JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR

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Faculty of Education and Methodology

Faculty Name- JV'n Dr. Md Meraj Alam

Program- BA B.Ed 3rd Semester

Course- Macroeconomics

Digital session name – Business Cycle 1

Introduction:

Many free enterprise capitalist countries such as USA and Great Britain have registered rapid economic growth during the last two centuries. But economic growth in these countries has not followed steady and smooth upward trend. There has been a long-run upward trend in Gross National Product (GNP), but periodically there have been large short-run fluctuations in economic activity, that is, changes in output, income, employment and prices around this long- term trend.

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."

A noteworthy feature about these fluctuations in economic activity is that they are recurrent and have been occurring periodically in a more or less regular fashion. Therefore, these fluctuations have been called business cycles. It may be noted that calling these fluctuations as 'cycles' mean they are periodic and occur regularly, though perfect regularity has not been observed.

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.

However, actually there has been no clear evidence of very regular cycles of the same definite duration. Some business cycles have been very short lasting for only two to three years, while others have lasted for several years. Further, in some cycles there have been large swings away from trend and in others these swings have been of moderate nature.

A significant point worth noting about business cycles is that they have been very costly in the economic sense of the word. During a period of recession or depression many workers lose their jobs and as a result large-scale unemployment, which causes loss of output that could have been produced with full-employment of resources, come to prevail in the economy.

Besides, during depression many businessmen go bankrupt and suffer huge losses. Depression causes a lot of human sufferings and lowers the levels of living of the people. Fluctuations in economic activity create a lot of uncertainty in the economy which causes anxiety to the individuals about their future income and employment opportunities and involve a great risk for long-run investment in projects.

Who does not remember the great havoc caused by the great depression of the early thirties of the present century? Even boom when it is accompanied by inflation has its social costs. Inflation erodes the real incomes of the people and makes life miserable for the poor people.

Inflation distorts allocation of resources by drawing away scarce resources from productive uses to unproductive ones. Inflation redistributes income in favour of the richer actions and also when inflation rate is high, it impedes economic growth.

About the harmful effects of the business cycles Crowther writes, “On the one hand, there is the misery and shame of unemployment with all the individual poverty and social disturbances that it may create. On the other hand, there is the loss of wealth represented by so much wasted and idle labour and capital.”