- Analyze the business cycle and explain how each phase influences consumers.

Business cycle

- Irregular changes in the level of total output as measured by GDP- AKA the ups and downs of an economy
- Business cycles are a normal part of every day economics in modernized countries: all economies face periods of inflation/expansion and contraction/ recession

Phases

1. Peak

   Phase of prosperity in a business cycle in which economic activity is at its highest point

2. Contraction/recession

   Phase of the business cycle in which the economic activity is slowing down

   Recession-Nations output does not grow for at least two quarters

   Depression- major slowdown of economic activity

3. Trough

Lowest phase of the business cycle in which the downturn of the economy begins to level out- AKA it doesn’t get worse then this

4. Expansion/inflation

Phase of the business cycle in which economic activity begin to recover/ slowly increase

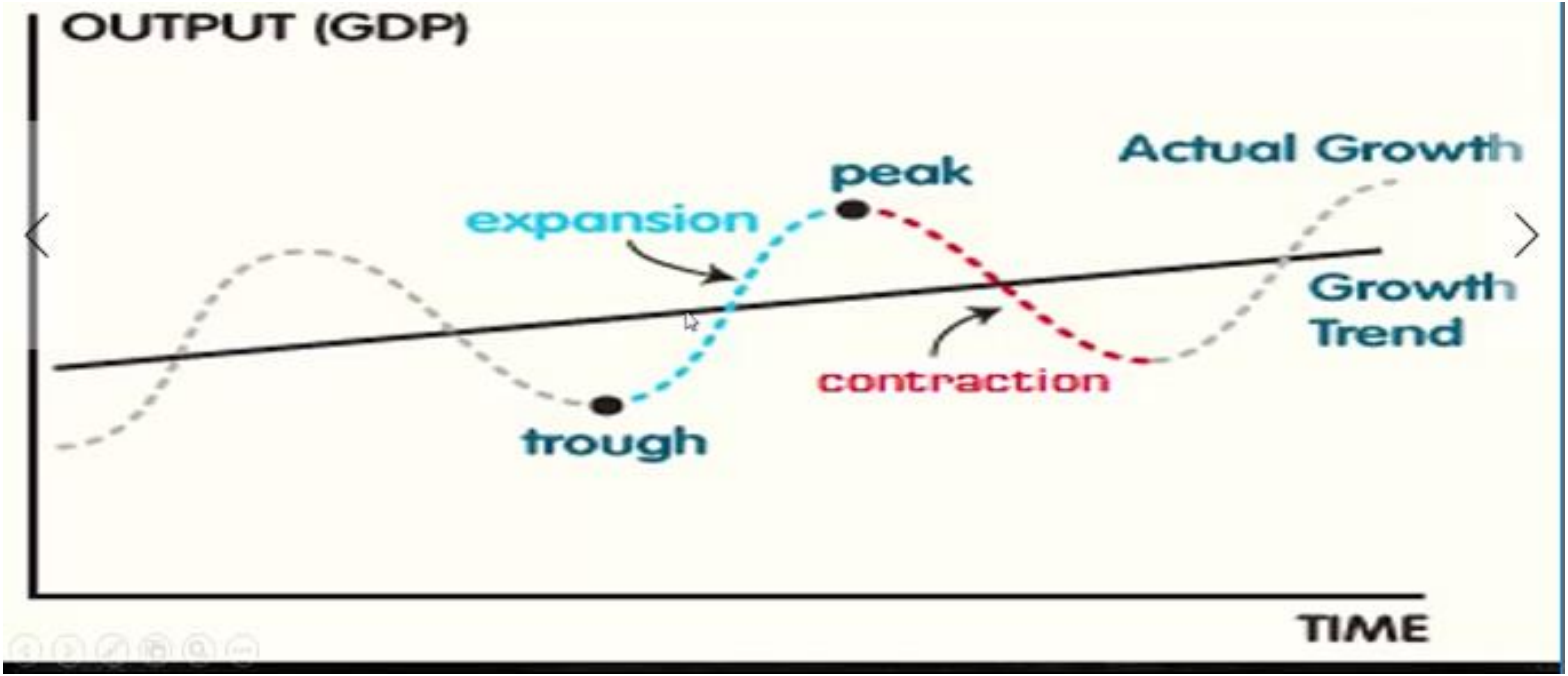
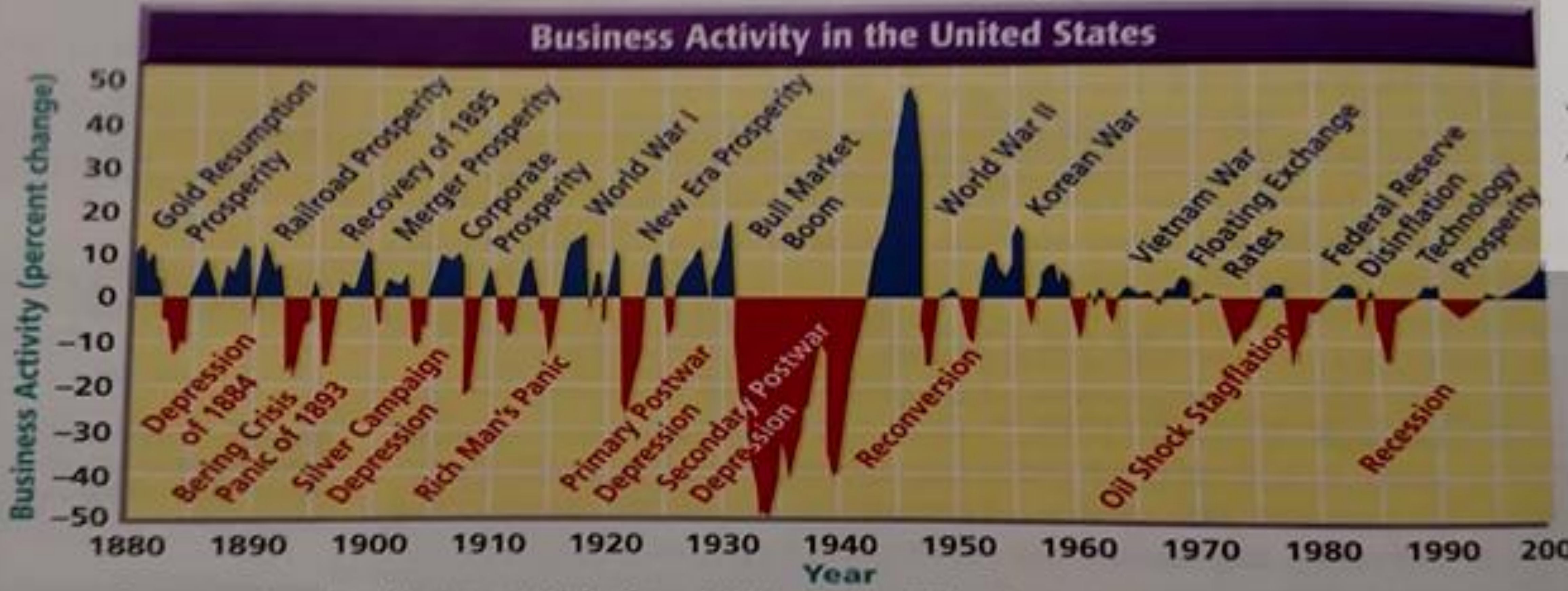

OUTPUT (GDP)
Actual Growth
peak
expansion
Growth
Trend
contraction
trough
TIME

FIGURE 13.12 **Business Activity** American business activity declined about 50 percent during the Great Depression, yet bounced back to new highs after World War II.



Sources: *American Business Activity from 1790 to Today*, 67th ed., AmeriTrust Co., January 1996; plus author's projections

Problems

- Can not predict the future
- Hindsight is 20/20

What is economic activity

- GDP, unemployment rates, consumer spending, factory/business output Business opening/closing