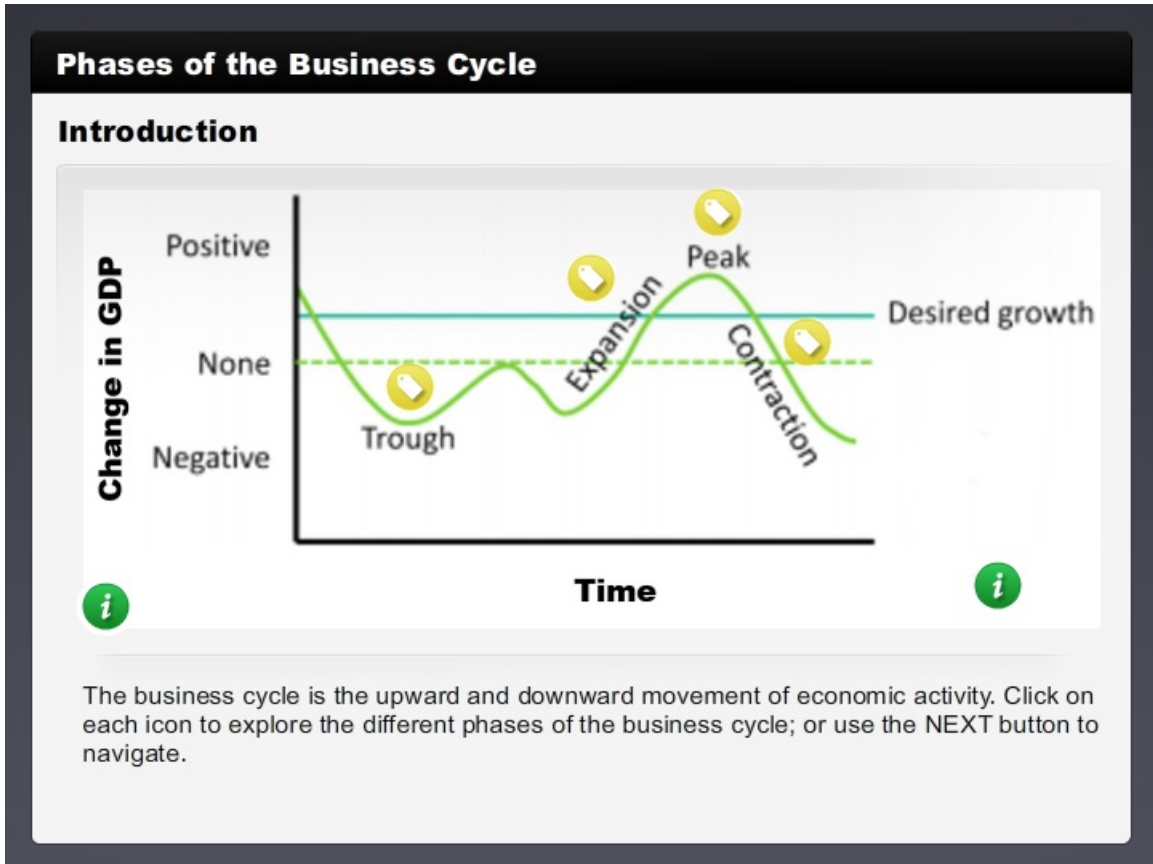


Module 2: National and Global Economies

Topic 1 Content: Phases of the Business Cycle

Introduction

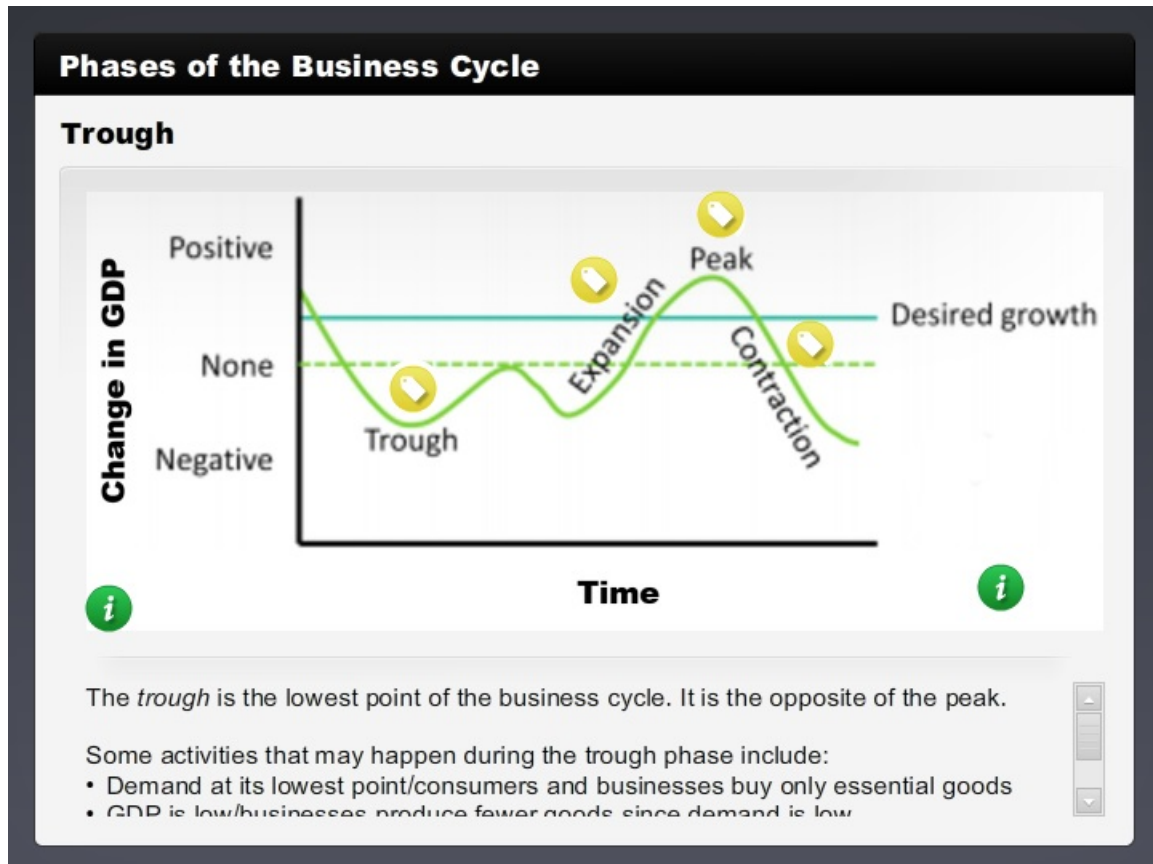


The business cycle is the upward and downward movement of economic activity. Click on each icon to explore the different phases