



JAIIB (New Syllabus)

**INDIAN ECONOMY &
INDIAN FINANCIAL SYSTEM
(IE&IFS).**

Paper-1

MODULE-B, UNIT-5



BUSINESS CYCLES

JAIIB IE and IFS Module B Unit 5: Business Cycles

Business Cycles

- The term Business cycle **refers to economy-wide fluctuations in production or economic activity over several months or years.**
- Business Cycle is also known as **Economic Cycle.**
- Business Cycle simply means **the whole course of business activity which passes through the phases of prosperity and depression.**
- A business Cycle is **not a regular, predictable, or repetitive phenomenon** like the swing of the pendulum of a clock. Its timing is random and, to a large degree, unpredictable.

Characteristics of a Business Cycle:

- **A business cycle is synchronic:** The upward and downward movements tend to occur at almost the same period in all industries. The wave of prosperity or depression in one industry will soon generate a wave in other industries.
- **A business cycle show a wave like movement:** The period of prosperity and depression can be alternatively seen in a cycle.
- **Cyclical fluctuations are recurring in nature:** The various phases are repeated. A boom is followed by depression and the depression again is followed by boom.
- There can be no indefinite depression or eternal boom period
- Business cycles are pervasive in their effects.
- The up and down movements are not symmetrical. The Downward movement is more sudden and violent than the upward movement.

Phases of Business Cycle:

A business cycle is identified as a sequence of four phase. **Boom, Recession, Depression and Recovery**

Boom:

- During the Boom phase production capacity is fully utilized and also products fetch an above normal price which gives higher profit.
- In Boom period, consumption will be decreased as prices are going up.
- The Demand is more or less stagnant or it even decreases.

A boom has the following important economic characteristics:

- An accelerated and prolonged increase in demand

- Demand peaks to levels that exceed sustainable output/production levels
- Economy heats up and a demand-supply lag becomes apparent
- Market forces mismatch (i.e., demand and supply disequilibrium) and tend to create a situation in which inflation begins to rise
- The economy may suffer fundamental problems such as a shortage of investible capital, decreased savings, a declining standard of living, and the emergence of a sellers' market.

Recession:

- A downward tendency in demand is observed. The supply exceeds demand
- Desire for liquidity increases all around.
- Producers are compelled to reduce price so that they can find money to meet their obligations.
- This Phase of the business cycle is known as the Crisis.

The following are the major characteristics of recession,

- There is a general decline in demand as economic activity slows down
- Inflation remains low or shows further signs of falling
- Employment falls/unemployment rises
- Industries resort to price cuts to stay in business.

Depression:

- Underemployment of both men and materials is a characteristic of this phase. General Demand falls faster than production
- Volume of Production will be reduced.
- The demand for the bank credit is at its lowest which results in idle funds.
- The interest rates are decline regime.

Some of the primary features of depression are as follows:

- An extremely low aggregate demand in the economy causes activity to slow down.
- Inflation is comparatively lower
- Employment avenues begin to close, forcing the unemployment rate to rise rapidly
- To keep the business running, production houses resort to forced labour cuts or retrenchment (to reduce production costs and remain competitive in the market), and so on.

Recovery:

- Depression phase does not continue indefinitely.
- Wages will be paid low.


- Prices are at the lowest, the consumers, who postponed their consumption expecting a still further fall in price, now start consuming.
- As demand increases, the stocks of goods become insufficient.


The recovery business cycle may exhibit the following major economic characteristics:

- An increase in aggregate demand, which must be accompanied by an increase in the level of production
- The production process expands and new investments become appealing
- As demand rises, inflation rises as well, making borrowing cheaper for investors
As production rises, new employment avenues are created and the unemployment rate begins to fall and so on
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