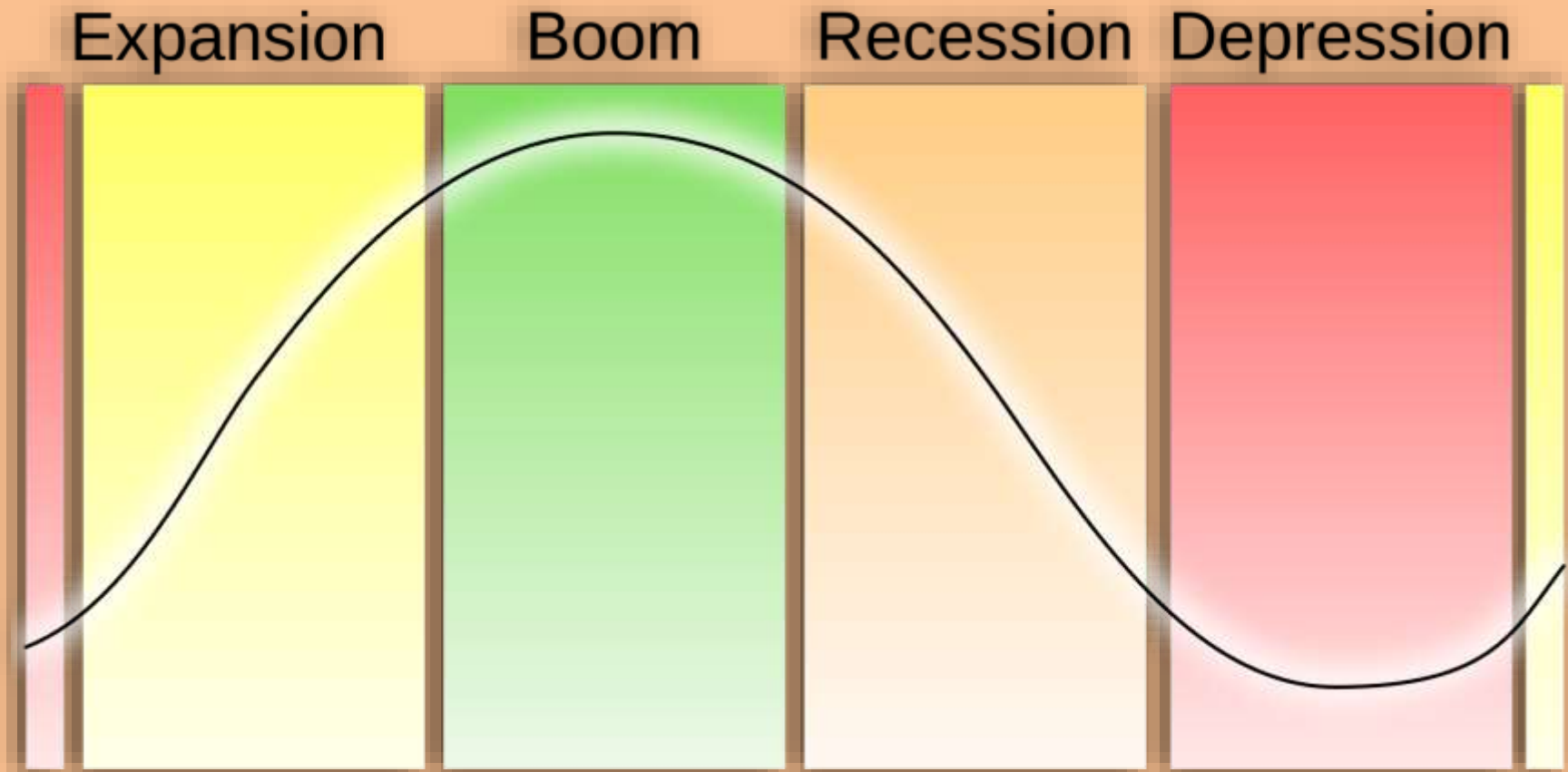


# NATURE OF TRADE CYCLE



# TRADE CYCLE

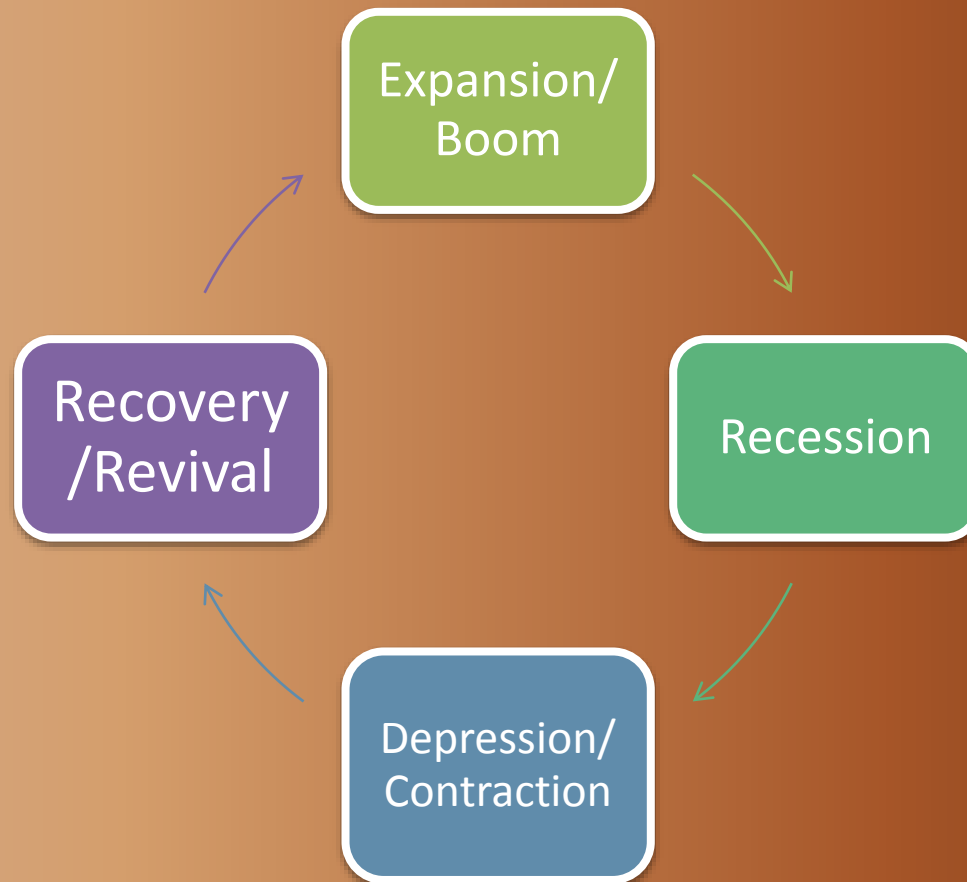
**Trade cycles** are **Ups and Downs or fluctuations** in the level of Economic Activity or in production which extend over to a period of several months or years.

## DEFINITIONS:-

❖ “That business cycle is a fluctuation in employment, output and Prices.”  
-By HANSEN

❖ “A trade cycle is composed of periods of good trade characterized by rising prices and low unemployment percentage, with periods of bad trade characterized by following prices and high unemployment percentages.”  
-By J.M.KYNES

