Business cycle

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Source: *The Hindu*

Manifest pedagogy: Huge disruptions and global lockdowns due to the coronavirus may cause both a demand and supply bottleneck for the first time. This has created a fear of forthcoming post corona economy and how it would reshape the way we work.

In news: COVID-19 likely to cause global recession

Placing it in syllabus: Business cycle

Static dimensions:

- What is a business cycle?
- Recessions in the past

Current dimensions:

- COVID 19 and recession various estimates

Content:

What is a business cycle?

- Business cycles are **fluctuations in economic activity** that an economy experiences over a period of time.
- Business cycles are generally **measured using the rise and fall in the real gross domestic product (GDP)** or the GDP adjusted for inflation.
- It is also known as the **economic cycle or trade cycle.**

The stages in the business cycle include expansion, peak, recession or contraction, depression, trough, and recovery. Business cycles are **measured by the National Bureau of Economic Research in the United States.**

Expansion:

- This is the first stage.
- When the expansion occurs, there is an increase in employment, incomes, production and sales.
- The economy has a steady flow in the money supply and investment is booming.

Peak

- Peak is when the economy hits a snag, having reached the maximum level of growth.
- Prices hit their highest level, and economic indicators stop growing.

Recession

- **This is a period of contraction.**
- During a recession, unemployment rises, production slows down, sales start to drop because of a decline in demand, and incomes become stagnant or decline.

Depression

- Economic growth continues to drop while unemployment rises and production plummets.
- Trade is reduced, and bankruptcies start to increase.
- Consumer confidence and investment levels also drop.

Trough

- This period marks the end of the depression, leading an economy into *recovery*.

Recovery

- The economy starts to turn around.
- Low prices spur an increase in demand, employment and production start to rise, and lenders start to open up

their credit coffers.
- This stage marks the end of one business cycle.

Recessions in the past:

- **The Post-War Recession: (November 1948 – October 1949)** – As returning veterans returned to the workforce in large numbers to compete for jobs with existing civilian workers who had entered the workforce during the war, unemployment began to rise.
- **The Nixon Recession: (December 1969 – November 1970)** – Increasing inflation caused the US government to employ a very restrictive monetary policy.
- **The Oil Crisis Recession: (November 1973 – March 1975)** – This long, deep recession was brought on by the quadrupling of oil prices and high government spending on the Vietnam War, which further led to stagflation and high unemployment.
- **The Iran/Energy Crisis Recession: (July 1981 – November 1982)** – This long and deep recession was caused by the regime change in Iran, which exported oil at inconsistent intervals and at lower volumes, forcing prices higher.
- **The Gulf War Recession: (July 1990 – March 1991)** – Iraq invaded Kuwait. This resulted in a spike in the price of oil in 1990, which caused manufacturing trade sales to decline.
- **The 9/11 Recession: (March 2001 – November 2001)** – The collapse of the dotcom bubble, the 9/11 attacks contributed to this relatively mild contraction of the U.S. economy.
- **The Subprime mortgage crisis/ Great Recession: (2007)** – It was a period of marked general recession observed in national economies globally. It was concluded as the most severe economic and financial meltdown since the Great Depression by the IMF. The emergence of sub-prime loan losses in the US in 2007 began the crisis and

exposed other risky loans and over-inflated asset prices.

COVID 19 and recession:

- According to the latest United Nations Conference on Trade and Development (**UNCTAD)** analysis, the **world economy will go into recession due to the coronavirus pandemic.**
- The commodity-rich exporting countries will face **a $2-$3 trillion drop in investments from overseas** in the next two years.
- This would spell **serious trouble for developing countries, with the exception of China and India.**
- However, an explanation as to why and how India and China will be the exceptions is not given in the report.
- **Fiscal and forex constraints are bound to tighten** further over the course of the year.
- UNCTAD has hence called for a **$2.5 trillion rescue package** for these nations.

It has proposed the following steps to mitigate Covid-19’s economic fallout:

- **A $1 trillion liquidity injection** for those being left behind through reallocating existing special drawing rights at the IMF.
- Another $1 trillion dollars of **debts owed by developing countries should be cancelled** this year.
- A **$500 billion Marshall Plan for health recovery** funded from official development assistance by development partners.