# Economic depression

Growth is one of the top economic goals in an economy. The expansion of the total output or product as compared to the increase in population causes the rise in real wages and incomes and makes the standards of living higher. Some economies have experienced significant economic growth over time but this has been interrupted by periods of economic instability. There are times that economic growth has to give way to recessions and depressions (McConnell and Brue 2005). Recessions and depressions are both phases of business cycle. Several problems are considered as results of the alternating rises and declines in the level of economic activity. Economists and policymakers are concerned with these fluctuations and their effects to the economy. A typical business cycle goes through the stages of peak, recession, trough and recovery. Each stage of the business cycle shows the effects of fluctuations in the level of output and employment in the economy. During peak stage, the economy is near or at full capacity, as reflected by high level of output, rising prices and full employment. This is usually followed by a recession which if severe and prolonged causes economic depression. Recessions are as irregular as they are common (Mankiw 1997). At this stage, there is a decline in the total output, income, employment and trade. This results from the contraction of the business activities of the sectors in the economy. Because of these downfall, the general price level is also likely to fall and if the economy cannot recover from this period, economic depression will occur. Economists continue to debate about the causes of economic depression. They argued that it is due to decline in spending on goods and services because of the decline income. Their view uses the spending hypothesis as their explanation. This hypothesis blames the uncertainty about future growth that makes consumers consume less and save more of their incomes. This is what exactly the problem of China now. They need structural changes to increase their domestic demand through increasing consumption and lowering savings (Zoellick 2011). The reduced consumption will affect the production activities of the business firms. Many businesses find that it is no longer profitable to produce goods and services at their normal volumes when consumer spending fall. As a consequence, the output, employment and income will fall. For businesses to continue their operations, they have to cut their costs. In this action, the workers are the first to be affected. Low production may mean shorter working hours, shorter working hours may mean lower wage or income for the workers. The decline in productivity of the businesses when extended for more than six months will cause the unemployment rate to rise. Unemployment has also its own sets of related economic problems to hinder growth. The money hypothesis is also seen as a cause of economic depression. This one blames the money supply that is present in the economy that triggers the fluctuations. This is because when government creates too much money, there is a possibility for inflationary boom making price level to shoot upward. With more money on their hands, consumers increase their purchasing power. This will make them to demand more goods and services from the producers. However, the producers will take on the opportunity to produce more as the demand shifts upward but will ask for higher price also. But when money supply is too little, output and employment are likely to fall together with the price level. With little money on their hands, consumers consumption will be limited the same as the producers limiting their production. Economic depression is just one of the major economic instability that we have to encounter. There are always solutions to any problem; we just have to discover them. The government through its economic policies is one the steps to fix the problem. And these steps are not easy, but when taken together, they would help reduce uncertainty and restore a pattern of stability and inclusive growth to the global economy (Spence 2011).

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