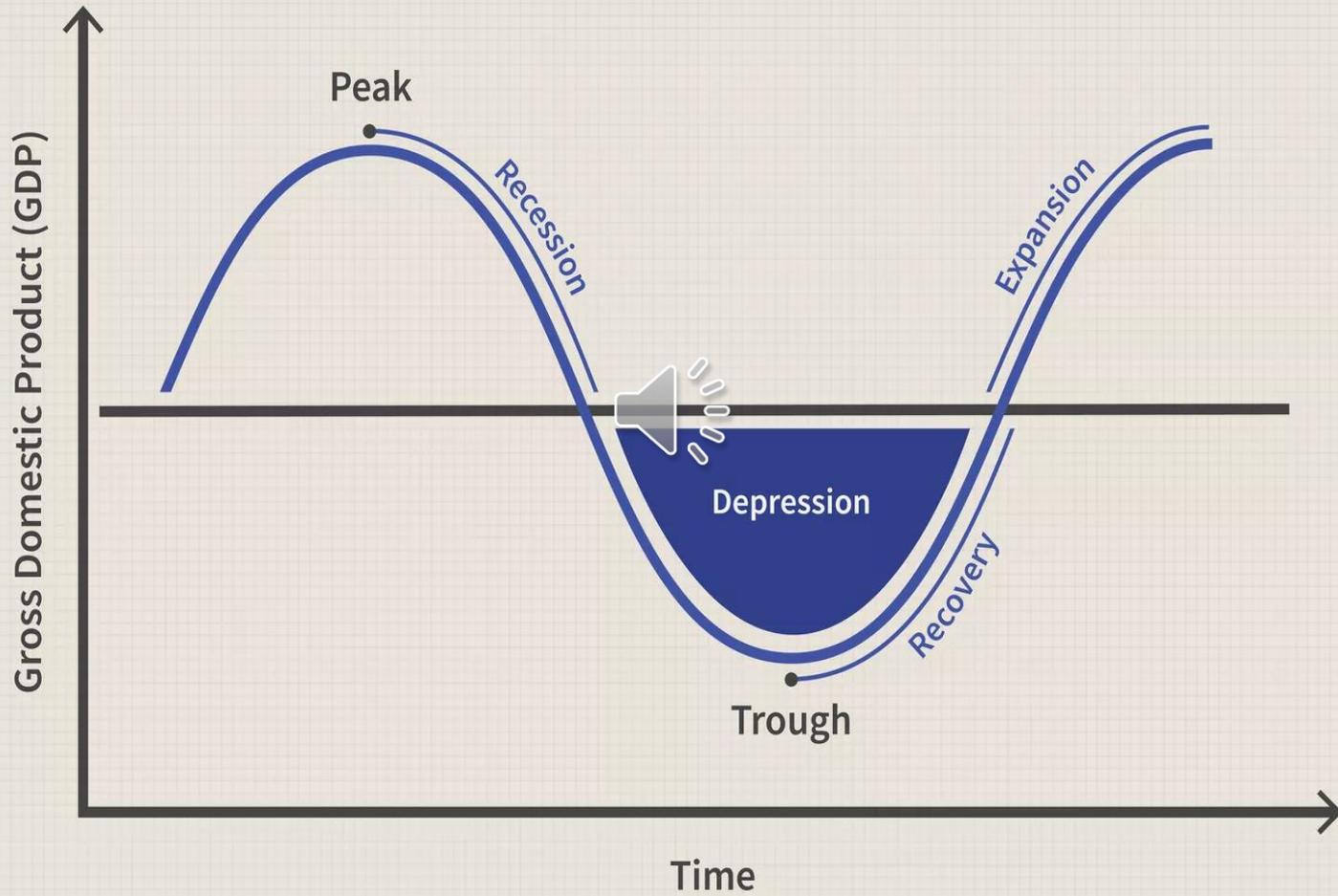


Trade cycle and its phases



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Business Cycle



The Economic Cycle



Figure 5.3

Its phases

“Business cycles are alternations of prosperity and depression”. Anatol Murad

Types:

- 1) Major cycles
- 2) Minor cycles
- 3) Very long cycles



Phases

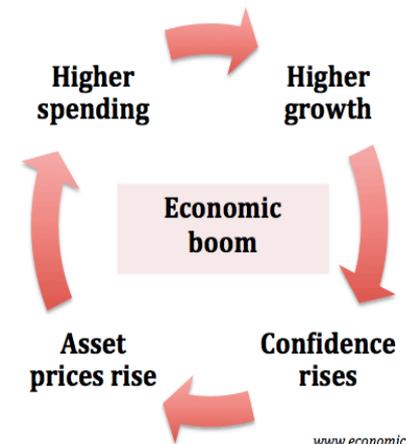
- 1) Expansion or Boom
- 2) Recession
- 3) Depression or Contraction
- 4) Recovery

Features of trade cycles

1) Expansion or Boom

It's a state of affairs in which real income consumed and real income produced and the level of employment are high on rising and there are no idle resources.

- a) Income and production increases at faster rate because of increase in investment opportunities.
- b) Full employment situation changes into over full employment.
- c) Wages, salaries, taxes are increasing.
- d) Prices are increasing more than the cost.
- e) Share prices are going up because of high profitability expectations.
- f) Credit creation increases because of high lending opportunities.
- g) Prosperity leads to increase in demand and high consumption.



Features of trade cycles



2) Recession

Prosperity leads to high level of investments in risky ventures, which leads to low profitability and low income level. High prices leads to low level of demand and which leads to recession.

- a) Production and income falls
- b) Employment falls leads to unemployment.
- c) Profitability falls due to fall in productivity.
- d) Credit creation falls due to fall in investment opportunities .
- e) Backward action of multiplier tend to apply.
- f) Fear of loss leads to pessimism.

Features of trade cycles

3) Depression or Contraction

This is the situation where recession leads to worse situation where depression sets in. Here everything is going downwards.

- a) Backward action of multiplier sets in
- b) production and income level declines
- c) Wages, interest and other cost declines
- d) Prices declines leads to fall in profitability
- e) Investment declines, leads to pessimism
- f) Everything looks bleak or dark
- g) Demand becomes low
- h) Credit is contracted.
- i) For example: The great depression of 1929

Features of trade cycles

4) Recovery

Depression is not a permanent situation it is a temporary one. So slowly and steadily this situation comes to an end and after some time recovery starts. Everything starts moving in and demand starts to pick up. Production and income starts to improve.

- a) Replacement investment leads to improve productivity.
- b) Employment level improves.
- c) Prices tend to increase.
- d) Profitability increases.
- e) investment increases.
- f) Banks start to lend more money.
- g) People becomes optimist rather than pessimist.

Features of different trade cycle

Features	Expansion	Recession	Depression	Recovery
1) Employment and production	At the highest level	Suddenly falls	At the lowest level	Increases slowly
2) Wages and prices	At the highest level	Suddenly falls	At the lowest level	Increases slowly
3) Interest and credit creation	Expands	Suddenly declines	At the lowest level	Increases slowly
4) Production cost	Increases	Suddenly declines	At the lowest level	Increases slowly
5) Thinking of the people	Optimism	Started fearing	Pessimist	Optimist