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Study of Businesses cycle , its characteristics and phases

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Abstract : The period of high income, output and employment has been called the period of expansion, upswing or prosperity, and the period of low income, output and employment has been described as contraction, recession, downswing or depression. The economic history of the free market capitalist countries has shown that the period of economic prosperity or expansion alternates with the period of contraction or recession. These alternating periods of expansion and contraction in economic activity has been called business cycles. They are also known as trade cycles. J.M. Keynes writes, "A trade cycle is composed of periods of good trade characterized by rising prices and low unemployment percentages with periods of bad trade characterized by falling prices and high unemployment percentages."

The duration of a business cycle has not been of the same length; it has varied from a minimum of two years to a maximum of ten to twelve years, though in the past it was often assumed that fluctuations of output and other economic indicators around the trend showed repetitive and regular pattern of alternating periods of expansion and contraction.

Key Words : Businesses cycle, Depression, Revival, Boom, and Recession.

Introduction : Businesses conditions never remain unchanged. A business cycle refers to oscillations is aggregate economic activities, specifically in employment, output and income, prices and profits, etc. but each and every oscillation in economic activities cannot be called a business cycle. Only those fluctuations can be called business cycle, which occurs periodically with certain regularity. A trade cycle has been defined differently by different economists. According to Prof. Beham, "Trade cycle renders to a period of prosperity followed by a period of depression."

Prof. Haberler's definition is very simple when he says, "The business cycle in the general sense may be defined as an alternation of periods of prosperity and depression of good and bad trade."

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Keynes's definition in his 'Treaties of Money' is more explicit, "A trade cycle is composed of periods of good trade characterized by rising prices and low unemployment percentages, altering with periods of bad trade characterized by falling prices and high unemployment percentages."

Characteristics of business cycle

A business cycle must possess the following characteristics:

1. Fluctuation of Aggregate Economic Activity

Business cycles refer to the fluctuations in aggregate economic activity rather than as fluctuations in a single specific economic variable such as GDP.

2. Alteration of expansion and contraction in economic activity

A trade cycle is characterized by alteration of expansion (Prosperity) and contraction (Depression) in economic activity. They are repetitive and rhythmic. The period of prosperity is followed by depression and which again is followed by a period of prosperity. This indicates that the movement is wave like in character, it is not an erratic fluctuation.

3. Co-movement

Business cycles do not take place in just a few sectors or in just a few economic variables. Instead, expansions or contractions take place at the same time in a number of economic activities. Thus, although some industries are more sensitive to the business cycle than the rest, the level of output and employment in most industries tends to fall in recessions and rise in expansions. Many other economic variables like prices, productivity, investment and government purchases also have regular and predictable patterns of behaviors over the course of the business cycle. The tendency of many economic variables to move together in a predictable way over the business cycle is called co-movement.

4. Self- Reinforcing

A trade cycle is a self- reinforcing in nature. It means that the process of expansion and contraction is a cumulative self- reinforcing nature. Each upswing or downswing feeds on itself

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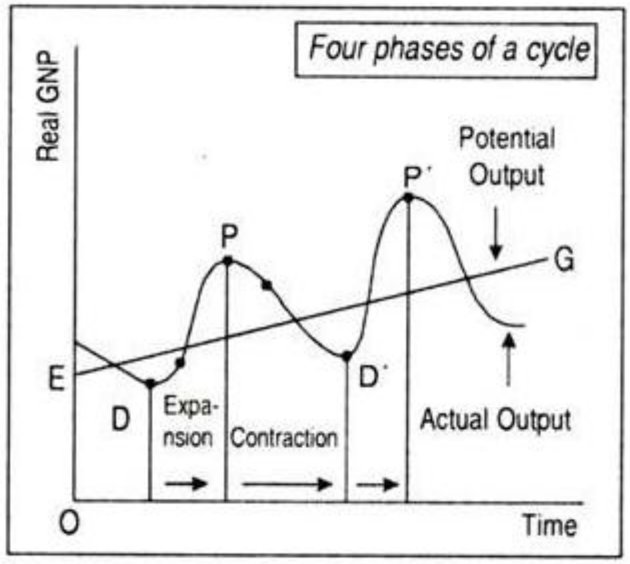
and generates further movement (change) in the same direction until its direction is reversed by external forces.



5. The degree of regularity

A trade cycle has a degree of regularity. It is possible that the upswing of a trade cycle is longer than the downswing or vice versa, but it maintains regularity.

6. The presence of crisis

A trade cycle is characterized by the presence of a crisis, i.e peak and the trough are not symmetrical. In the words, the change from upward to downward may be more sudden and violent than is the change from downward to upward movement. Consequently, the peak of the trade cycle is pointed with steep bends on either side whereas trough has a gently sloping swing of 16 – 22 years' duration.

7. International in character

When business fluctuations occur in a country, it will be spread all over the countries.

Phases of business cycle

A typical business cycle has two phases expansion phase or upswing or peak and contraction phase or downswing or trough. The upswing or expansion phase exhibits a more rapid growth of GNP than the long run trend growth rate. At some point, GNP reaches its upper turning point and the downswing of the cycle begins. In the contraction phase, GNP declines.

At some time, GNP reaches its lower turning point and expansion begins. Starting from a lower turning point, a cycle experiences the phase of recovery and after some time it reaches the upper turning point the peak. But, continuous prosperity can never occur and the process of downhill starts. In this contraction phase, a cycle exhibits first a recession and then finally reaches the bottom—the depression.

Thus, a trade cycle has four phases:

(i) Depression
(ii) Revival
(iii) Boom, and
(iv) Recession.

These phases of a trade cycle are illustrated in Fig. In this figure, the secular growth path or trend growth rate of GNP has been labeled as EG. Now we briefly describe the essential characteristics of these phases of an idealized cycle.

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