

Business Cycles (Economics)

It might seem somewhat random when the economy encounters a downturn, companies struggle, and prices rise, but the process is actually the direct result of a number of specific factors, including business cycles. Business cycles refer to the periods of various success, struggle, and medium-quality profits encountered by companies in the normal course of the economy; these periods affect every individual. In other words, businesses may offer a service at an affordable price at one point in time and fail to become profitable, but may then see this same service bring in tons of cash at a later point; the difference isn't the business, but rather, is the economy.

When the economy is "good" - something that's characterized by low unemployment, low inflation, rising wages, and more - most businesses experience a boom, or an increase in profits and success. There are once again a variety of factors that contribute to booms (some of which are uncontrollable), but the short explanation of the occurrences is that when people have more money to spend, businesses have more money to make. Similarly, businesses experience a bust, or a decrease in profits and success, when the economy falters. For most people, a sagging economy means it might be hard to find work and pay bills; for businesses, a sagging economy means it might be difficult to stay in operation.

Business contractions, or normal periods of reduction in business after prolonged growth, occur regularly and vary in severity. Eventually, employers will require a smaller amount of help because consumers are purchasing less (after all, almost nobody buys new and expensive things all the time), unemployment will accordingly increase, wages will fall, and so on and so forth. Recessions, or multi-month-long declines in wages, general economic activity, and most importantly, GDP, are more serious than business contractions. Recessions last longer than business contractions, can be more severe, and can signal larger problems in the economy.

Did you understand the text?

1) What are business cycles?

- a) The periods of various success, struggle, and medium-quality profits encountered by companies in the normal course of the economy
- b) Times when businesses have record profits in an economy with full employment and stable growth rate
- c) Times when businesses are recording record losses
- d) The periods wherein businesses neither lose nor make money

2) What is the difference between a boom and a bust?

- a) Booms feature economic growth; busts feature economic downturn
- b) Booms help businesses and consumers financially; busts harm them
- c) Booms and busts are basically the same
- d) A and B

3) What are business contractions?

- a) Periods during which the economy shrinks by 50-60%
- b) Periods during which entire states' economies are completely destroyed
- c) Normal periods of reduction in business after prolonged growth
- d) Normal periods of rapid economic growth after a long period of increasing wages

4) How are recessions different than business contractions?

- a) They last longer - usually at least a few months
- b) They are characterized by GDP decreases
- c) They can indicate larger problems with the economy
- d) All of the above

5) Which of the following are affected by boom and bust cycles?

- a) Only businesses are affected
- b) Only consumers are affected
- c) Both businesses and consumers are affected
- d) Neither businesses nor consumers are affected