

Business cycles are economic fluctuations

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Business cycles are economic fluctuations. Business cycle phases include the recession, depression, growth, and boom. Recession and depression phases are characterized by low production, decrease in investments, decrease in GDP, and increase of unemployment. Economic fluctuations correspond to business changes. Growth and boom phases are characterized by growth in GDP, increase in employment and investments-economic indicators are desirable.

GDP is one of the economic indicators that are used to determine at which business cycle phase an economy is at and is heading to. GDP is usually used to monitor short-run changes in the economy since it is the most comprehensive measure of economic activity. It measures goods and services produced within a country at a specified period, usually one year. Growth in GDP leads to increase in per capita income. When per capita income increases economic agents' purchasing power will increase.

This will increase demand for goods and services in the market. Increase in demand is a great relief to the business. In case the GDP falls, it means that per capita income will reduce; the economic agents will have tight budget constraints, decrease their consumption which will affect demand for goods and services. This will adversely affect the business operations. Investments are likely to reduce and many businesses quit from operations. (Mankiw 2008 p 740) Role of Government bodies that Determine national fiscal policies

Government bodies that determine national fiscal policies has a role to ensure economic stability in terms of employment, price levels, consumption levels, total out put, desirable balance of payment, and so on. These bodies

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have a role to introduce various fiscal policies to ensure smooth flow of the economy. These policies should be introduced to deal with current economic problems as well as to stimulate desired economic growth. Effects of Fiscal policies on the economy's production and employment

Fiscal policies can be traced back to Keynes work where he asserted that government should intervene in the free market economy so as to ensure smooth flow of the economy and deal with market mechanism failures and inefficiencies. Fiscal policies include taxes and government spending. Government may introduce expansionary fiscal policies or contractionary fiscal policies depending on the desired results. Reduction in government spending and increase in taxes are called contractionary fiscal policies. Reduction in government spending will reduce employment level in the economy.

Government spending involves projects that offer employment opportunities to the households. Reduction in employment to the households reduces their income and purchasing power. This will reduce demand for goods and services in the economy. This will be a disincentive to investors and business people. The level of investments will reduce and consequently production will reduce. Low level of investments means low demand for labor. Thus employment will also be adversely affected. Increase in taxes will reduce disposable income with the economic agents.

This will reduce their purchasing power and demand for goods and services in the market. Investments will reduce due to low demand which is a disincentive to the investors. Production will reduce and levels of employment will reduce. (Mankiw 2008; Tomlinson 2009). Expansionary
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fiscal policies include reduction in taxes and increase in government spending. Increase in government spending increases level of employment and production activities. High employment to the households increases their purchasing power and demand for goods and services in the economy.

This will induce more investments in the economy. High investments in economy will increase production levels in the economy. Reduction in taxes increases the purchasing power of economic agents which increase their demand. Increase in demand lead to an increase in investment as well as production levels. Reference Mankiw, G. (2008). Principles of Economics. Cengage Learning. Economics with Steven Tomlinson Videos. South- Western Cengage Learning. (2009). Retrieved 4 June 3, 2010 from