- Less consumer spending due to high interest rates will reduce the sales a firm makes, and appropriate changes must be made, i.e. lower prices

Government:

- Central banks may decide to raise interest rates in order to control inflation

<u>Recession:</u>

In simple terms, a recession is a fall in real GDP for two consecutive quarters

Individuals:

- Higher unemployment will increase extreme poverty
- Contraction in consumer spending as individuals prefer to save instead

Firms:

- Fall in demand for capital equipment
- Decline in investor confidence
- Rise in the number of business failures and businesses announcing lower profits and investment
- Large price discounts offered by businesses in a bid to sell their excess stock

Government:

- Drop in the value of exports and imports of goods/services
- Tax revenues fall, and welfare benefit spending rises
- Budget deficit rises quickly

<u>Recovery:</u>

The state of business confidence is a key determinant in this stage.

Firms

- Recovery may be subdued if businesses anticipate that it will be temporary or weak in scale

Government:

- Cuts in interest rates
- Rise in government borrowing
- Policy of 'quantitative easing' by the Bank of England to pump more money into the banking system in a bid to increase the supply of loans