Trade Cycle

Dr. Nandini Katti

TRADE CYCLES

DEFINITION

- According to Keynes "a trade cycle is composed of period of good trade characterized by rising prices and low unemployment percentage altering with periods of bad trade characterized by falling prices and high unemployment percentage"
- According to Samuelson and Nordhaus " a business cycle is a swing in the total national output, income, and employment, usually lasting for a period of 10 years, marked by widespread expansion or contraction in most sectors of the economy"
- The pattern of the trade cycles is irregular

Characteristics/ features of trade cycle

1. It is a movementin economicactivity showing UPs AND DOWNs
2. Trade cycles occur regularly but the time of regularity is not known
3. They have distinct phases of expansion or prosperity , contraction or depression, the boom period and recession.

Characteristics/features of trade cycle

5. The duration of the trade cycle is unpredictable

6. Fluctuation in any one variable affects other variables also.

7. Business cycles are international in character that is they affect the world economy,

   e.g :- Great depression of 1930’s

Phases of trade cycle or stages

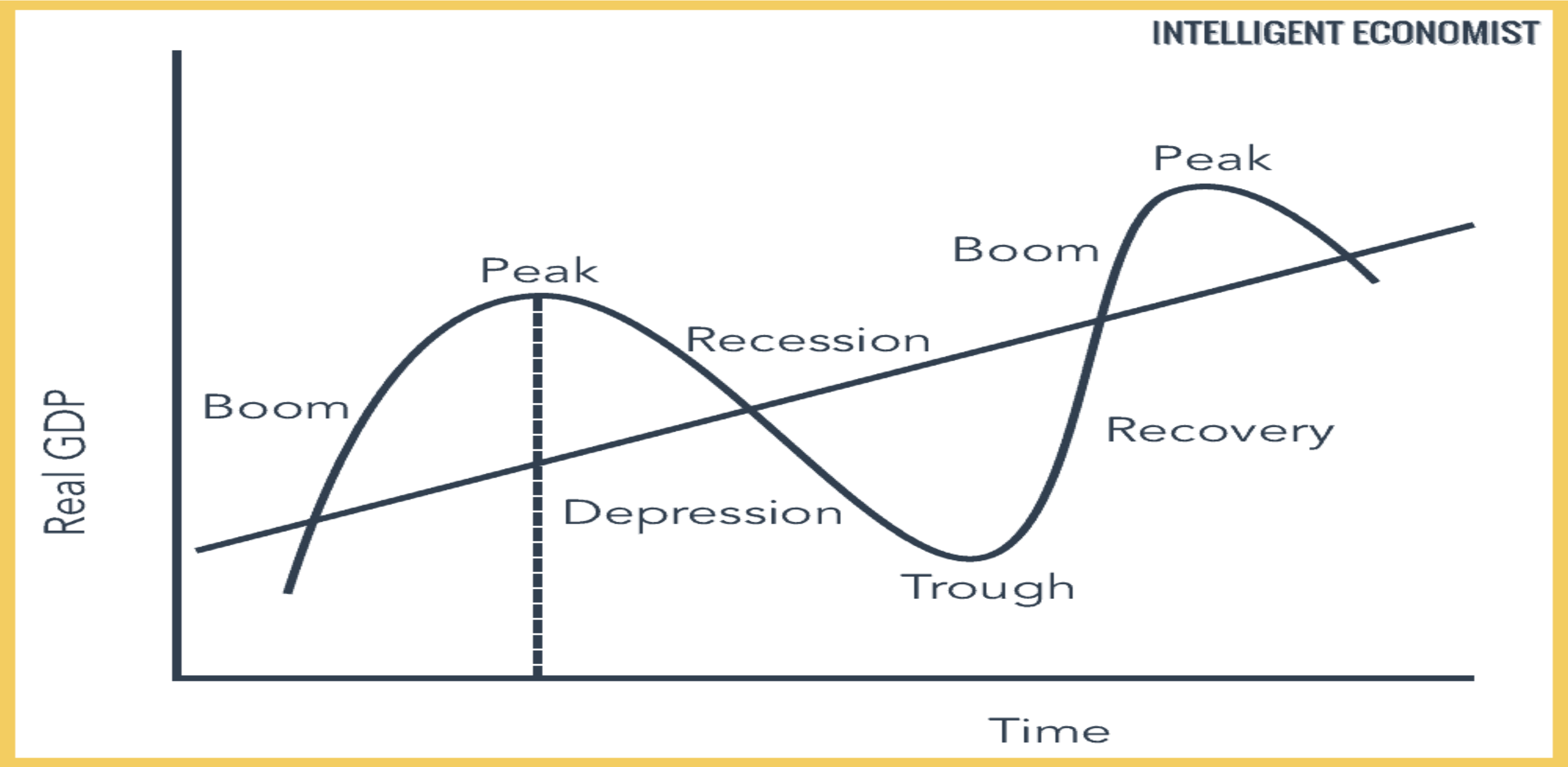
Depression

Recovery (A turn from depression to prosperity-lower turning point)

Prosperity (expansion, boom or upswing)

Recession (a turn from prosperity to recession upper turning point)

TRADE CYCLE


INTELLIGENT ECONOMIST
Peak
Boom
Peak
Recession
Boom
Recovery
Real GDP
Depression
Trough
Time

Depression

It is a period of low economic activity. Growth rate goes below

the steady growth.

