CONCEPT: BUSINESS CYCLE CHARACTERISTICS

● ***Business Cycles*** represent fluctuations in ____________ per capita, representing periods of increase and decrease

□ ***Recession*** – Period of economic downturn when ______________ and ______________ are ___________

> Recessions are also called *contractions*

□ ***Trough*** – The point where the economy turns from ______________ to ________________

□ ***Expansion*** – Period of economic upturn when ______________ and ______________ are ___________

> Expansions are also called *recoveries*

□ ***Peak*** – The point where the economy turns from ______________ to ________________

● Each business cycle is different, but share some general characteristics

□ *Expansion:* Increases in interest rates; wages increase faster than the price level, leading to ________ profits

> Household and firm __________ is also increased to finance spending

> Eventually, this increase in ___________ leads to a reduction in spending

□ *Recession Begins:* Decrease in spending on Capital Goods (i.e. lower ____________)

> Decreased spending leads to ____________ unemployment

> Together, this leads to further decreases in spending, driving the recession deeper

□ *Recession Ends:* Spending eventually turns around; debts are repaid, allowing an increase in spending

> Interest rates also decline, allowing firms to borrow and spend on Capital Goods again

Peak	Trough	Length of Recession
July 1953	May 1954	10 months
August 1957	April 1958	8 months
April 1960	February 1961	10 months
December 1969	November 1970	11 months
November 1973	March 1975	16 months
January 1980	July 1980	6 months
July 1981	November 1982	16 months
July 1990	March 1991	8 months
March 2001	November 2001	8 months
December 2007	June 2009	18 months

Source: National Bureau of Economic Research

● Shocks to the standard flow of the economy are thought to cause business cycles:

□ *Irregular Innovation*: Revolutionary technologies lead to economic booms shortly after

> Example: Railroad, automobiles, internet

> However, once the economy fully "absorbs" the new technology, growth generally slows down

> These revolutionary ideas occur sporadically

□ *Productivity Changes*: Unexpected changes in productivity lead to unexpected booms and busts

> Availability of key resources, such as oil

□ *Monetary Factors*: monetary policy by the Federal Reserve can shock the economy

> Monetary policy will be discussed in more detail later in the course

□ *Political Events*: Unexpected political events can cause booms or trigger declines

> Examples: War, peace, terrorism

□ *Financial Instability:* Bubbles (and bursts) in sectors of the economy can affect the economy as a whole

> Example: A key factor in the 2008 recession was a burst of the _______________ market

● Some of the key consequences of the business cycle is its correlation with *unemployment* and *inflation*:

□ *Unemployment:*

> During recessions, unemployment _______________________

> During expansions, unemployment _______________________

□ *Inflation:*

> During recessions, inflation _______________________

> During expansions, inflation _______________________

□ ***Jobless Recovery*** – a period of __________ (i.e. expansion) where the ________________ rate is still rising

> Each of the three recessions since 1990 were followed by a jobless recovery