

[7.2] Business Cycles



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Learning Objectives

- Analyze business cycles using economic data.
- Describe four factors that keep business cycles going.
- Explain how economists predict changes in business cycles.
- Analyze the impact of business cycles in U.S. history.

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Key Terms

- business cycle
- expansion
- economic growth
- peak,
- contraction,
- trough
- recession
- depression.
- Stagflation
- business investment
- leading indicators

Business Cycle Phases

Sometimes, you don't have to read the newspaper to tell how the economy is doing. You can see the signs all around you. They may be Help Wanted signs in front of local stores and factories—when the economy is doing well, businesses hire, and it's easier for you to find a part-time job. Or they may be Closed or Going Out of Business signs in the windows of those same businesses. You might even get an idea by counting the number of For Sale or Foreclosure signs where you live. The ups and downs of the economy affect us all.

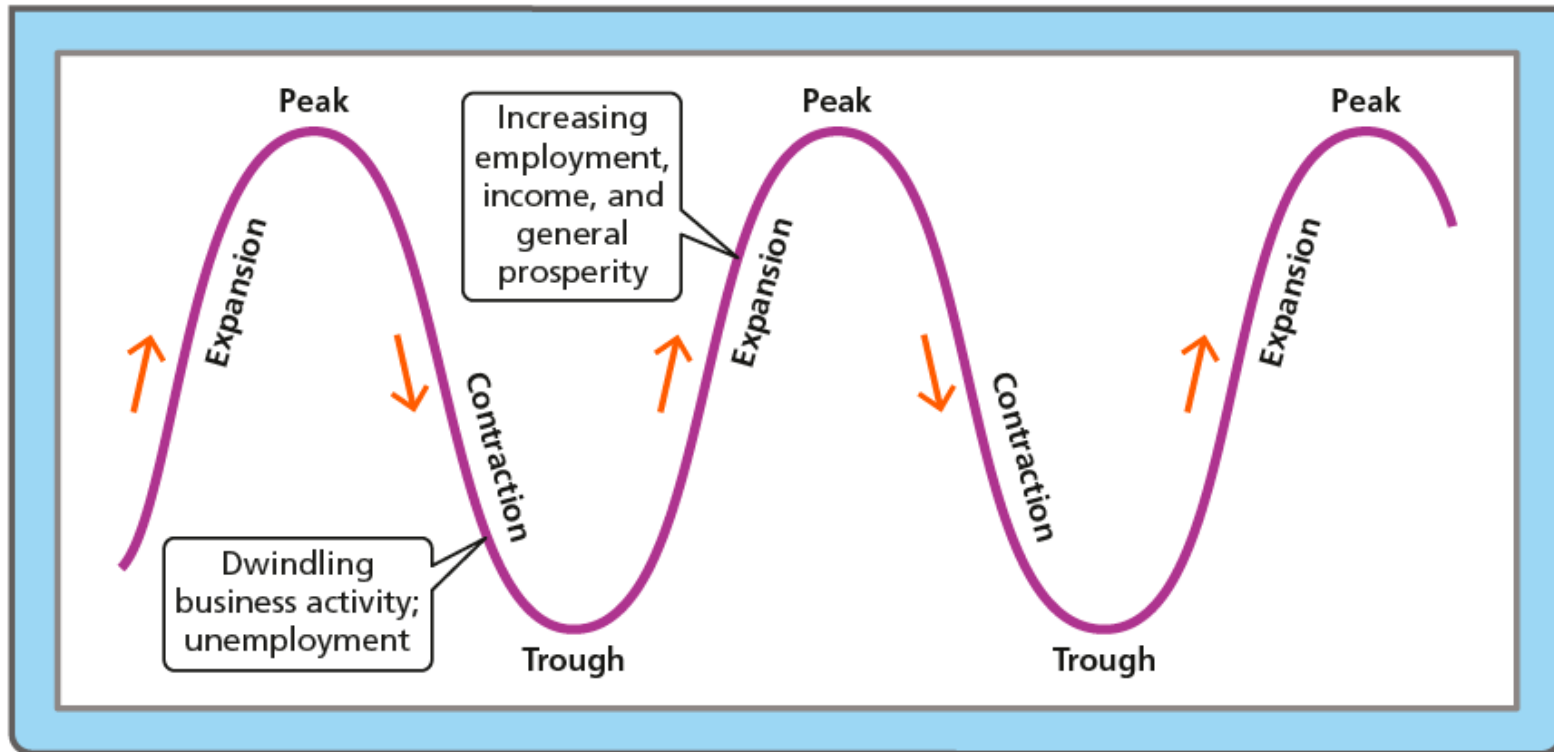
Business Cycle Phases



The number and type of job openings listed on sites such as this one offer a good clue as to how the economy is doing.

