

Keeping track of the business cycle



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Business Cycle is the term which is being used by economists to designate a periodic increase and decrease in an economy's production and employment. Since the revolution of the industrial era of the 1800s, the level of production in industrialized capitalist countries has changed from high output and employment to low output and employment. Economists started to analyze the business cycles because they had a significant impact on all aspects of the economy. Furthermore, the preparation of this report is to look at the Business Cycle in general, its history and examples of long waves, phases of business cycle: recession, depression, expansion and bringing back and peak and the way to keep track on business cycles in order to know the curve.

Business Cycle is a predictable long-term type of changing periods of economic growth (recovery) and reduction (recession), characterized by changing employment, industrial productivity, and interest rates and is also called as economic cycle.

History of the Business Cycle: many people consider that business cycle exists to the belief of theories, however, this hasn't been a permanent one. Business cycles in the 19th century were not pointed out and it was spell of "crises" which is conflicting the smooth enhancement of the economy. In the past, both economists and non- economists started to believe in the reliability of business cycle crises, analyzing them separately and jointly while changing economic structures. clearly, not every business cycle works the same. The coming description, which was raised by Schumpeter (1939), describes some of the cycles by their time (trough to trough or peak to peak). For example: • Seasonal cycles – within a year • Kitchin cycles – 3

years • Juglar cycles – 9-10 years • Kuznets cycles – 15-20 years •

Kondratiev cycles – 48-60 years. Schumpeter named the “ four-phases” of a cycle as: boom, recession, depression and recovery. Boom, is an economic growth which stays until the peak is reached; a recession is the fall from the peak to the mean; a depression is the slide from the mean down to the trough and a recovery is the rise from the trough back up to the mean.

Despite the meanings, the phases are moved back to the boom thus making a new business cycle. Moreover, if any cycle of go through fluctuations, they cannot be described as “ cycles”. It is believed that the economy goes through fluctuations. In the end, this causes the economy to show this kind of activity which have been a source of distortion and far imaginative. Many experimented facts should be familiar with all business cycle theorists. First of all, experiment evidence shows that in the 19th Century, the price level fluctuated greatly whereas output was not very caused by these fluctuations. Therefore, the early stages analysis of the “ cycles” was relied specifically on the definition as fluctuations took place in price levels and not output. On the other hand, in the 20th Century there has been an increase in prices by saving few exceptions. Prices varied clearly when there has been an increase. Output, however, fluctuated heavily in the 20th century, which was described as recessions and depressions. In addition, output would go up in the recovery and boom phase. The movement in output is a recent phenomenon. Finally , Wesley C. Mitchell was committed to measuring and analyzing business cycles, which at the end is no surprise that Mitchell’s NBER (national bearu of economic research) has sustained the widely accepted historical record of business cycles in the United States. According to the NBER, Kondratiev Cycles (long waves) and not kept in record because

its believed such cycles do not exist. On the other hand, some of the Kondratiev waves have been recognized by going through the business cycles (the dates and labels are from Kuznets, 1940) which are :

1. The Industrial Revolution (1787-1842) that is considered to be the most famous Kondratiev wave: the boom began in 1787 and went under recession at the start of the Napoleonic age in 1801 and, expanded into depression in 1814. The depression lasted until about 13 years and recovered until 1842. this Kondratiev carried on the developments of textile, iron and other steam-powered industries.
2. The Bourgeois Kondratiev (1843-1897): After 1842, the boom started and resulted in the railroadization in Northern Europe and America and expanded the industries of coal and iron. The boom ended in 1857 as a result of a recession. In 1870, depression occurred which lasted until 1885. After that it began to recover in until 1897.
3. The Neo-Mercantilist Kondratiev (1898-1950): The boom began in 1898 carrying along the growth of electric power and the automobile industry and remained until 1911. Similarly, this wave went into recession and then into a depression in 1925 and lasted till 1935 and entered into recovery in 1950.
4. The Fourth Kondratiev (1950 – 2010)

There have been doubts about the validity of this fourth wave because low fluctuations in prices have occurred and the Keynesian policies. Yet this issue to be resolved.

For sure the most preferred set of dates is that the boom started around 1950 and was until about 1974 wherein recession set in. When (and if) this

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recession fell into its depression phase may be not easy to ascertain (c. 1981?), but what has been more or less decided upon is that 1992 (or thereabouts) the recovery began and has been made ready to give way to a boom and thus a new Kondratiev wave around 2010 or so. ? The Phases Of The Business Cycle Economists have many different : 1. Recession. Business people spend less than they once did. As a result, sales are failing. Businesses try in this situation to hale or to reduce their spending . Since workers earn less, they spend less, and business income and profits decline still more. Businesses spend even less than before and lay off still more workers. The economy continues to slide. 2. Low Point or Depression. How long the cycle will remain at this low point varies from a matter of weeks to many months the time of the the real GDP stops there decline and starts expanding to the lowest point. Sooner or later, the recession will reach the bottom of the business cycle.. During some depressions, . State of the economy where there are large unemployment rates, a decline in annual income, and overproduction such as the one in the 1930s, the low point has lasted for years. 3. Expansion and Recovery. When business begins to improve a bit, firms will hire a few more workers and increase their orders of materials from their suppliers. A period in which the real GDP grows; recovery from a recession. Increased orders lead other firms to increase production and rehire workers. More employment leads to more consumer spending, further business activity, and still more jobs. Economists describe this upturn in the business cycle as a period of expansion and recovery.

How Do Economists Keep Track Of The Business Cycle?

Economists have tried to identify the following for quiet sometime: (1) what stage our economy is in at this time? (2) where is the destination of the business cycle?

It is believed the main reason for the business cycle are the credit and loan policies of commercial banking. When there are policies for easy money, interest rates are low and loans are easy to get and come about. the private sector is encouraged to borrow and invest, thus motivating the economy.

Ultimately, the growing demand for loans causes the interest rates to increase, which depresses and restricts new borrowers. Therefore, the economy keeps dropping which eventually interest rates fall and the business cycle starts all over again. So it will not be slow down and decline. The cause of the business cycle is outdoor surprises, such a rise in oil prices, wars, and international conflict, all have the possibility to raise or drop the economy. Another way that the economy would benefit is the availability or discovery of the natural resources. For instance, this case happened with Great Britain in the 1970's when an oil was found in the North Sea. The British economy gained as a result that world oil prices were high, but the high oil prices affected the United States.

Conclusion

In conclusion, the main idea of the business cycle, is that the economy has regular and periodic waves, a cycle that remains for some years, is still has few supporters until of today. possibly these cycles never existed or once they did because now the government plays an important role in the economy. On the other hand, these cycles are considered useful due the the

introduction of macroeconomic topics such as the the adjustment process that remains the central in macroeconomics. Moreover, It also provides a change from monetary theories to Keynesian economics, a radical way of viewing the macroeconomic.

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