

Business Cycle

Chapter 6-2

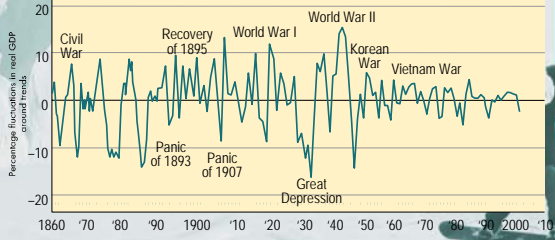
Business Cycles

- The *business cycle* is the upward and downward movement of economic activity that occurs around the growth trend.

Business Cycles

- There are a number of policies regarding business cycles.
- *Classical economists* generally favor **laissez-faire** or **noninterventionist** policies.
- *Keynesians* generally favor **activist** policies.

U. S. Business Cycles



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The Phases of the Business Cycle

- The **peak** is the top of the business cycle.
- A **boom** is a very high peak, representing a big jump in output.
- The **downturn** is the phenomenon of economic activity starting to fall from a peak.



The Phases of the Business Cycle

- A **recession** is a decline in output that persists for more than two consecutive quarters in a year.
- A **depression** is a large recession.
- A **trough** is the bottom of the recession or depression.

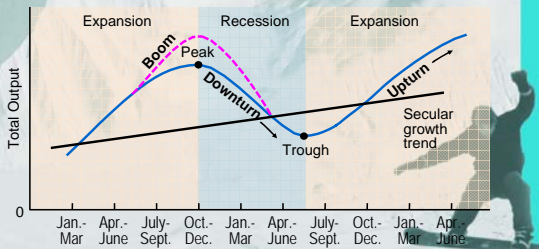


The Phases of the Business Cycle

- An *expansion* is an upturn that lasts at least two consecutive quarters of a year.



The Phases of the Business Cycle



Why Do Business Cycles Occur

- Recessions and expansions are caused primarily by demand-side of the economy.
- A debate exists about whether these fluctuations can and should be reduced.



Why Do Business Cycles Occur

- **Most economists believe that potential depressions should be offset by economic policy.**



Why Do Business Cycles Occur

- **Since the late 1940s, compared to prior years:**

- Downturns and panics have generally been less severe.
- The duration of business cycles has increased.
- The average length of expansions has increased while the average length of contractions has decreased.



Why Do Business Cycles Occur

- **Most economists believe that business fluctuations have become less severe because of the stronger role of government in the economy.**

- This is a Keynesian assertion of your book.
- Look at the historical data to see if this assertion is supported by facts or not!