

1. Definition of business cycle

The business cycle shows fluctuations such as expansions, peaks, contractions and troughs in the level of economic activity of a country, over a period of time. Generally speaking, the business cycle is measured and tracked in terms of Real GDP and unemployment. Real GDP rises and unemployment shrinks during expansion phases, while reversing in periods of recession.

Business Cycle

2. The phases of the Business cycle :

- ✓ The Peak which is the highest point of the economy in the short run, before the recession begins. It is a point at which an expansionary phase ends and a contractionary phase begins.
- ✓ The Contractionary Phase is period in which the economy as a whole is in decline. It can also be called a recession. A recession is a consistent decline in Real GDP or negative economic growth for six consecutive months or more (same as two consecutive quarters or more). A recession lasts from peak to trough.
- ✓ Expansionary Phase is a period in which real GDP is growing and the economy moves from a trough to a peak. This is associated with increasing inflation rates and declining unemployment rates.
- ✓ Trough is the lowest point of a recession that is the period of greatest decline in the business cycle before a recovery begins. It is a point at which a contractionary phase ends and an expansionary phase begins.

3. Distinguish between unemployed and employed

Unemployed is defined to be people in a country who are not gainfully employed, but are willing and able to work and actively seek employment whereas employed are persons currently at work, including part time workers.

4. Distinguish between voluntary and involuntary unemployment

Voluntary unemployment is the situation in which people are not willing to work at the equilibrium wage rate (They willingly do not work because of not being able to find employment of his/her choice). Involuntary unemployment is the situation in which workers are willing to work at the equilibrium wage rates but do not get work.