Business Cycle Phases

Tracking a Business Cycle



Analyze Information What is the point of slowest business activity in a business cycle called?

What Drives Business Cycles?

The shifts that occur during a business cycle have many causes, some more predictable than others. Often, two or more factors will combine to push the economy into the next phase of a business cycle. Typically, a sharp rise or drop in some important economic variable will set off a series of events that bring about the next phase. Business cycles are affected by four main economic variables:

What Drives Business Cycles?

- Why Businesses Make Investments
- The Cost of Credit
- Expectations Affect Spending
- Effects of External Shocks

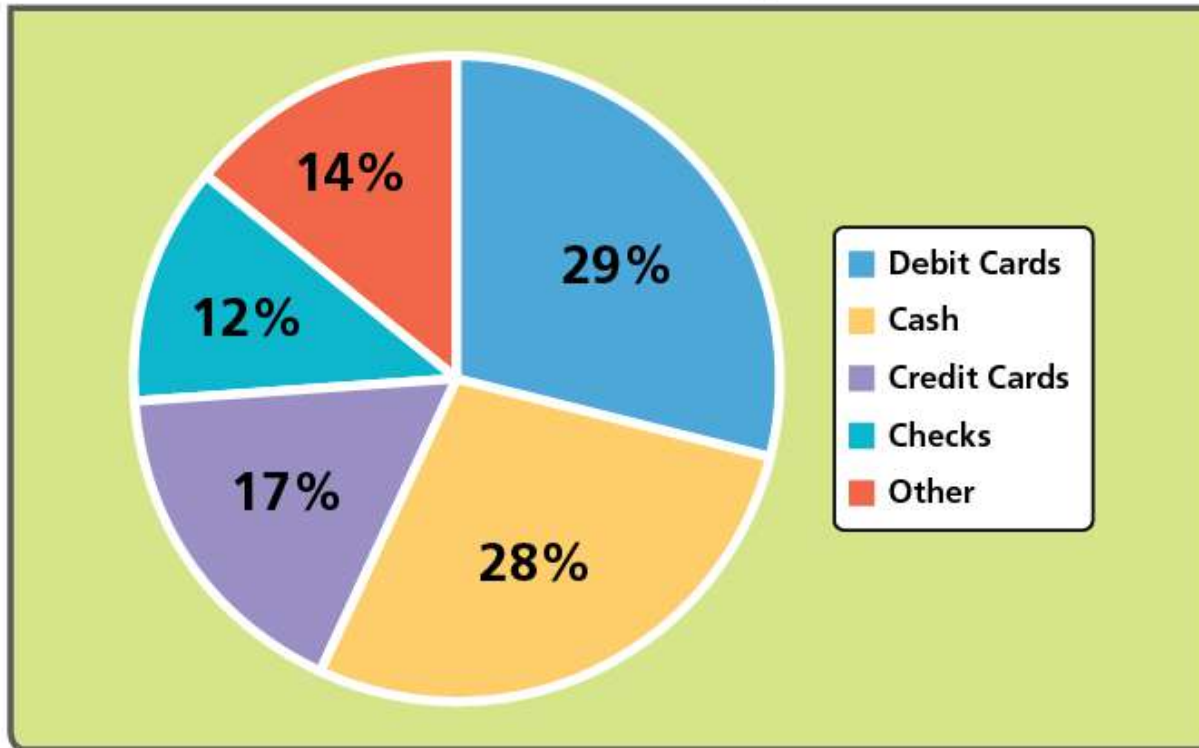
What Drives Business Cycles?



When the economy is growing, businesses invest in construction of new office or commercial buildings.

What Drives Business Cycles?

How Consumers Paid for Purchases, 2009



Use of credit cards fell during the recession, from over 21 percent of purchases in 2008 to about 17 percent in 2009. Analyze Graphs Why might the recession have affected credit card use?

Forecasting Business Cycles

Predicting changes in a business cycle is difficult. For example, in the summer of 1929, John J. Raskob, Senior Financial Officer of General Motors, declared his firm belief that the United States was on the verge of the greatest industrial expansion in its history.

Forecasting Business Cycles

Her
FINAL CHOICE MUST REST ON STYLE . . .
CHARM . . . INDIVIDUALITY

AFTER all . . . isn't a woman's
newspaper reader? Paris
clearly in the selection of such an
essential possession as a motor car.
Consider models and too has
been at a distance . . . Consider
the talk (among the men) about
transmission; gears; direction.
Not a word about style.
Not a word about those little
touches of individuality . . . that
distinguish the car from the
mechanical . . . All
good cars are mechanically good.

But Paige sets an style leader . . .
Modern upholstery . . . solid
metal panels . . . luxuriously
classical ornamentation . . . glow in
reflected light . . . when exterior
gears . . . cleverly placed and
seen . . . It is no wonder that
such a charming ensemble . . .
such a perfect blending of all
that is rare and good here . . .
has made Paige not only "The
Most Beautiful Car in America"
but the standard as well . . .
Buy as . . . of a nearby Paige
showroom . . . and
you'll see the great difference.