of the business cycle; or use the NEXT button to navigate.

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Trough



The *trough* is the lowest point of the business cycle. It is the opposite of the peak.

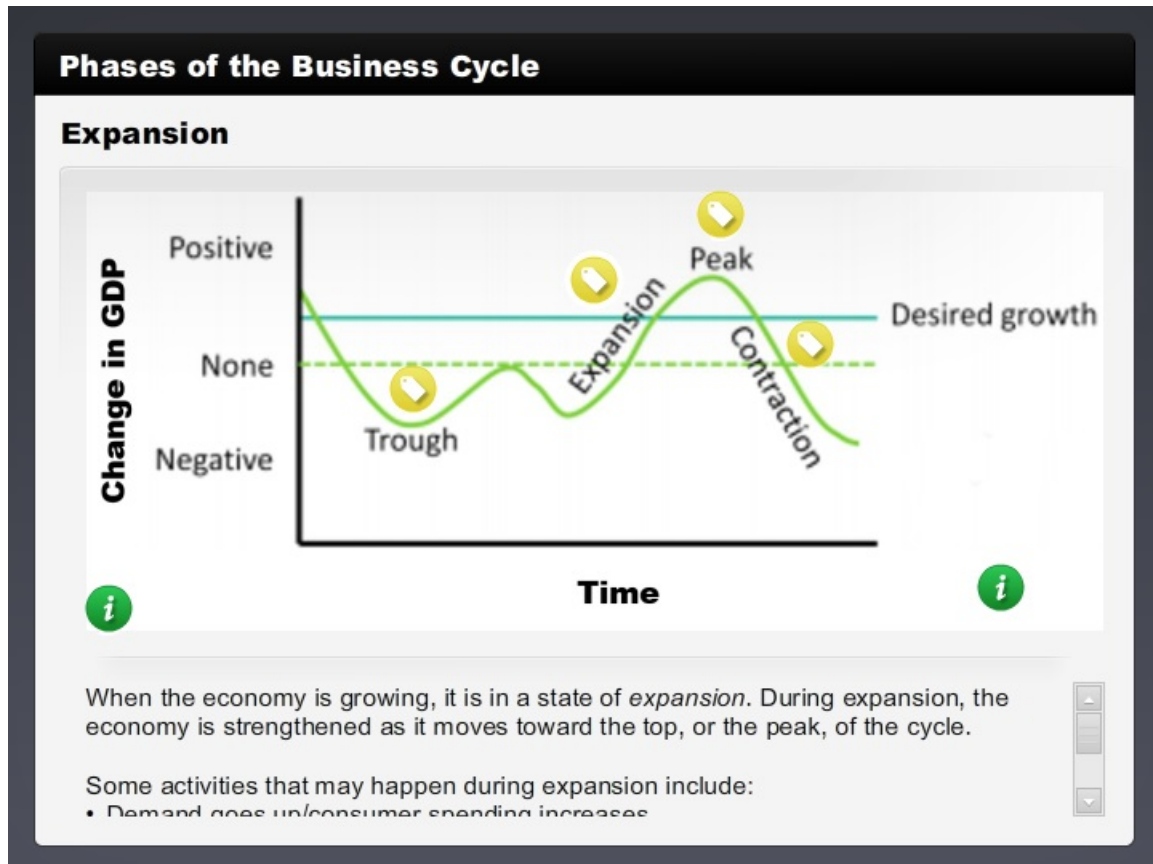
Some activities that may happen during the trough phase include:

- Demand at its lowest point/consumers and businesses buy only essential goods
- GDP is low/businesses produce fewer goods since demand is low
- Unemployment is high/businesses lay more people off
- Many businesses fail

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Expansion



When the economy is growing, it is in a state of *expansion*. During expansion, the economy is strengthened as it moves toward the top, or the peak, of the cycle.

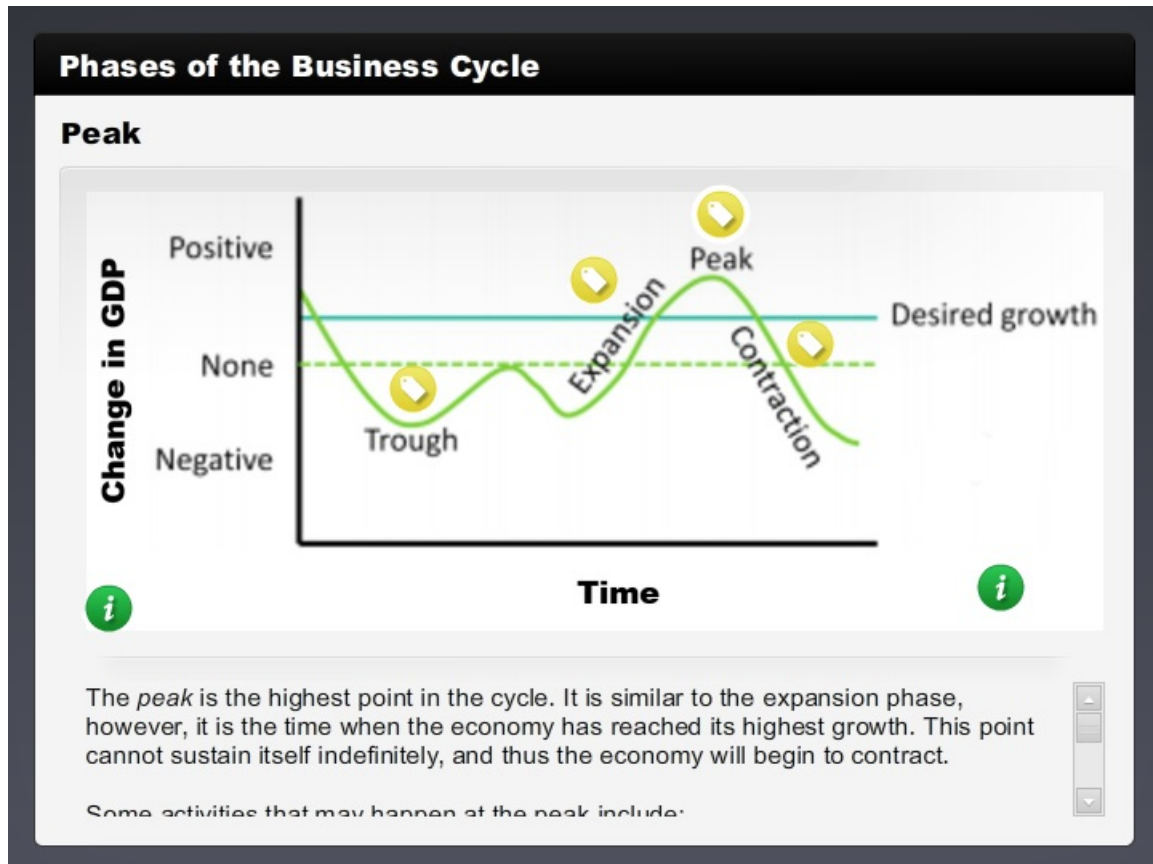
Some activities that may happen during expansion include:

