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Literature, Russian Literature



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Assignment Introduction The business cycle can be defined as fluctuations in economic activity, and it has four stages: expansion, peak, contraction or recession and trough. There are numerous theories which consider different perspectives of business cycles, but this paper will address only the basic issues related to this topic.

Overview of Business Cycles

All the four stages are related to fluctuation of real GDP. Starting with expansion - the real GDP is increasing, for peak -real GDP stops increasing and begins decreasing, continuing with recession when real GDP is decreasing and arriving to trough when GDP stops decreasing and begins increasing. The following figure depicts the four stages of a business cycle.

Figure no. 1 Stages of the business cycle

During expansion, most sectors of the economy (e. g. employment, consumption, and investment) are growing, and if an expansion is close to its peak, these indicators are beginning to decline, and the inflation rate is increasing. In the case of recession, the situation is inverse i. e. a decline in most sectors of the economy, and the inflation rate is decreasing. If the recession reaches a trough, the economy is recovering; the indicators are beginning to increase again, and the inflation rate becomes moderate.

Besides the indicators mentioned above i. e. employment, consumption, and investment, the National Bureau of Economic Research looks also to other indicators such as industrial production, and personal income.

An important characteristic of the business cycles is that they recur, but not at the same intervals. For example, there were business cycles short as a

year or longer than a decade.

In the following table is presented the duration of contractions and expansion during the period 1856-2009.

Table no. 1 Duration in months of contractions and expansions

Date

Contraction

Expansion

1854-2009 (33 cycles)

17. 5

38. 7

1854-1919 (16 cycles)

21. 6

26. 6

1919-1945 (6 cycles)

18. 2

35

1945-2009 (11 cycles)

11. 1

58. 4

Source: National Bureau of Economic Research.

During my parent's birth, the economy was characterized by expansion, which lasted 24 months, whereas when I was born, the economy was going through a contraction, which lasted 8 months.

The last recession begun in December 2007 and lasted until June 2009, and the most recent data available on the National Bureau of Economic Research

states that last expansion begun in June 2009. The last recession was one of the longest and was caused by factors such as housing market which affected also the rest of the economy, and caused incomes to fall and unemployment to increase. Previously two longest recession had as main cause the oil-shocks, and the internet bubble respectively.

Conclusion

Analysis of business cycles is very important in what concerns the economy because it is primarily an indicator, as well as a predictor of the evolution of the economic activity. Recent years have been proved to be challenging even for the most important economies of the world, and the recession which followed is a reason for the necessity of analyzing business cycles. Although, there are different theories around this topic, the correlation between the stage of the cycle and indicators such as employment, consumption, and investment remains crucial to be considered.

References

National Bureau of Economic Research. (2012). Retrieved from <http://www.nber.org>.