4. TRADE CYCLES

Q:1 Define Trade cycle. What are its features?

(A) **Introduction :-** Trade cycles means Fluctuations in the economic activities like- boom, depression etc. The Period of High Income, Output and employment is called Period of Expansion. The Period of Low income Output and Employment is called the Period of Contraction.

(B) **Meaning :-**

1. According to Prof. Haberler —
"Trade cycle means alternation of Periods of Prosperity and depression of good and bad trade."

2. According to Prof. Estey :-
"Cyclical Fluctuations shows alternating waves of expansion and contraction recur frequently is called Trade Cycles"

(C) **Features OF Business Cycles :-**

1] **Features OF Expansion :-** The Period of high income, output and employment is known as Period of Expansion. It shows—

a) **Increase in employment :-** Due to increase in consumption and Production demand, Demand for Labour increases which leads to higher employment.

(b) Increase in Consumption, Production and Real GDP:- During expansion Period, consumption expenditure rises sharply. As a result production and Investment also rises which in turn increases Real GDP.

(c) Increase in Prices :- Due to increase in consumption and production demand, Price for goods and services also increased.

(D) Increase in Profits, credit and stock :- During expansion Period, business profit rises. It will increase the demand for stock and credit.

2] Features OF Contraction :-

"The Period of Low Income, Output and employment is called Period of contraction"

It shows—

a) Decrease in Consumption, Production and Real GDP :- During contraction Period, consumption expenditure sharply decline. As a result Production and Real GDP also decline.

b) Decrease in Employment :- Due to Decrease in consumption and Production demand, Demand for Labour also decline which decrease employment

c) Decrease in Prices :- Due to decrease in consumption and Production demand, Price for goods and services also start decline.

(3)

(D) Decrease in Profits, credit and stock :- During Contraction Period, business Profit start Falling. It will decrease the demand for stock and Credit

3] Economic Variables move together :- In Trade Cycles we Observe that economic Variables like - output, employment, Price, stock, investment etc. move together either Upward or downward.

4) Wave-like Movement :- A business cycle is a wave like movement in economic activity showing an Uptrend and downtrend in the economy.

5) Recurrent But not Periodic :- Business cycle doesnot occur at regular intervals and doesnot remain for a Fixed Period of time. It is not Periodic but it is recurrent in nature.

6) Fluctuations in Aggregate Economic Activity :- Business cycles are Fluctuations in Aggregate economic activity. It show changes in GDP, employment, investment, Profit, Financial market etc.

7) No Two Business Cycles are Same :- The time Period of every business cycle is different.

(e.g) The duration of business cycles may Vary from 2 years to 12 years or more.

(4)

(8) International Effect :-

Business Cycles have great impact on International trade.

(e.g) Great Depression of USA in 1930.
Depression of India in 2008.

(9) Business Cycles are Synchronic :-

Business Cycles have great impact on all the three sectors in the economy like - Primary, Secondary and Tertiary sector.

(10) Minor and Major Trade Cycle :-

Minor Trade Cycle operate for 2 to 4 years
Major Trade Cycle operate for 4 to 8 years.

(5)

Q.2 Explain Different Phases of a business cycle with a suitable diagram.

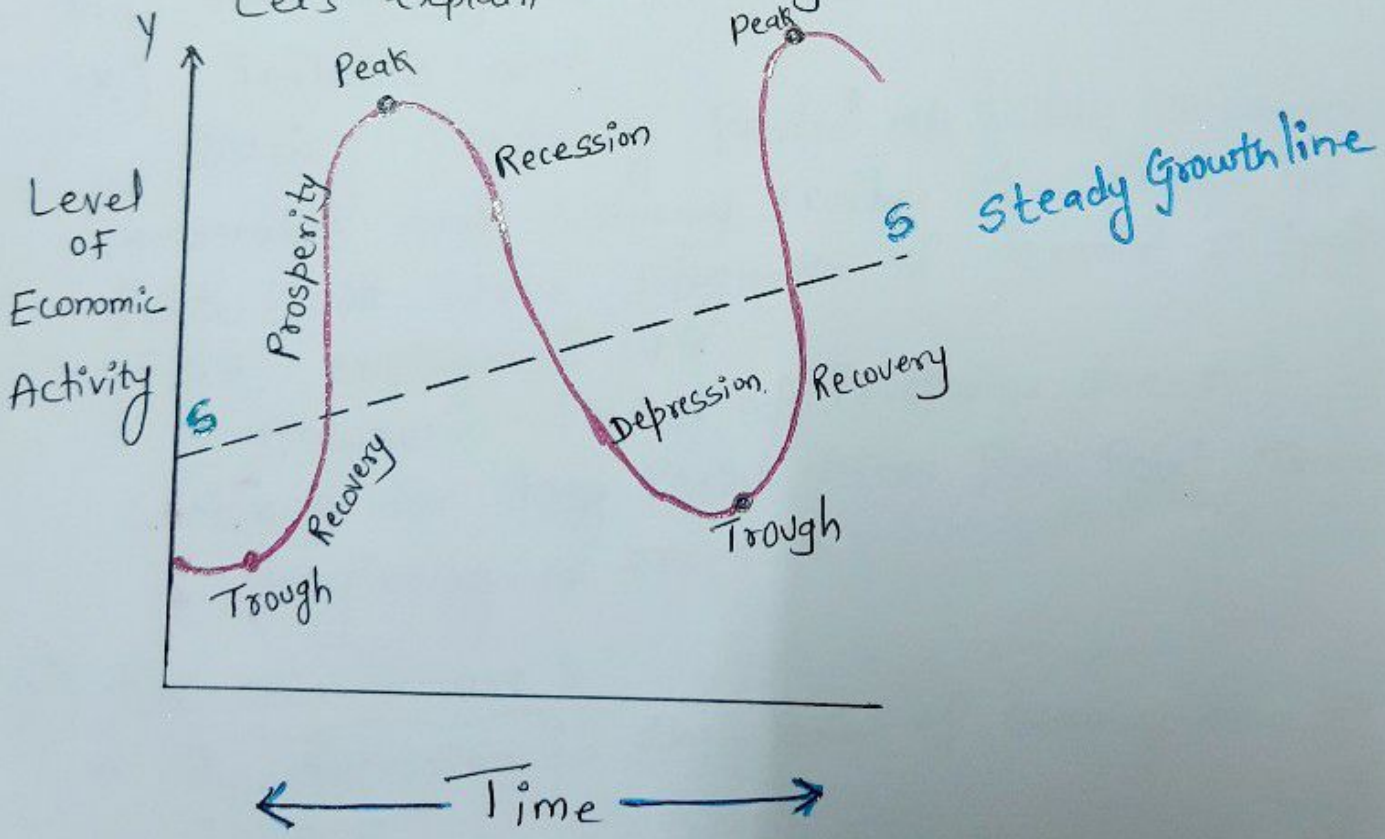
(A) Introduction :- The Variation in Macro-economic Variables like → GDP, Output, employment, investment, Profit, Prices, wages etc. shows different phases of Trade cycle.