- Demand goes up/consumer spending increases
- GDP goes up/businesses produce more goods
- Unemployment goes down/businesses hire more workers
- CPI goes up/prices often go up

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Peak



The *peak* is the highest point in the cycle. It is similar to the expansion phase, however, it is the time when the economy has reached its highest growth. This point cannot sustain itself indefinitely, and thus the economy will begin to contract.

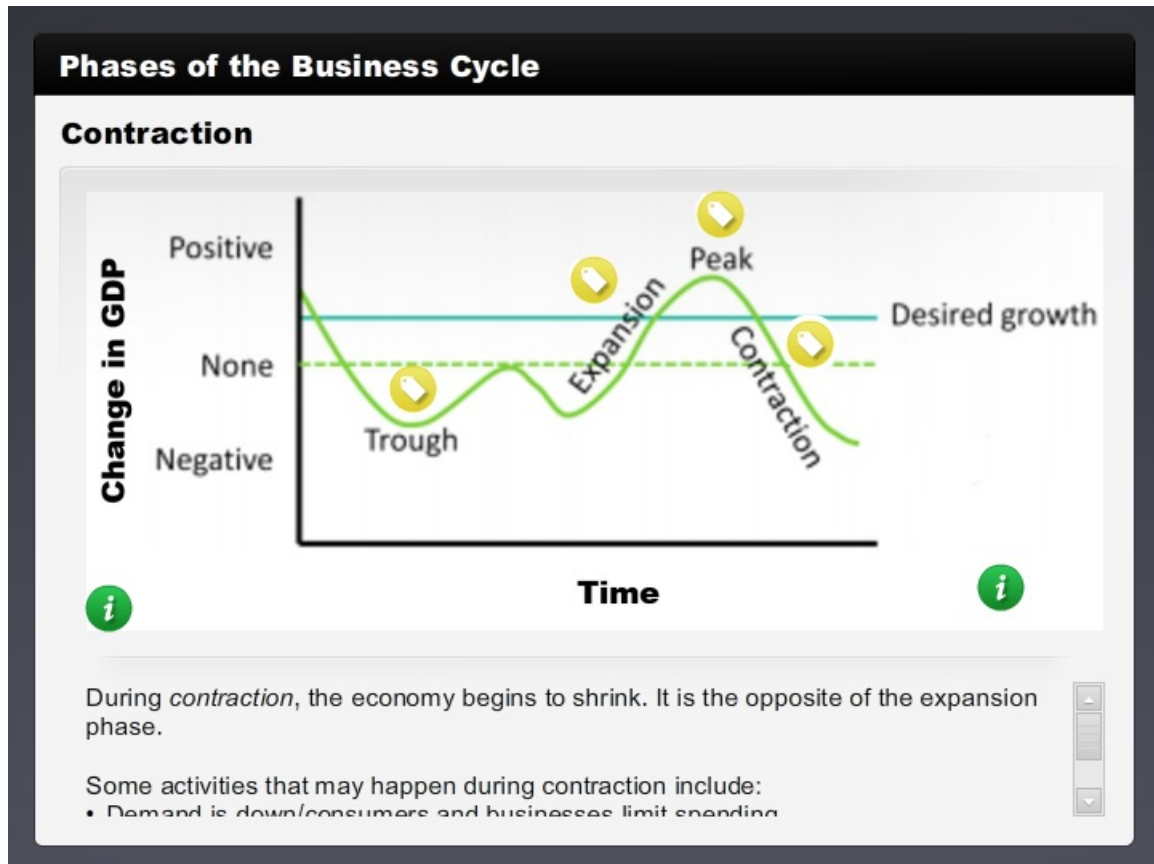
Some activities that may happen at the peak include:

- Demand is high/consumer spending is at its maximum
- GDP is high/businesses run near capacity causing supply problems
- Unemployment goes down/most people looking for work can find it
- CPI goes up/inflation may be higher due to supply and demand problems

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Contraction



During *contraction*, the economy begins to shrink. It is the opposite of the expansion phase.