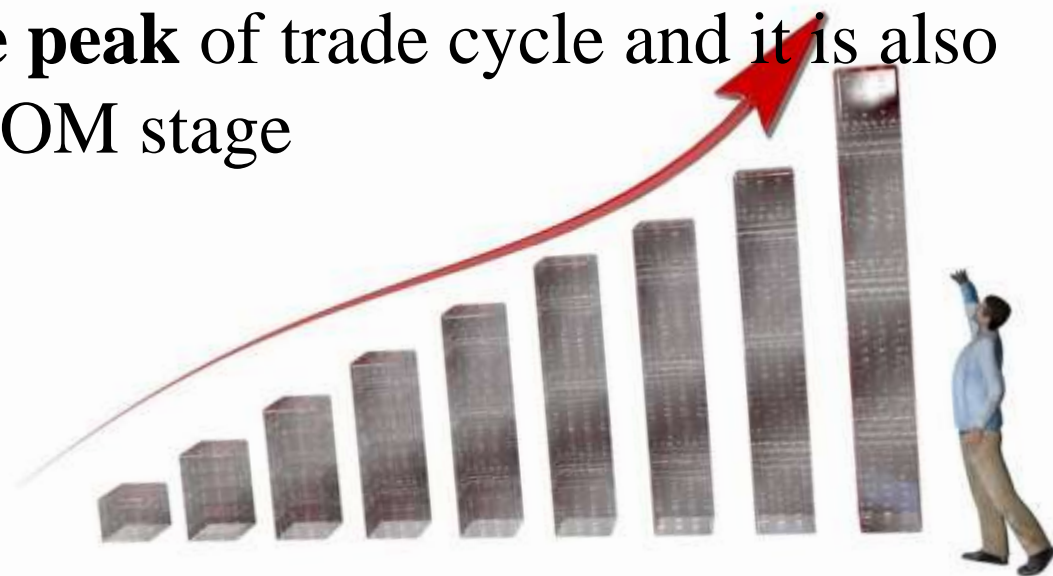
# PHASE OF TRADE CYCLE



# EXPANSION

**Expansion** is characterized by high capital investment in basic industries as a result high stocks, high prices, high profits and over-full employment.

This stage is **the peak** of trade cycle and it is also termed as BOOM stage



# CHARACTERISTICS OF EXPANSION

**Demand for Consumer  
goods and Production  
rises**

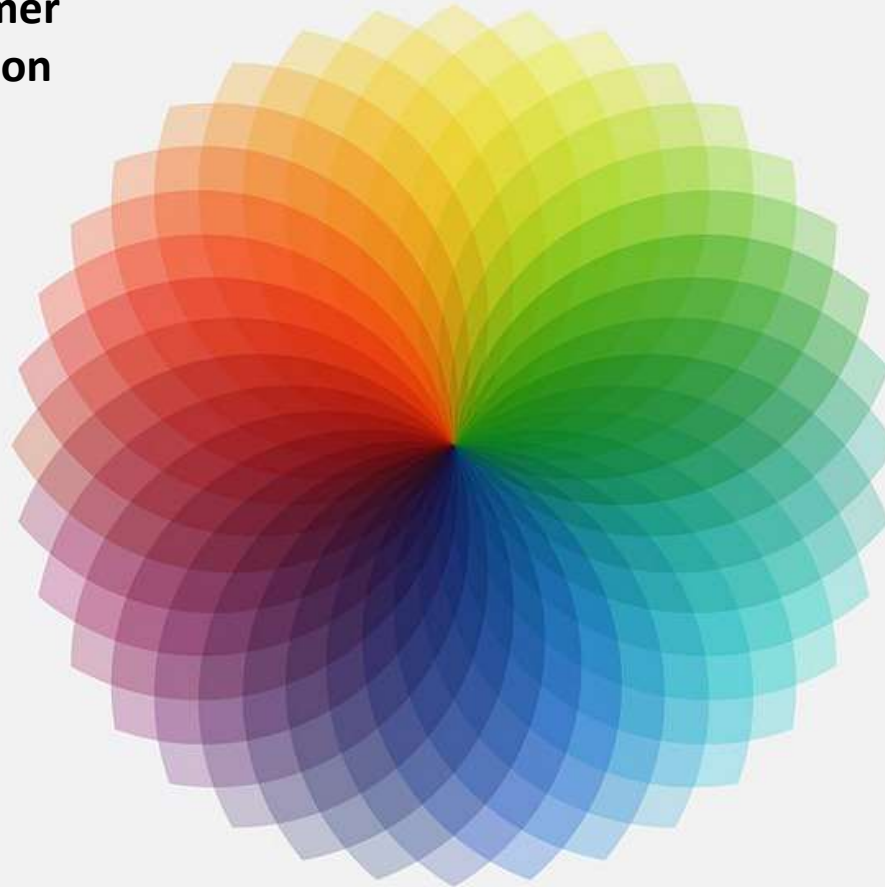
**Demand, Output,  
Employment and Income  
are at a high level**