The Paige car shown here might appear a little large of bulk.
When you see it in person, you will find it is just what you need.

PAIGE

The
Most Beautiful Car
in America

The economic boom of the 1920s increased demand for luxury cars.

Forecasting Business Cycles

WHAT CAUSES A RECESSION?

A number of conditions and events may trigger a recession—or deepen a recession that has already begun.

1 PEAK

During a peak, businesses expand, spending is up, and unemployment and inflation are low.



2 CONTRACTION

Here is an example of a series of events that could lead to a recession.

A External Shock

War breaks out in a nation where U.S. banks and businesses have investments.



B Business Investment

The war cuts into the assets of U.S. firms, so they lay off workers and cut back on plans to expand.



C Interest Rates and Credit

As the war and threat of recession continues, banks are slower to extend credit. Interest rates creep up.



D Consumer Expectations

Predictions about a long recession discourage people from spending.



3 TROUGH

These factors lead to rising unemployment and dwindling business activity. In time, the cycle will move into a new phase of expansion.



Analyze Charts How do expectations by business leaders and consumers contribute to a recession?

Business Cycles in the United States

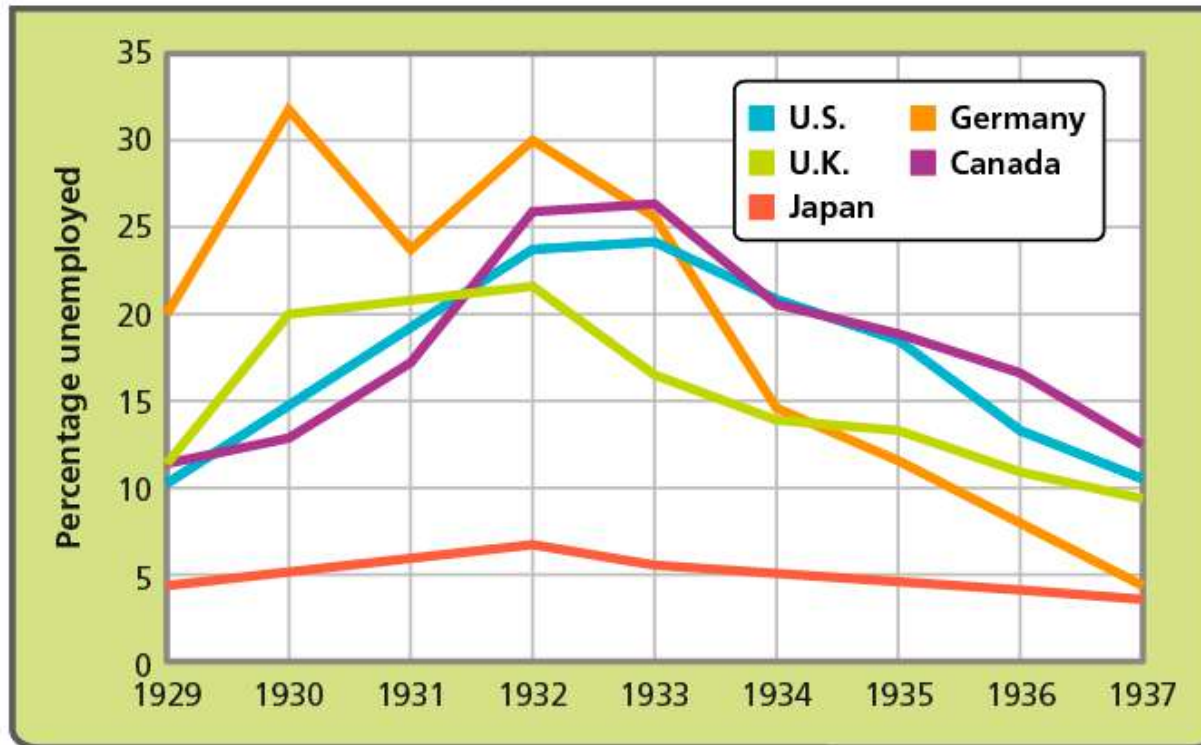
Economic activity in the United States has indeed followed a cyclical pattern. Periods of GDP growth alternate with periods of GDP decline.

Business Cycles in the United States

- The Great Depression
- More Recent Recessions
- The Present-Day Business Cycle

Business Cycles in the United States

Effects of the Great Depression



Analyze Graphs Which nations had the highest and lowest levels of unemployment in 1930? Which had the highest and lowest in 1937?

Business Cycles in the United States



President-elect Roosevelt gestures to the crowd on his inauguration day while outgoing President Hoover gazes downward.