

Economics argumentative essay examples

[Economics](#), [Money](#)



Business Cycles

Generally a business cycle is defined as a cycle consisting of a period of declining aggregate economic activity that is followed by a period of rising economic activity. The low point of the contraction is called the trough and the high point of the expansion is called the peak.

According to Macroeconomic Schools of Thought; “ a macroeconomic model that focuses on real, rather than monetary, causes of the business cycle”.

However a renowned website describes business cycle as;

“ The term business cycle (or economic cycle) refers to economy-wide fluctuations in production or economic activity over several months or years. These fluctuations occur around a long-term growth trend, and typically involve shifts over time between periods of relatively rapid economic growth (an expansion or boom), and periods of relative stagnation or decline (a contraction or recession). Business cycles are usually measured by considering the growth rate of real gross domestic product. Despite being termed cycles, these fluctuations in economic activity do not follow a mechanical or predictable periodic pattern”. (Wikipedia)

There is not much difference between the two, yet the earlier definition is more convincing than the later one. To understand the vision of the Macroeconomics Schools of Thought, we need to understand what is real business cycle model, secondly what could be the monetary cause of recession. As the point of argument here is mainly the cause of fluctuations in a business cycle.

A complete theory of business cycle must have two components. The first

describes the types of shocks or disturbances that are believed to affect the economy the most. The second component is a model that describes how key macroeconomic variables, such as output, employment, and prices respond to economic shocks.

The real business cycle theory is a version of the classical theory that emphasizes productivity shocks i. e., shocks to the production function, as the source of business cycle fluctuations. It says that a temporary decline in productivity reduces the real wage, employment and output, while raising the real interest rate and price level. According to this theory money is neutral, which means that changes in the nominal money supply change the price level proportionally but do not affect real variables such as output, employment and the real interest. Hence the focus of this theory is on the real factors, and the monetary factors are side lined for the fact that it is the production function or the productivity that determines the inclination or decline of the economic growth, taking the business cycle either towards the peak or the trough. One change is followed by series of changes that results in forming a trend that is either moving upwards or going in depression.

Such as if due to any fiscal policy measure, or as learnt earlier a low demand which could be result of consumers low purchasing power, due to increase in taxes etc. the production function is effected and shows a down trend, it will ultimately result in low wages and unemployment as the producer will have to cover the cost, as a consequence, output will be decreased, leading the business cycle towards the depression and trough. The vice versa could take the economy to the peak.

The shortcoming of the wiki definition is that it is focusing on growth as a

factor of fluctuation, also it does not consider cyclic pattern of economic growth. Growth could be ' a ' factor but it is not ' the ' factor, or reason behind the fluctuations. However the Real Business Cycle theory is very comprehensive yet descriptive enough for the understanding of young economists.

Works cited

Abel/ Bernanke. Macroeconomics. (2007)

-Business Cycles

http://en.wikipedia.org/wiki/Business_cycle#Explanations

<http://www.finance-lib.com/financial-term-real-business-cycle-theory.html>