

Chapter 4 Business Cycle

DMK1203

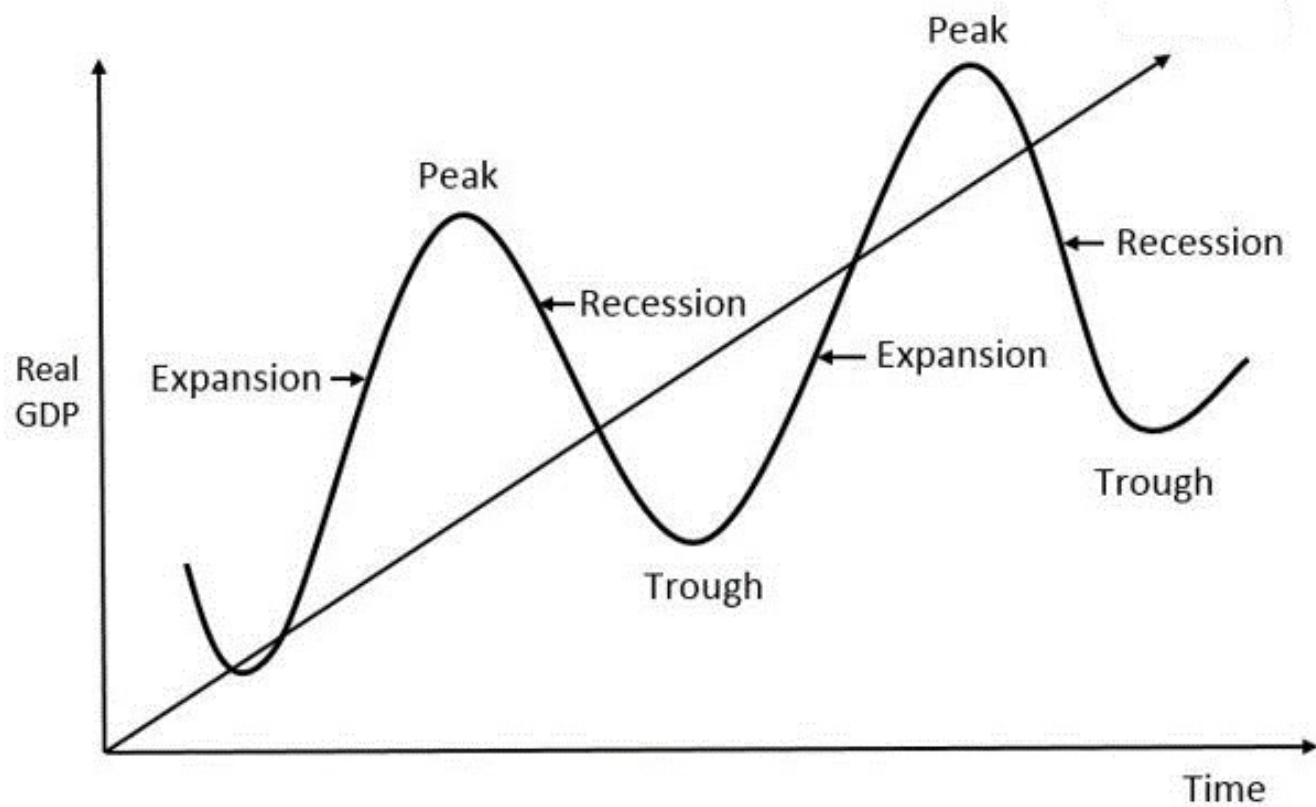
Fundamentals of Digital Marketing Business

Kathaleeya Chanda



Business Cycle

- is the expansion and contraction of the business which will revolve periodically, the up and down movement of the business will affect the economy in different ways Business cycles are often measured by fluctuations in national products. Industrial Production Index Employment and income, in general, the business cycle. There is no fixed time in each round.



Stages of the Business Cycle

Generally, a business cycle consists of 4 phases:

1. Expansion or Recovery
2. Peak
3. Recession or Contraction
4. Trough

Stages of the Business Cycle (Continued)

- **1. Expansion or Recovery** Refers to the period when the business began to recover from the economic downturn, production levels, employment, income and consumer spending. Increased purchase of new machine tools to replace old ones Investment is starting to grow as aggregate demand increases, causing producers to start selling and profiting. when the economy began to expand In addition to making the level of production, employment and the national income has expanded may affect make the price level rise until it becomes inflationary.

Stages of the Business Cycle (Continued)

- **2. Peak** It was during the period when the business was fully expanded to the peak of the economic system at that time. There is full employment and domestic output is already at the most efficient level of production. Inflation always occurs because people in general have more income and will spend more. This increases the demand for aggregate, while there may be a shortage of labor or a shortage of production factors, causing employees to demand more wages. Factors of production have increased in price, which resulted in higher production costs. Inflation.

Stages of the Business Cycle (Continued)

- **3. Recession or Contraction** After the business has gone through its most prosperous period. The economy will contract as the level of output, employment and income will begin to decline. Trade becomes sluggish and income eventually decreases. until entering the lowest state.

Stages of the Business Cycle (Continued)

- **4. Trough** The lowest economic period is periods of high unemployment and very low levels of consumer spending. Therefore, the amount of inventories can't sell, so there are a lot of them. Businesses are less profitable and many businesses suffer from loss of capital.

