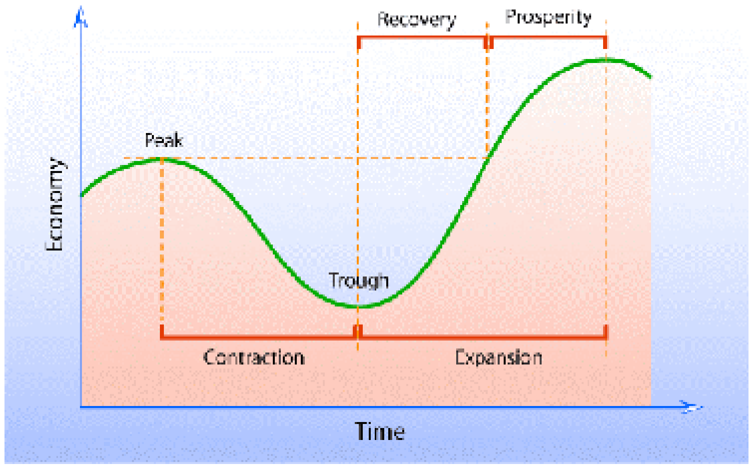
BUSINESS CYCLE



The **business cycle** or **economic cycle** refers to the ups and downs seen simultaneously in most parts of an economy. The cycle involves shifts over time between periods of relatively rapid growth of output (recovery and prosperity), alternating with periods of relative stagnation or decline (contraction or recession). These fluctuations are often measured using the **real gross domestic product**.

- expansionary period is usually longer than the contraction period
- recessions may prolong because producers are pessimistic about the future economic events
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EXPANSION – a period of fast economic growth, GDP is growing due to increasing demand and decreasing unemployment → increase in investments
Characteristic features are:
- firms produce more goods
- firms invest to new machinery
- consumers spend more money (feel good factor)
- more money is collected by the government in income tax and VAT
- prices tend to increase due to extra demand

CONTRACTION – a period when output slows down due to a reduction in demand
Characteristic features are:
- business cut on production
- some business may bankrupt
- consumers spend less money
- people may loose their jobs
- more money is spent by the government on unemployment benefit, less is collected in income tax and VAT

Worked out by Katarína Jakubíková

HISTORY OF BUSINESS CYCLE
- since WW II, most business cycles would last 3 – 5 years
- average duration of an expansion was 45 months
- average duration of a recession has been 11 months
- the main decline of economy was between 1929 – 1933 which lasted for 4 years (Great Depression)

To call those alternances "cycles" is rather misleading as they don't tend to repeat at fairly regular time intervals. Most observers find that their lengths (from peak to peak, or from trough to trough) vary, so that cycles are not mechanical in their regularity. Since no two cycles are alike in their details, some economists dispute the existence of cycles and use the word "fluctuations".
Others see enough similarities between cycles that the cycle is a valid basis of studying the state of the economy. A key question is whether or not there are similar ***mechanisms*** that generate recessions and/or booms that exist in capitalist economies so that the dynamics that appear as a cycle will be seen again and again.

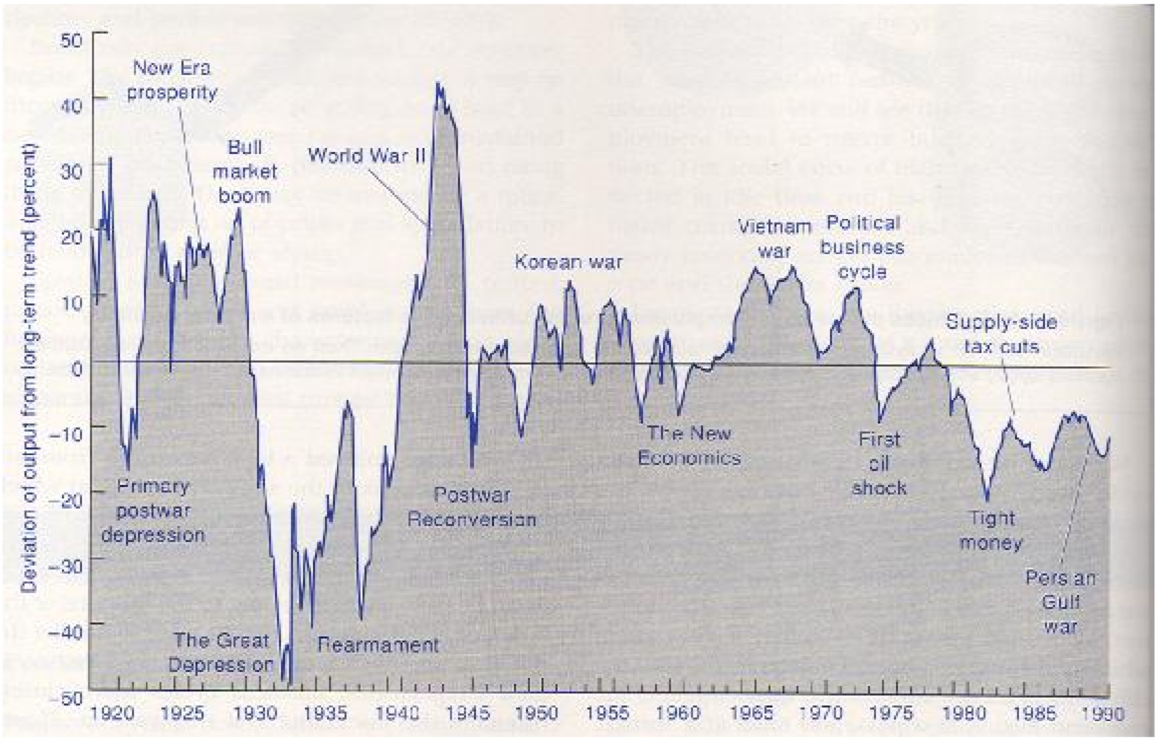
The main types of business cycles enumerated by **Joseph Schumpeter** and others in this field have been named after their discoverers or proposers:
1. Short cycle - **the Kitchin inventory cycle** (3-5 years) -- after Joseph Kitchin.

2. Mediumllong cycle - the **Juglar fixed investment cycle** (7-11 years) -- after Clement Juglar.
   Fixed investment refers to an increase in the amounts of real capital goods (real means of production) used in production or to the replacement of depreciated capital goods. Thus, fixed investment would increase the amount of factories, machines, tools, housing, office buildings, and other structures available -- or deal with the effects of wear and tear, natural destruction, and the like.

3. **the Kuznets infrastructural investment cycle** (15-25 years) -- after Simon Kuznets, Nobel Laureate.
4. Long cycle - **the Kondratiev wave or cycle** (45-60 years) -- after Nikolai Kondratiev
   Kodratiev waves occur due to presence of broad investment opportunities. USA experienced 4 Kondratiev waves"
   1. 1790-1845 – Industrialization (steam power and development of textile industry)
   2. 1845-1895 – building of canals and railroads
   3. 1895-1940 – electrification of the US, development of the car, steel and energy industries
   4. 1940- 2001 – electronics, chemicals, plastic, medicine, telecommunications, IT

In the cycles before World War II or that of the late 1990s in the United States, the growth periods usually ended with the failure of speculative investments built on a bubble of confidence that bursts or deflates. In these cycles, the periods of contraction and stagnation reflect a purging of unsuccessful enterprises as resources are transferred by market forces from less productive uses to more productive uses. Cycles between 1945 and the 1990s in the United States were generally more restrained and followed political factors, such as fiscal policy and monetary policy

Figure - Business activity since 1919



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