Business cycle defined

Economics, Macroeconomics

Business Cycle Defined The term business cycle refers to the rise and fall in economic activity over what can be several months or even years. These patterns of contraction and expansion occur around a long term growth trend of increased real gross domestic product. It was after World War II that the modern theory of business cycles came to its current evolution. (Sachese, Small & Small, 2009) Economists Arthur F. Burns and Wesley C. Mitchell have characterized business cycles in what many economists now consider to be the standard definition: Business cycles are at type of fluctuation found in the aggregate activity of nations that organize their work mainly in business enterprise: a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and rivals which merge into eh the expansion phase of the next cycle; in duration business cycles vary from more than one year to ten or twelve years; they are not divisible into shorter cycles of similar characteristics with amplitudes approximating their own. (Burns, & Mitchell, 1946) Despite being termed cycles most of the vacillation in economic movement does not follow a typical circular or predictable pattern. The difference in business cycles is due to the fact that the economic circumstances at any given time are affected by a complex array of variables. “ Harvest conditions, domestic politics, changes in monetary and banking systems, international relations, the making of war or of peace, the discovery of new industrial methods or resources, and a thousand other matters all affect the prospects of profits favorably or adversely and therefore tend to quicken or slacken the pace of business. " (Mitchell, 1923 p. 6) Rather than determining a specific model in which these cycles follow

economists have found better success in focusing on the factors that cause these fluctuations. (Mitchell, 1923) Interconnectivity of Business Cycles and Employment Employment is a factor in a business cycle that tends to change only after an economy has adjusted or otherwise has begun to follow a particular pattern or trend. This is also known as a lagging indicator. Due to the fact that the economy is dependent upon its citizens to spend money to increase the real gross domestic product the rise of unemployment will inevitably cause a decline in the real gross domestic product. Therefore, job creation and expansion is a key component to economic recovery. The relationship between employment and real GDP has been illustrated by statistics based upon the most recent economy contraction. As indicated by the charts below and taking into consideration that real gross domestic product is a co-incident indicator, the growth of the real gross domestic product began to decline shortly followed by a somewhat consistent rise in unemployment. (" Focus on economic," 2010) (" Focus on economic," 2010) (" Focus on economic," 2010) When there is neither a shortage nor surplus of labor in a market it is said to be in equilibrium. Like many other economic factors, the labor market is one of supply and demand. Most times this supply or demand is determined by the real wage rate, which is the average rate of pay plus inflationary costs. The lower the real wage rate the more companies are going to create jobs and hire workers or a higher demand. Likewise a higher real wage rate will result in a lower demand for labor and thus a higher unemployment rate. (Cobbe, 2002) Works Cited Burns, A. F. , & Mitchell, W. C. . (1946). Measuring business cycles. New York, NY: National Bureau of Economic Research. Cobbe, Initials. (2002). Potential gdp, natural

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