

The Business Cycle

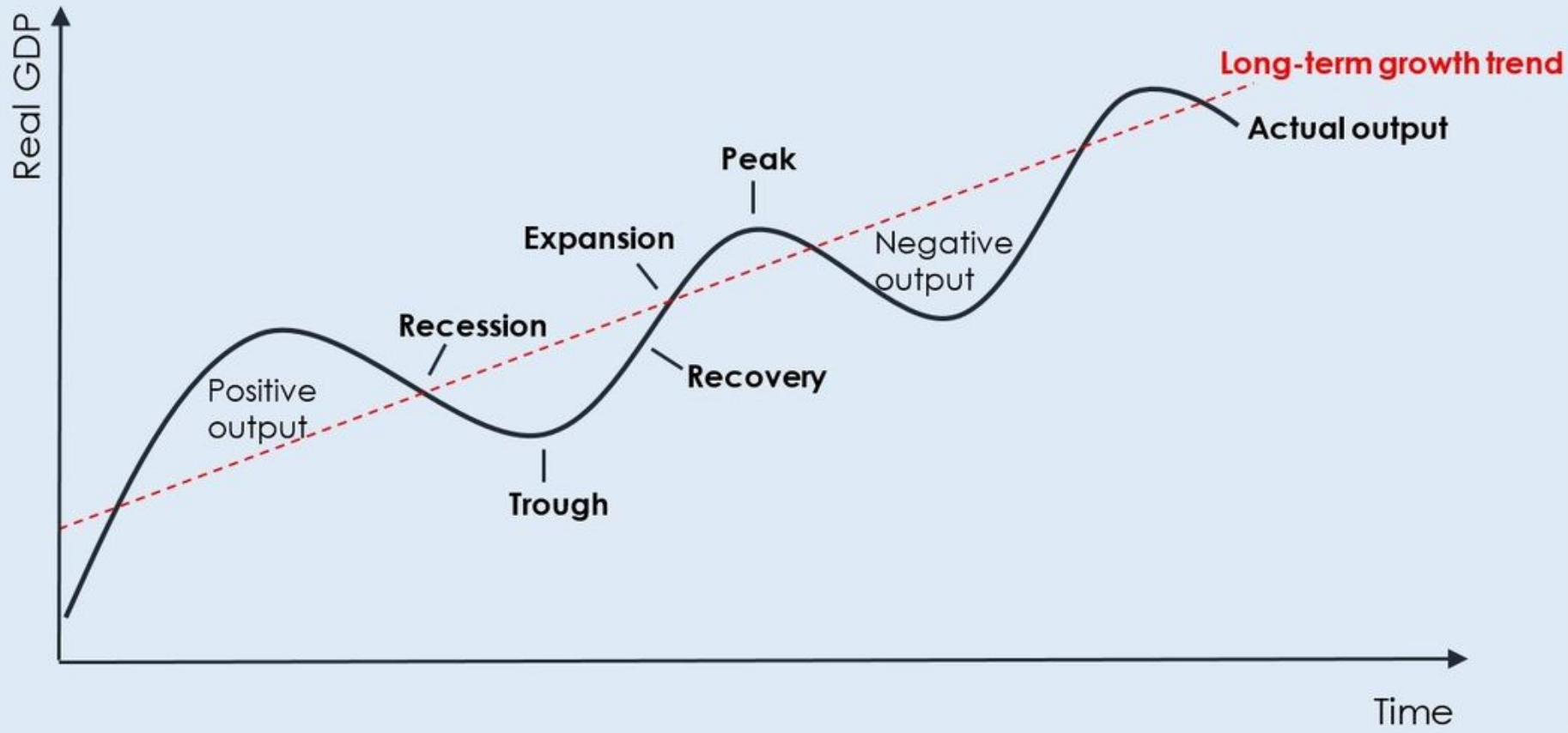
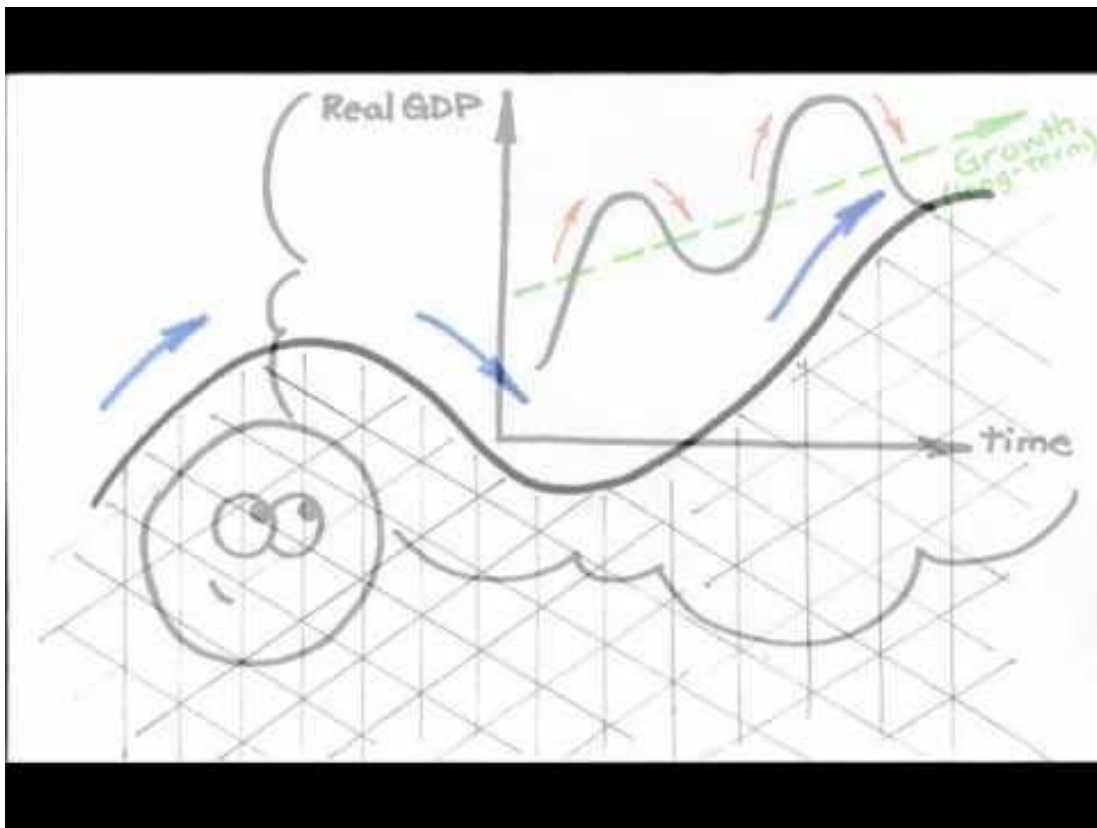