There is considerable reduction in the production, employment, income, investment, bank deposits, demand and price, profit can be low or even negative, the economy reaches a bottom of the depression stage .

E.g The great depression of 1929

Recovery

Various exogenous and/or endogenous factors responsible for reviving the economy.

when the economy enters the phase of recovery, the economy registers upward trend in output, income, employment, etc.

But the growth rate may still remain below the steady growth rate

Prosperity

- When there is an expansion of output, income, employment, price & profits, there is a rise in the standard of living and prosperity
- Bank credits grow rapidly, idle funds are channelized to productive investments, Ms increases and economy reaches full employment
- The peak point is generally characterized by stagnation in demand.
- This is the period of the highest level of prosperity in which increase in demand is halted.

Recession

- During a period of recession there is a contraction and slow down of economic activity
- demand starts falling.
- there is over-production and future investment plans are given up.
- there is steady decline in the output, income employment, price &profit.
- the businessmen lose confidence & become pessimist, this reduces investment

Control of trade cycle

Monetary policy :- central bank uses instruments like BR, OMO, SLR, CRR, selective control credit

Fiscal policy : - via taxation and public expenditure

Public expenditure : - it is undertaken in category of productive areas not only to generate employment and output but also to increase AD during depression


AMERICAN
UNION
BANK
AMERICAN
UNION
BANK


WORK-IS-WHAT-I
WANT-AND-NOT-CHARITY
WHO-WILL-HELP-ME-
GET-A-JOB-7 YEARS-
IN-DETROIT. NO-MONEY
SENT-AWAY. FURNISH-
BEST-OF-REFERENCES
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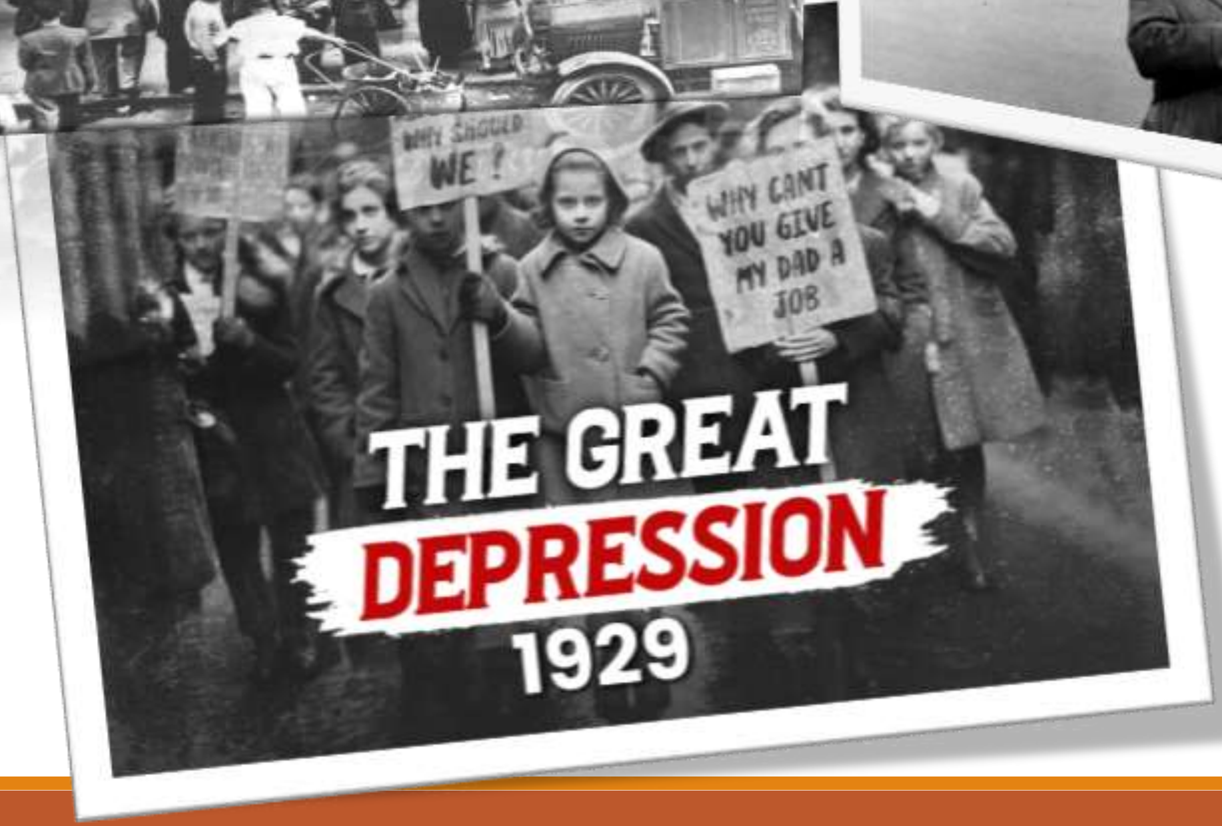
WHY SHOULD
WE !
WHY CANT
YOU GIVE
MY DAD A
JOB
THE GREAT
DEPRESSION
1929