Boom & Bust in Economy

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Universe has been designed in such a manner that it is in flux and change is the only constant. Fluctuations, absolute and relative, are undeniable facts of any human activity. However, whether periodic standard precise pattern exists or not requires enquiry. Phenomenon of fluctuations in economic activity is classified as Economic or Business cycle. In Economic theory, it is deemed that there are different phases of Business Cycles. Loosely, it can be categories as various stages of Boom or Bust.

1. Expansion - In this phase, economy grows and key areas shows upward trend. There is greater investment, employment opportunities are emerging, income level is high, people are spending more, because of greater output entrepreneurs are earing bigger profits, and goods are in greater demand. That all results in positive outlook and greater economic activity. This process continues until economic conditions become favorable for expansion.

2. Peak - This gravitational pull will goes on until there reaches a point where there occur super abundance so economy cannot grow any further. At this point key economic indicators are at their top level. The economy has been ballooned and can be bursted with a slight prick in consumption and/or investment level. Businesses and consumers both deliberating on cutting down their spending.

3. Recession - In this phase, Investment and consumption decreases exponentially. That results in slower economic transactions that create havoc in the economy. There is no economic growth in this phase. Though businesses keep on producing and supplying goods which results in overabundance while consumption and investment do not correspond. As there cannot be any further investment, and people are having surplus goods that results in decrease of consumption thereby compelling traders and businessmen to cut down production and lay off employees. Unemployment further brings down consumption.

4. Depression - As recession prolongs, economic situation worsens at alarming rate. There is mass unemployment, and production is less. Degree of severity distinguishes depression from recession. In other words, longer and severe form of recession is termed as depression.

5. Trough - Depression is marked with regression even closing down businesses thereby economy shows negative growth. This is the lowest point and economy is bottoming and leads towards transition to expansion. It is recognized only after it is over because that may be relatively lower with slight upward movement and then again lowering of economic activity followed by steady improvement. Troughs are climacteric for economy leading to expansion.

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6. Revival - As the name suggests, it is improvement in the health of the economy and it is marked by perpetual growth and amelioration of commercial operations. Investment and Consumption increased which further enhance employment resulting in further income generation and spending. Recovery carries on with till business activity is restored to consistent rate of growth. Further, the industrial production picks up slowly and gradually. The volume of employment has steadily increases. There is a slow but sure rise in prices accompanied by a small rise in profits. The wages also rise, though they do not rise in the same proportion in which the prices rise.

Causes of Business Upturn and Downturn

First question, is fluctuations on economy purely result of commercial factors? Or other natural, social, political factors are more causative than commercial ones.

Crops & livestock's are very staple on which human existence subsists and are major force in price fluctuations and real economic activity. Seasonal trends are very evident albeit with great many variations. Natural factors like rainfall, storms, draught, floods, typhoon, pests etc. can adversely affect produce both quantitatively and qualitatively. This cause in variations in prices and economic stability. However, there is no absolute particular method to predetermine the impact of natural factors. Petroleum, gas, mineral and other natural resources are crucial resources that determine the wealth of an economy. Any discovery of new resource can immensely increase the wealth and prosperity of the economy, provided it gets explored and marketed well. For, there are many resource rich countries but of socio-politico-economic factors economic condition remains poor. Instead of growth, they remain poor. Similarly, depletion of resources can adversely affect economic condition.

Besides, wars can also affect this supply chain. Technology has immense power to improve the condition of economy provided it is employed effectively. New products and ideas keep the economy moving. Outdated technology can hamper economic activity. Financial Sector is the most important factor in theory of business cycles. Where financial infrastructure is well established business cycles are more likely and more manageable. In fact, the wavy phases of business cycles are more evident in developed economies. As financial structure provide economic development and at same time introduces artificial money which causes inflation & deflation that results in fluctuations. On the other hand, fiscal policy also plays its role, both positive and negative. How people behave in a certain situation is studied under social psychology. People make decision based on perceived outcome. People are very much influenced by external events. When there occurs series of bad events this lead to feeling of despondence which results in lowering consumption and investment. It spreads like a domino effect and turns ordinary slump to a huge crisis. Similarly, when economy starts showing positive signs people become enthusiastic and try to keep up with Joneses causing Bandwagon effect, and propels the economy up. Also, Level of confidence plays crucial role in performance of economic activity that results in boom or bust.

Conclusion

Fundamentally, study of economics is concerned with wellbeing of human beings. There do exist some patterns but most are very subjective and very difficult to quantify to fit to be adopted as a standard model. However, as far as age (life phases) is concerned everyone pass from infancy to childhood to adolescence to youth to manhood to old age and death. Similarly crops follow seasonal trends. Overall population age pattern and crops seasonal tendency do have effects on business.

It is more appropriate to study economic fluctuations as boom and bust situation rather than four or six phases of economic cycle for there is no general all fit pattern. However, upturns and downturns are regular part of business activity and by adopting right strategies that can be corrected timely.

Peaks and troughs are extreme points but there are no fixed points and they are measured once over and after considerable time has elapsed. If there has to be any pattern it has to only unavoidable pattern boom and bust.

The only thing that can be said with certainty about business cycles and that also for structured economies that without any precise sense of duration boom and bust are inevitable.

In less developed economies a certain downturn stage can stay for long. In majority of Africa there has not boom for centuries. Under exceptional circumstances like internal war, fierce long lasting natural calamity there prevails subsistence level of economic activity.

In a broader sense they are also called as Boom & Bust Cycles, and because of impossibility of predictability it is a better way of description. In Boom when there is growth are Expansion & Peak phases while in Bust Downturn &Trough are experienced. Recession and Recovery are in between phases. Growth & Decline are integral part of any activity however without any fixed time period. Cyclical movements are more evident in developed economies with well-structured financial system rather in less developed countries.