

# Business Cycle

Business cycles are repeated fluctuations in economic activity. Cyclical changes arise from the interaction of many economic factors, including changes in capital investment, monetary or fiscal policy, consumer spending, and events such as war or international crises.

Each phase of the business cycle has certain characteristics. During **peak or prosperity**, businesses expand and employment is high. Creditors lend money freely; wages, consumer spending, and prices rise. **Contraction** begins when production begins to slow some because most people who want a good have already purchased the good. As the business cycle moves downward a recession might occur. During a **recession**, businesses readjust to reduced demand, unemployment rises, consumer spending and prices fall, and creditors restrict loans. If the recession continues or worsens, it becomes a **depression**. The lowest point of a depression is called a **trough**. Eventually, technology, government programs, international developments, or low depression prices cause an increase in demand. As business adjusts and begins to expand again, the cycle moves upward through a **recovery or expansion** phase – back to peak or prosperity.

Identify the phase of the business cycle described in each statement below.

- \_\_\_\_\_ 1. Stores continue to place large orders to keep up with growing demand.
- \_\_\_\_\_ 2. Business surpluses accumulate because consumer demand has fallen off.
- \_\_\_\_\_ 3. Depression prices lead to increased demand for certain goods and services.
- \_\_\_\_\_ 4. Consumers begin to cut back on spending for luxuries such as entertainment.
- \_\_\_\_\_ 5. There is a boom in vacation real estate investments.
- \_\_\_\_\_ 6. Car dealers lower prices and offer rebates to attract customers.
- \_\_\_\_\_ 7. A large number of major corporations and banks go out of business.
- \_\_\_\_\_ 8. New high tech businesses begin hiring many of the unemployed.
- \_\_\_\_\_ 9. The number of banks loaning money to prospective homeowners reaches an all-time high.
- \_\_\_\_\_ 10. Stock prices plummet and unemployment is widespread.

**Read the case study below, and then on the line next to each time of life, write the letter of the business cycle phase that corresponds with the time. You will use one of the phases twice.**

My grandfather has many memories. When he was a child, everyone was singing “Happy Days Are Here Again.” His mother had a fur coat; the family had a new car and a nice house. As a teenager, Grandpa tried to get a job, but the local factories were decreasing production. By the time Grandpa graduated, his family could not pay the mortgage on its house and had to move in with friends. There were no jobs for my grandfather or for anyone else. Later, when Grandpa was married, the economy was improving; he found a part-time job. After Mom was born, Grandpa got a good full-time job, and he was able to buy his first car.

**Time of Life:**

**Phase of Business Cycle:**

- |                     |                       |
|---------------------|-----------------------|
| _____ childhood     | a. recovery           |
| _____ teenager      | b. depression         |
| _____ graduate      | c. peak or prosperity |
| _____ newly married | d. recession          |
| _____ parent        |                       |