

# Example of recession or depression essay

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## Essay

Economic cycle includes four phases: crisis (recession), depression, recovery and growth. The initial phase of the cycle is a crisis (other names: Recession - lat. Recessus-deviation). At the time of recession, there is a decline in economic growth rates, and then, as a rule, direct reduction of output. These phenomena are associated with the overproduction of goods. At this time, the stocks of unsold products are dramatically increasing. There is a mass bankruptcy (devastation) of industrial and commercial enterprises, which can not sell the accumulated products. Because of the suspension of production the unemployment is rapidly growing, and wages are declining. First, the demand for raw materials is falling, and then the supply of raw materials. There is a sharp decrease in profits. All entrepreneurs have an urgent need for money to pay the quickly formed debts, and therefore the rate of bank interest is increasing significantly. Finally, if the recession is deep and prolonged, there is a reduction or slowdown in commodity prices.

After the crisis occurs another phase - depression (latin Depressio - reduction, suppression). Then not only the decline in production but also a decline in prices are suspended. The stocks of goods are gradually diminishing. Due to the low demand the mass of the free cash capital is increasing, and the bank interest rate is reducing to a minimum. The production and employment, reaching the lowest level, start slowly and gradually to gain momentum.

In the period of depression, the supply of goods ceases to overtake the demand, therefore, equilibrium is established between them (the cessation of the release of the goods reduces their supply to the level of demand). At

the same time, the natural conditions to overcome the crisis are created.

Reducing the prices of means of production and cheaper loans promote new capital accumulation and the resumption of expanded reproduction on a new technical basis.

In the phase of depression, a fall in GDP and an increase in unemployment are slowing significantly; the volume of investments is close to zero. That's why in this period, the economy is characterized by the stagnation in production, the lethargy of trade and the availability of a large mass of free cash capital. After some time the economic system overcomes the lower point of the cycle, called depression and the recovery begin. Under it, the movement of all economic indicators changes the direction; income and employment start to grow again. When the enterprises adjust the volume of production to the highest point reached in the previous cycle, the economic upturn begins.

Each phase of the economic cycle performs its reproductive function. A crisis economy does not mean a bad economy. In the crisis lies an opportunity to overcome it. Crisis first of all eliminates its immediate cause - the over-accumulation of capital, as in the phase of the crisis, the economy gets rid of part of the capital by its depreciation and even destruction. This stimulates the beginning of mass updates of production capital on new technical basis. As a result, a new demand appears automatically.

The depression manifests itself outwardly in slowing of the rate of decline, stagnation in bankruptcies and the inventory decrease. Its function - adaptation to the new built proportions. At depression phase the goal of firms (profit maximization) again becomes attractive, as the cost reduction has occurred in the production.

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Economic development in the real world is always associated with an imbalance, with a deviation from the potential output and employment of resources. The most characteristic manifestations of instability are the inflation and unemployment.

## **References**

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