**Liberal bank  
credit**

**Rise in Price Level**

**Investment  
increases**

**More profits**



# RECESSION

**In this stage most business enterprises fail, prices collapse and confidence is shaken. Building construction slows down and unemployment increases.**

**There is fall in income, expenditure, demand, prices and profits.**

**The recession will have cumulative effect on the working of the economy.**



**Hurrah!**

# CHARACTERISTIC OF RECESSION

**Fall In Income  
And Output  
Level**

**Increase In  
Unemployment**

**Fall In Prices**

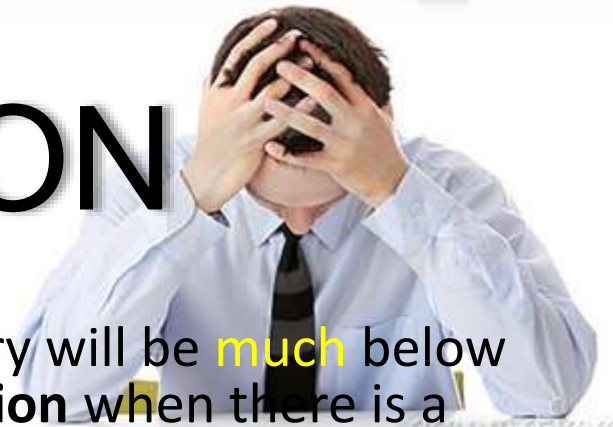
**Liquidation In  
Stock Market**

**Strain In  
Banking System**

**Decline In  
Profits**

**Fall In  
Investment**

# DEPRESSION



During this period business activity in the country will be **much** below the normal level. **Recession leads to depression** when there is a general decline in economic activity.

**It is characterized by shortfall in production, mass unemployment, fall in prices, low wages, contraction of credit, a high rate of business failures and an atmosphere of all round pessimism.**

The general decline in economic activity leads to a fall in bank deposits.

Credit expansion stops because the business community is not willing to borrow. Bank rate falls considerably.



# CHARACTERISTIC OF DEPRESSION

**Mass  
Unemployment**

Fall in Prices,  
**Profits**, Wages,  
**Interest Rate**,  
Consumption,  
Expenditure,  
**Investment**,  
Bank Deposit,  
and Loans

Factories  
closedown

Fall in Profits

# RECOVERY

During depression shortage of goods is experienced. In result investment increases. The price and wages increases. The recovery may take place due to following reasons:

- ❑ New government expenditure
- ❑ Exploitation of new sources of energy.
- ❑ Innovation
- ❑ Investment in new areas.
- ❑ Changes in technologies of production.



# CHARACTERISTIC OF RECOVERY

**Increase in investment**

**Increase in employment and demand for product**

**Increase in output and profits**

**Business expectations improve**

**Expansion in Bank Credit**

# Factor responsible for Trade Cycle

- Monetary Factors
- Innovation and Productive Shock
- Rise & Fall of Investment
- Multiplier & Acceleration Forces
- Supply Shock
- Movement in Prices & Wages
- Political Factor

# Conclusion

The two most important in order to ensure economics stability establishment and to control frequent fluctuation in trade cycle, government adopt the two most importance policy.

- a) **Monetary policy**: Under which various instrument of money supply like bank rate, open market operation, SLR, CRR, etc are use to control the volume of money.
- b) **Fiscal policy** which is use to increase aggregate demand by reducing the taxes and increasing expenditure when there is depression period. During Inflation phase government reduce the public expenditure and increase the demand in the economy.

**THANK YOU!!!**