Figure 1: The business cycle showing long-term economic activity



<http://www.bbc.com/news/business-34829408>

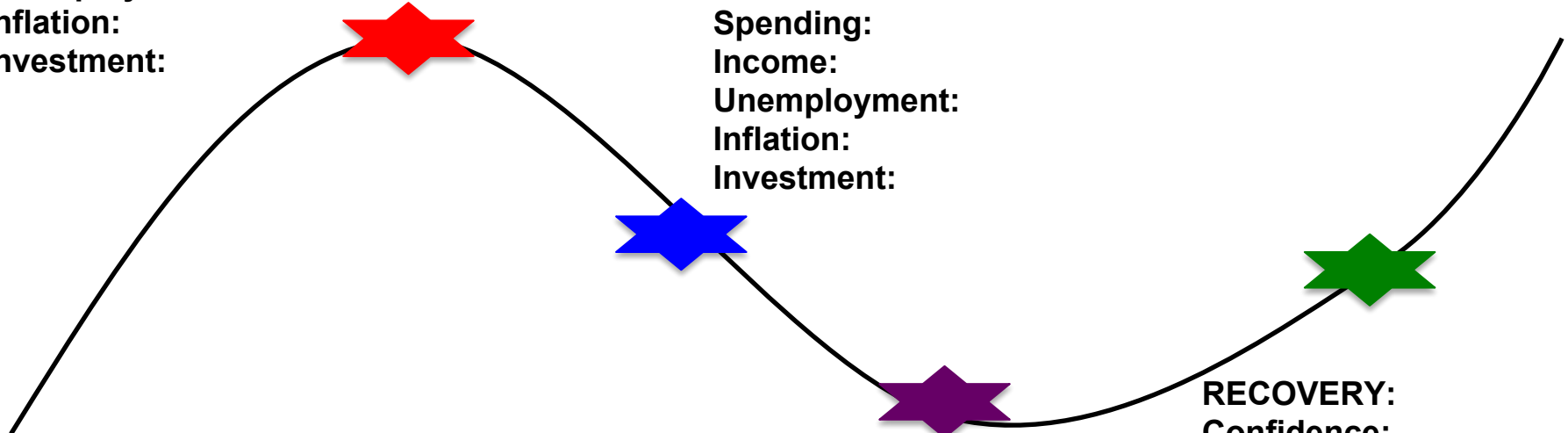
ACTIVITY TIME!!! 😊

BOOM:
Confidence:
Spending:
Income:
Unemployment:
Inflation:
Investment:

RECESSION:
Confidence:
Spending:
Income:
Unemployment:
Inflation:
Investment:

SLUMP:
Confidence:
Spending:
Income:
Unemployment:
Inflation:
Investment:

RECOVERY:
Confidence:
Spending:
Income:
Unemployment:
Inflation:
Investment:



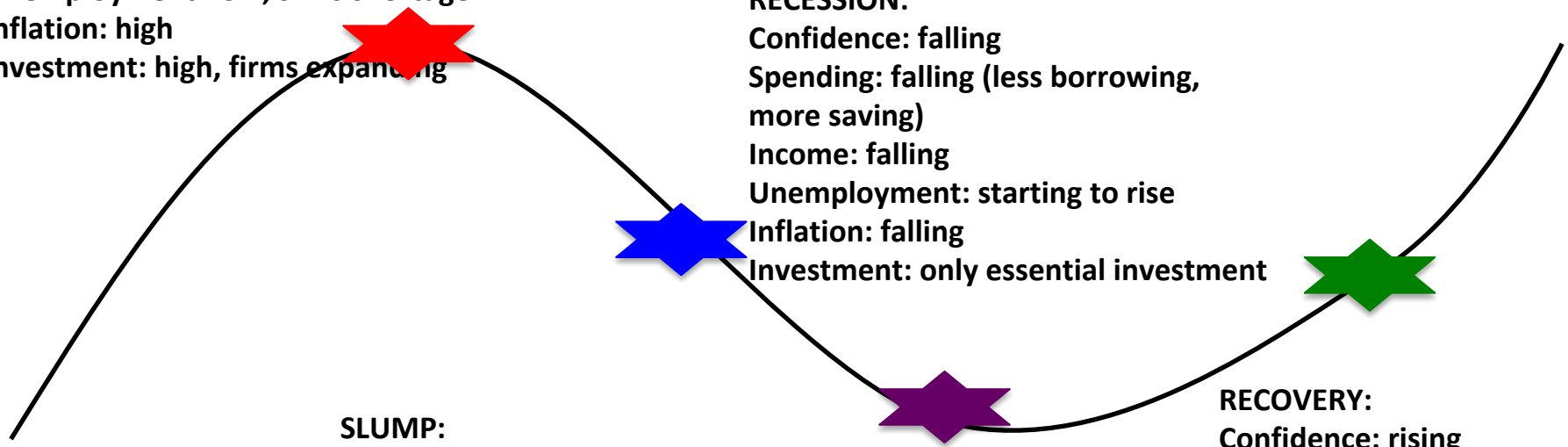
Confidence	Optimistic	Falling	Pessimistic	Rising
Spending	Increasing	High	Low	Falling
Income	Slowly rising	Falling	Low	High
Unemployment	Low (skills shortage)	Slowly falling	High (skills surplus)	Starting to rise
Inflation	Low, maybe deflation	Stable slight rises	Falling	High
Investment	None	High, firms expanding	Increasing slightly	Only essential investment

BOOM:
Confidence: optimistic
Spending: high (high borrowing, low saving)
Income: high
Unemployment: low, skills shortage
Inflation: high
Investment: high, firms expanding

RECESSION:
Confidence: falling
Spending: falling (less borrowing, more saving)
Income: falling
Unemployment: starting to rise
Inflation: falling
Investment: only essential investment

SLUMP:
Confidence: pessimistic
Spending: low, paying off debts instead
Income: low
Unemployment: high, skills surplus
Inflation: low, maybe deflation
Investment: none

RECOVERY:
Confidence: rising
Spending: increasing
Income: slowly rising
Unemployment: slowly falling
Inflation: stable, slight rises
Investment: only essential



What about interest rates?

The Bank of Japan, the Bank of England or the Federal Reserve exert major influence on interest rates. It can push rates upward or downward. When a recession hits, central banks usually prefer rates to be low.



WHY???

The prevailing logic is low interest rates encourage borrowing and spending, which stimulate the economy

- = An INJECTION into the economy

When the economy is growing at a rate that may lead to hyperinflation, central banks reduce interest rates

