Recession: GDP (or growth) goes negative. There is a negative output gap in an economy and a slack develops.

- Business cycles are not regular. Some have a higher magnitude than the others (for example, in some, economic booms are higher than the others). Some last for a shorter while than the others.
- The timings between business cycles in different countries are similar

CAUSES OF BUSINESS CYCLES

Endogenous:

- Animal Spirits: According to this concept, optimism and pessimism in people can influence the levels of investment and expenditure. If people are not confident about the current situations or if there is uncertainty, they will put off their investments and expenditure.
- Money Supply: many economists believe that an increase in money supply results in growth, and expansion whereas a reduction in money supply results in a slowdown and recession.
- Changes in demand: An increase in aggregate demand results in higher economic activity (higher production, output, employment, incomes, profits etc) which eventually leads to expansion and economic boom. A fall in aggregate demand leads to recession since economic activity falls.
- Macroeconomic policies: Demand side policies such as the fiscal and monetary policies result in business cycles as they have a direct impact on aggregate demand and expenditure.

Exogenous:

- Natural disasters and wars result in falling employment and GDP. This results in a recession. However, government expenditure on activities such as reconstruction will lead the economy towards a trough phase.
- Trade wars: High trade restrictions can reduce earnings for a country resulting in unemployment.
- Technology: Advances in technology help the economy towards economic boom where there is higher employment, income, output and profits.
- Population changes: An increase in population (especially the labour force) will result in rising economic activity.

How are business cycles different from financial cycles:

- Financial cycles have a lower frequency compared to business cycles.
- Financial cycles last longer
- Financial cycles depend significantly on policy regimes.