(B) Phases of Trade Cycle :-

There are Four phases of Trade Cycle-

1) Prosperity.
2) Recession
3) Depression
4) Recovery

Let's explain with diagram →



1] Prosperity phase :— During Prosperity Period, there is expansion of output, income, employment, Price, Profits etc. There is also increase in Standard of Living.

Features of Prosperity :—

i) High level of income and employment.
ii) High level of out put.
iii) High level of consumption Demand.
iv) High level of MEC and investment.
v) High rate of interest.
vi) More credit Facilities.
vii) More Utilisation of Resources
viii) Full employment of Resources
ix) Inflation etc.

During Prosperity Period all factors becomes favourable and economy reaches to Peak. This Peak Point shows Stagnation of demand, output, Price, employment etc.

However Period of Prosperity does not Continue for long Period. After Peak Point, there is beginning of recession.

2) Recession Phase :-

" The Recession is the Period of Slowing down of economy "

This phase begins when downward Process in growth rate become Slow. During this Period

Output, employment, Price, stock, Profit etc. start declining. The banks and the People try to get greater liquidity. After Peak Period, in some Sections, the demand start declining. Recession is generally lasts for a short Period.

Features of Recession :-

i) Reduction in Output of goods and services.
ii) Reduction in income and employment.
iii) Fall in Prices
iv) Fall in Consumption Demand
v) Fall in level of MEC and investment.
vi) Fall in Credit facilities
vii) Fall in Price of securities in stock market.
viii) Decline in Production and Business activity.
ix) Rise in Bank reserves etc.

Recession may be mild (Small Period) or Severe (Long Period). Severe recession leads to Sudden crisis. If recession continue for Long Period then Period of Depression will begin.

3) Depression phase :-

" A Depression is a Period of Low Economic Activity"
During Depression we observe continuous contraction of Output, income, employment, Prices and Profits. There is a fall in Standard of Living of economy.

Features OF Depression :-

i) Fall in level of Income and Employment.
ii) Fall in Production and Consumption.
iii) Fall in the Volume of output, trade and transactions
iv) Fall in MEC and Investment
v) Fall in Credit facilities
vi) Fall in Interest rate.
vii) Fall in the Prices of securities in Stock market.
viii) Less Utilisation of resources
ix) A Price Deflation etc.

However, a depression cannot remain as Permanent feature of an economy. During this Period government Put efforts to increase Production, consumption, income, employment etc. Government efforts Put an end to depression Period as soon as possible for it. With Government efforts, there is end of Depression Period and Recovery starts.

(4) Recovery phase :-

" The recovery phase is the turning Point from depression to expansion Period "

Various Internal and External factors responsible for recovery Period from depression Period.

During recovery Period, demand start rising, demand for,- Production, consumption, out Put,

Investment etc. start rising slowly in economy. Now Revival will slowly convert into Prosperity.

Features of Recovery Period :-

i) Slow rise in Output, Trade and transactions.
ii) Slow rise in level of employment.
iii) Slow rise in Consumption and Production.
iv) Increase in credit facilities
v) Rise in Purchasing Power.
vi) Rise in Price of Securities in stock market.
vii) Rise in Profits of Entrepreneur.
viii) Better Utilisation of Resources etc.

When recovery Period will continue for long Period, then it will turn in Prosperity.

During Expansion we observe Inflation and during Contraction we observe Deflation.