2.5.3 Trade (business) cycle

a) *Understanding of the trade (business) cycle*
b) *Characteristics of a boom*
c) *Characteristics of a recession*

- Economic cycle: where GDP fluctuates around the trend growth
- National income: everything spent, earnt and produced in a country over a period of time
- Slowdown: A weakening of the rate of growth, real GDP is still rising but is increasing at a slower rate
- Depression: a prolonged downturn in the economy where a nation's GDP falls by at least 10 per cent from peak to trough
- Recession: two consecutive quarters of economic decline
- Slump: a prolonged recession
- Economic growth changes at different speeds and there is a pattern that can be observed over time, usually 7 to 10 years. The patterns can involve a boom and a slump or even a recession. Between the boom and the slump there is a slowdown, and between a slump and boom there is a recovery
- In a boom there is often high employment, increasing living standards, increased investment, but sometimes inflation, widening inequality and increased negative externalities
- In a recession there is often high unemployment or underemployment, lower or not increasing standards of living, but sometimes lower inflation, narrowing inequality and decreased negative externalities
- Factors causing a recession:
    - Lack of investment funds or cash to run businesses
    - Weak or obstructive governments
    - Currency instability or a fixed exchange rate or too-high exchange rates
    - Lack of human capital
    - Lack of access to international trade, or a high level of tariffs and other forms of protectionism
- A recession will usually see many firms close down, with many people losing their jobs so unemployment increases however, recessions force firms to face up to their inefficiencies and they may need to cut costs to benefit from a recession which can benefit them in the long-term