The period of economic recovery and prosperity is called **“Boom”**

The recession and recession period is called **“Slump”**



The Cause of the Business Cycle

- Theories that explain the cause of internal factors

(Endogeneous Theories) include:

- Innovation Theory
- Psychology Theory
- Inventory Cycle Theory
- Money Supply Theory
- Underspending Theory

Causes of the Business Cycle (Continued)

- Theories that explain the cause of external factors (Exogeneous Theories) include:
 - The Sunspot Theory
 - The occurrence of business cycles due to other factors.



Causes of the Business Cycle (Continued)

Endogenous Theories

Innovation Theory Any innovation or new invention will be initially resisted but will later be accepted. There was widespread plagiarism. make an investment More employment (Boom economy), but there will come a point where innovation becomes obsolete, production stagnates, investment decreases (Slump economy) until there is innovation. Therefore, it will enter a new “Boom” phase.

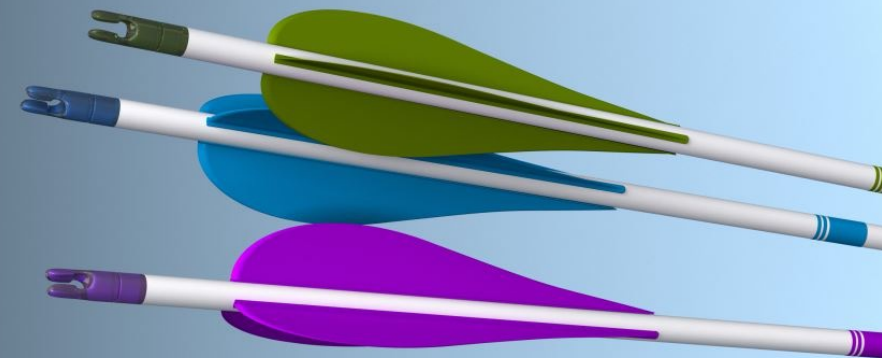


Causes of the Business Cycle (Continued)

Endogenous Theories

Psychological theory Any innovation or new invention will be initially resisted but will later be accepted. There was widespread plagiarism. make an investment More employment (Boom economy), but there will come a point where innovation becomes obsolete, production stagnates, investment decreases (Slump economy) until there is innovation. Therefore, it will enter a new “Boom” phase.

Inventory Cycle Theory If the inventory is low It is likely to lead to more production, more employment (Boom), but when more and more production is produced, the accumulated inventory increases too much. Likely to reduce production (Slump).



Causes of the Business Cycle (Continued)

Endogenous Theories

Monetary Theory If the central bank Seeing that the amount of money in the system is too much to proceed measures to reduce the amount of money As a result, the economy slowed down. and enter into a slump state, but if you see that the amount of money is small If there is too much money, it will increase the money supply, causing the economy to recover and expand (Boom).



Causes of the Business Cycle (Continued)

Endogenous Theories

Underconsumption Theory or overproduction

(Overproduction Theory) Oversupply leads to more production, less employment, lower income (Slump).

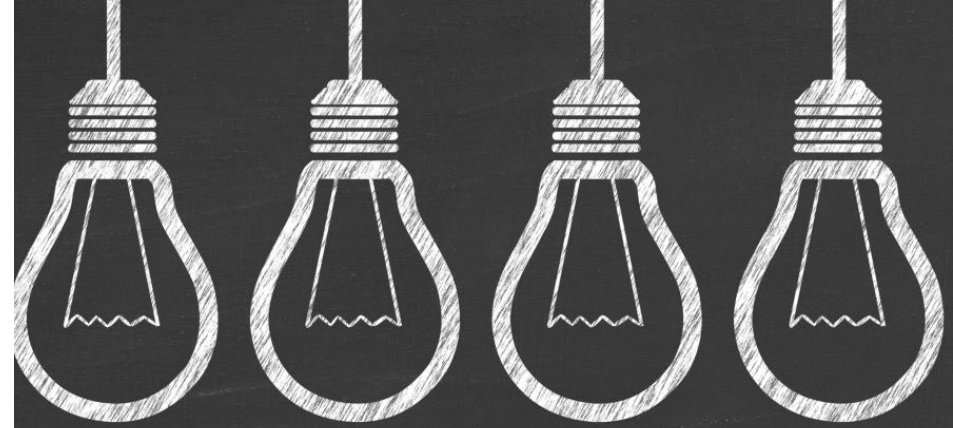


Causes of the Business Cycle (Continued)

Exogenous Theories

Sunspot Theory Based on the concept of W.S.Jevons, it can be explained that the occurrence of blackspots Sunday will periodically lead to a recession and a recession. period followed by due to sunspots in the sun tends to cause turbulence Agricultural production was badly damaged.

other factors such as war political unrest, etc.



Economic Cycle Measures

Economic Cycle Measures It is useful in forecasting economic conditions in advance. in order to plan the administration of the country The popular method is to bring economic variables that are considered important to be prepared in the form of an index (Index), such

Leading Indicator

Lagging Indicator

Coincident Indicator

A close-up photograph of a chessboard with several dark wooden pieces. In the foreground, a light-colored piece is lying on its side. The word "END" is written in white, bold, sans-serif capital letters in the center of the image. The background is softly blurred with warm, bokeh light spots.

END