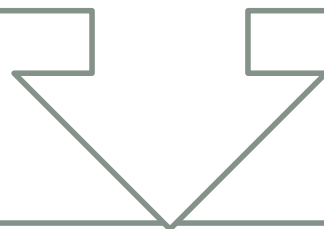
A country's output, investment, unemployment, balance of payments and so on

- All depend on million of **decisions** by consumers and industrialists on whether to spend, borrow or save.



External theories

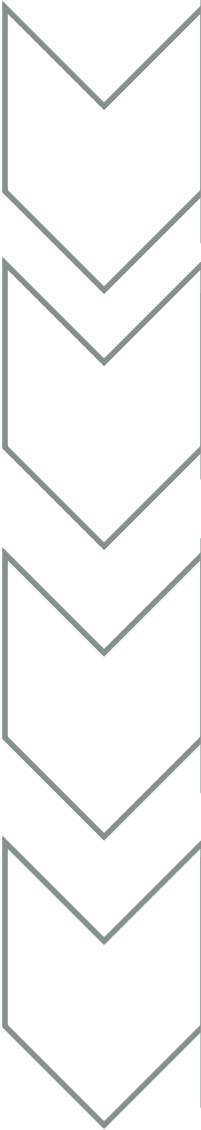
Economy fluctuation is due to external causes



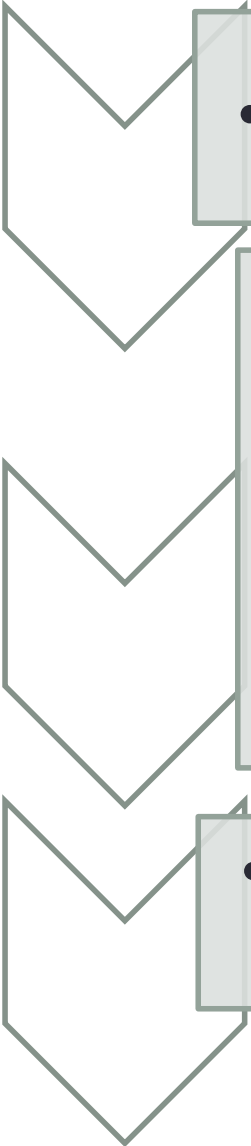
scientific advances/technological invention, natural
disasters, elections, demographic changes

Technological investments

Other theories / Theory 1

- 
- During every period of **economic growth** > when demand is strong and prices can easily be put up, and profits are increasing
 - sooner or later
 - **employees** will begin to demand higher wages or salaries
 - **employers** will either reduce investment, or start to lay off workers
 - **a downswing will begin**

Other theories / Theory 2

- 
- Where there is no independent central bank
 - the business cycle is caused by **government** beginning their period of office with a couple of years of austerity programmes
 - followed by tax cuts and monetary expansion in the two years before the next election

Match up the sentences

1. Companies may have to reduce investment or the size of the workforce
2. Company only invest
3. During a period of economic growth
4. External theories of the business cycle
5. Governments often stimulate the economy
6. Increases in interest rates
7. Internal theories of the business cycle
8. People demand higher pay
9. People tend to spend less

- A. Consumers borrow a lot of money
- B. If labour costs increase too much
- c. If their company's sales are increasing
- d. Include psychological factors
- e. Include technological and population changes
- f. Prior to general election
- g. Result in higher rents and mortgages
- h. When they are afraid of becoming unemployed
- i. While consumption is increasing

Describing trends or movement in graphs



Up trend

To go up (a little)

Nouns

An increase

A rise

A growth

An improvement

An upturn

An upward trend

Verbs

To increase

To rise

To grow

To improve

To go up

Down trend

To go down (a little)

Nouns

A decrease

A fall

A drop

A decline

An downturn

An downward trend

Verbs

To decrease

To fall (off)

To drop

To decline

To go down

To slip

Up trend

To go up (a lot)

Nouns

A surge
An upsurge
A jump
A leap

Verbs

To surge
To take off
To shoot up
To soar
To rocket
To jump
To leap

Down trend

To go down (a lot)

Nouns

A plunge

A slump

A crash

A tumble

Verbs

To plummet

To plunge

To slump

To crash

To sink

To tumble

No change

To remain stable

To level off

To stay at the same level

To remain constant

To stagnate

To stabilize

Change of direction

To peak

To reach the peak

To top out

To reach a low point

To bottom out

To recover

To rebound

To revive

Describe a degree of change

Adj

A

dramatic
considerable
sharp
significant
substantial
moderate
slight

RISE OR FALL

Adv

To rise or fall

dramatically
considerably
sharply
significantly
substantially
moderately
slightly

Describe the speed of change

Adj

An abrupt

A sudden

A rapid

A quick

A steady

A gradual

A slow

RISE OR FALL

Adv

To rise or fall

Abruptly
suddenly

rapidly

quickly

steadily

Gradually

slowly