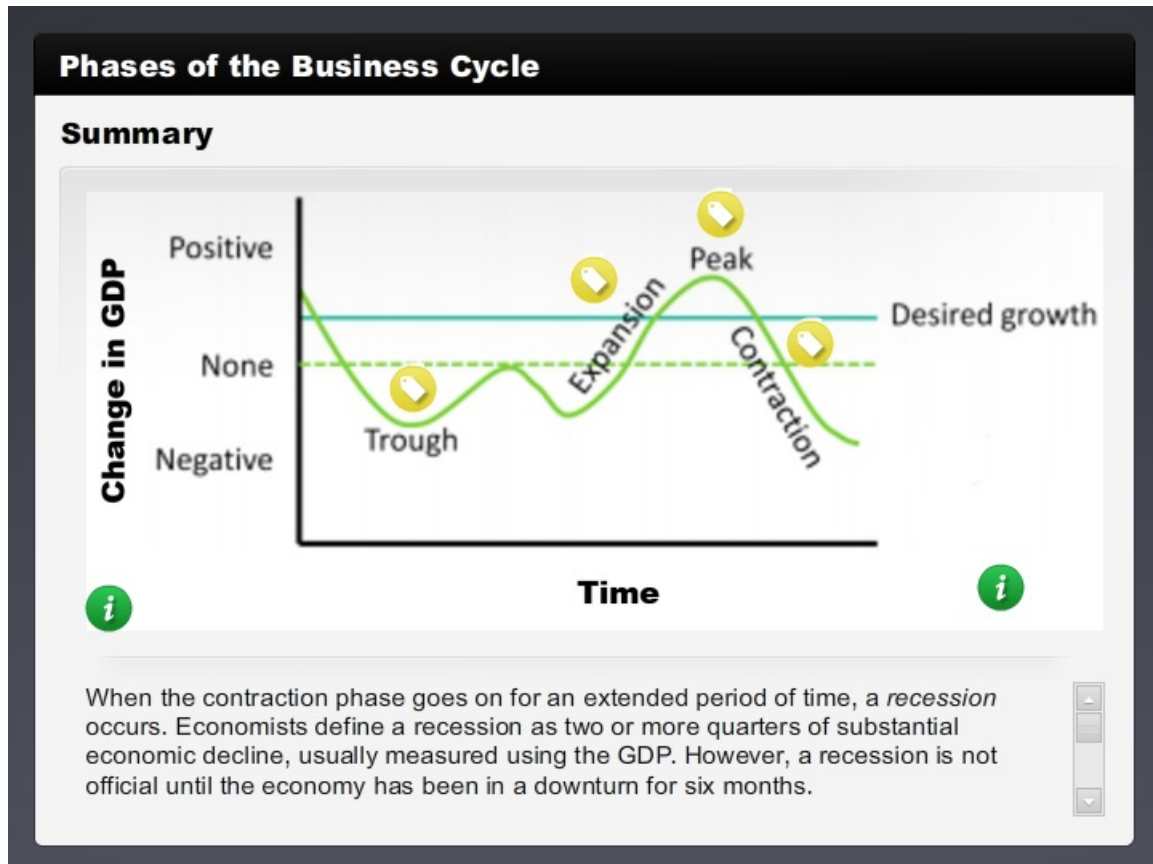
Some activities that may happen during contraction include:

- Demand is down/consumers and businesses limit spending
- GDP is down/businesses produce fewer goods since there is less demand
- Unemployment increases/businesses lay off employees

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Summary



When the contraction phase goes on for an extended period of time, a *recession* occurs. Economists define a recession as two or more quarters of substantial economic decline, usually measured using the GDP. However, a recession is not official until the economy has been in a downturn for six months.

If a recession is severe enough, it is considered a *depression*.

When looking at graphs that depict the phases of a business cycle, the flatter the graph looks, the more predictable the economy is, and the better it is for businesses and consumers. Steep graphs, on the other hand, mean the economy is unpredictable, which makes it difficult to plan your future.