What causes an economic downturn

Economics

An economic downturn defines as the economy being in recession, which is a period of time that economic, won't grow or even falling. The definition of an economic downturn is less strict than recession. In the economic downturn period, the growth rate will slow down. We can see the house prices falling down and a lot of people lose their jobs. There are some features of an economic downturn: First, the economic grow negatively; second, the unemployment rate rise; third, government borrowing increase; fourth, the business investment falls with no confidence (Economic downturn definition).

GDP growth declining causes the economic turndown. The result of the economic turndown is falling employment, and rising unemployment, which causes a slowdown in retail sales. As we know the closest economic turndown is in 2008. But what caused this economic turndown? First, we will look the house market. Since many people thought the house price won't go down, they buy houses with different mortgage, which they couldn't afford. In 2006, the bubble burst as housing prices started to decline.

This caught many homeowners off guard, who had taken loans with littlemoneydown. As they realized they would lose money by selling the house for less than their mortgage, they foreclosed. But the recession of 2001 was caused by irrational exuberance in high tech. In 1999, there was an economic boom in computer and software sales caused by the Y2K scare. After the companies all buying the computer system, the stock price of those companies with hightechnologystarted to increase.

This led to many of the investors' money going to the high technology companies, no matter if the companies were making money or not. High interest rates are also a cause of economic turndown. Because high interest rates limits the money that are ready to be put into the investing market. One of the causes of the 2008 recession was that the government was also slow to raise interest rates when the economy started to boom again in 2004. Low interest rates in 2004 and 2005 helped created the housing bubble.

Irrational exuberance set in again as many investors took advantage of low rates to buy homes just to resell (Causes of economic recessions). The economic downturn cannot be avoided. So we can see in a healthy economy there are periods of high growth, slow growth and no growth. Even though the exact reasons of an economic turndown are still unable to explain, there are lots of reports and analysis that have been put forth as to what causes an economic recession.

But probably the most common thought on what causes a recession is that they are caused by events that have an economy-wide impact. Some examples of these events would be: increase in interest rates or a decline in consumer confidence. In fact the general consensus is that a recession is primarily caused by the actions taken to control the money supply in the economy (Brain, 2010). Here are five negative items that could cause an economic recession or even worse adepression. They are dollar collapse, oil rise, inflation, housing bubble and global economy.