

A white modern chair with wooden legs is positioned on the left side of the image. The background is a dark, textured wall with a marble-like pattern. A black rectangular box is overlaid on the right side of the image, containing the title and a definition.

TRADE CYCLE

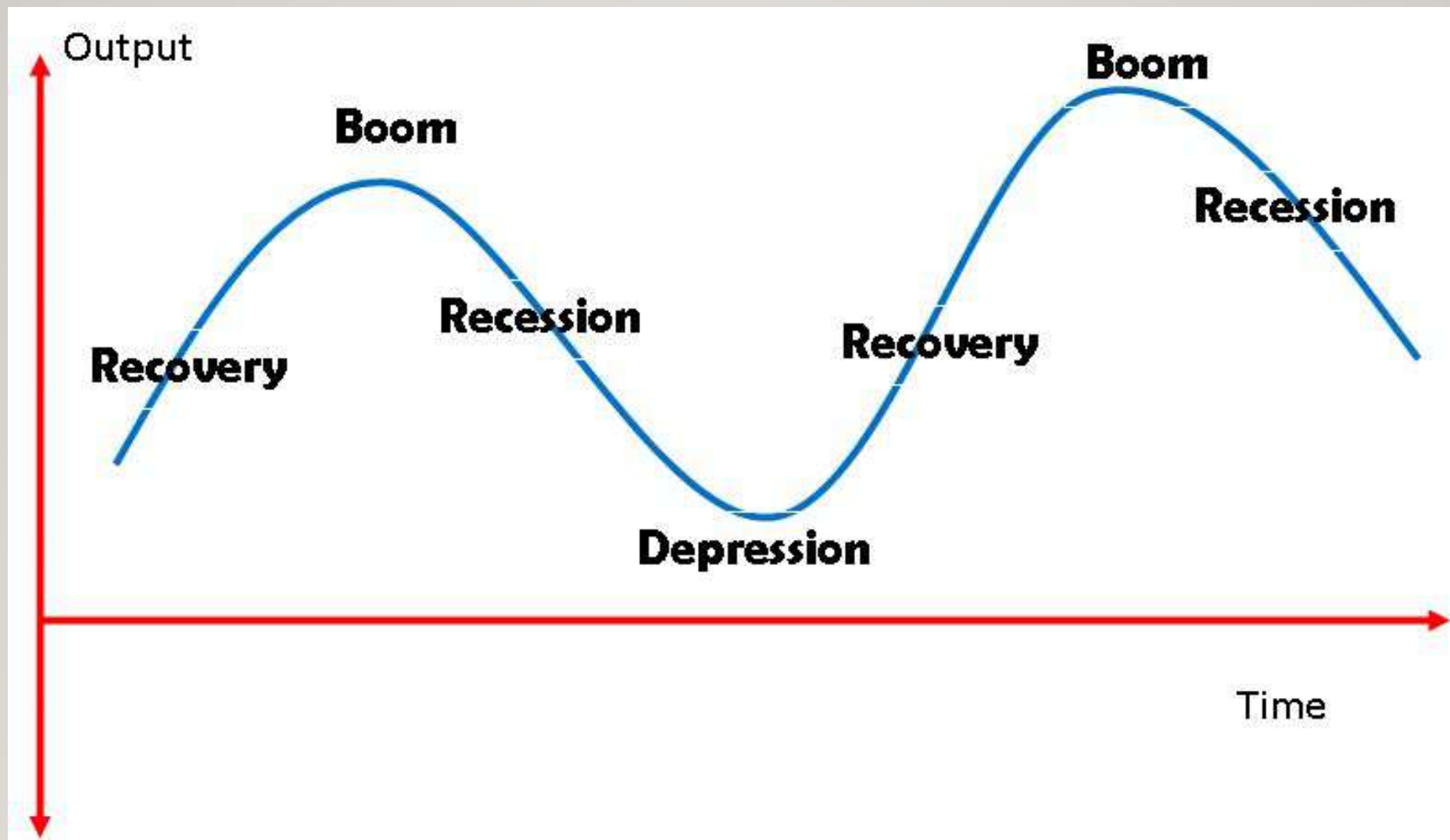
THE BUSINESS OR TRADE CYCLE IS A PART OF CAPITALISTIC SYSTEM. IT REFERS TO THE PHENOMENA OF CYCLICAL CHANGES LIKE BOOM & DEPRESSION. IN A BUSINESS CYCLE THERE ARE WAVES LIKE FLUCTUATION IN AGGREGATE INCOME, EMPLOYMENT, OUTPUT & PRICES.

PHASES OF TRADE CYCLE

According to **Prof. Schumpeter**, a trade cycle can have 4 phases :

- (1) Expansion or Boom,
- (2) Recession,
- (3) Depression or Trough or Contraction, and
- (4) Recovery.

The following figure illustrates it :



• **EXPANSION or BOOM**

This phase of the business cycle represents the best stage of prosperity. The objective of the national economy policy of each country is to attain this stage. In this phase, hectic economic activities go on & factors of production are put to optimum use. The main features of this phase are discussed below :

- Income & Production is maximum.
- The economy reaches full employment by removing unemployment.
- Price rises are very high.
- Wage rate is also very high.
- Traders earn huge profits.
- There is expansion of bank credit.
- Consumption Expenditure increases, as a result demand also increase.
- R.O.I. increases; but increased ROI is less than the Rate of Profit.

There are initial signs of recession in economy.



• RECESSION

The seeds of recession are sown in the period of prosperity. In the period of prosperity, scarcity of labour, raw material etc. leads to rise in cost. As a result, profit margin declines due to which some firms close down and others will reduce their production and the result will be that the investment, income, employment will fall. The main phase features of this phase are discussed below :

- There is fall in income and output.
- Unemployment level among workers increases.
- Prices begin to fall.
- Wages also start declining.
- Profit level falls and there is no view of borrowing.
- Multiplier works in reverse direction. Consequently incomes declines many more times than the fall in investment.
- The demands of consumers for various goods will fall.

• DEPRESSION

In the stage of depression, there is mass unemployment in economy where general price level will fall, wages, profits, consumption also falls and the economic activities comes to a stand.

The main features of this stage are discussed below :

- Level of output and income is very low.
- Unemployment level increases.
- Price level falls.
- Volume of profits fall sharply. Despite ROI falls. The inducement to invest is very low.
- The demand for credit falls.
- Old machines are not replaced. Therefore, the demand for capital goods tends to fall.
- There is a pessimism all around economy.

But sooner or later in this phase, the forces set in will bring the depression phase to the end.



• RECOVERY

The forces leading to recovery may be exogenous for instance. Suppose semi-durable goods are required to be replaced which leads to new investment. Similarly, consumption fails to fall in the same proportion as income falls because people try to maintain their previous standard of living. Therefore, savings of boom phase are spent. It generate demand in economy. This leads to recovery in the economy.

The main features of this stage are discussed below :

- Replacement investment results into increase in income and output.
- Employment level increases.
- Demand for consumption and production goods increases.
- Prices tends to rise.
- There will be more profit in an economy.
- Investment also tends to rise.
- Demand for bank loan increases.
- Pessimism gives phase to optimism.

CONCLUSION

In the end we can say that economic activities are more in circular manner and there are certain features in every phase which makes particular stage unstable.

A photograph of a staircase with a black rectangular overlay. The text 'THANK YOU!' is written in white, bold, sans-serif font on the black background. A thin red horizontal line is positioned below the text.

THANK YOU!