

6.18: Business Cycles

Learning Objectives

- Explain business cycles, including recessions, depressions, peaks, and troughs

Tracking Real GDP Over Time

When news reports indicate that “the economy grew 1.2% in the first quarter,” the reports are referring to the percentage change in real GDP. By convention, GDP growth is reported at an annualized rate: whatever the calculated growth in real GDP was for the quarter, it is multiplied by four when it is reported as if the economy were growing at that rate for a full year.

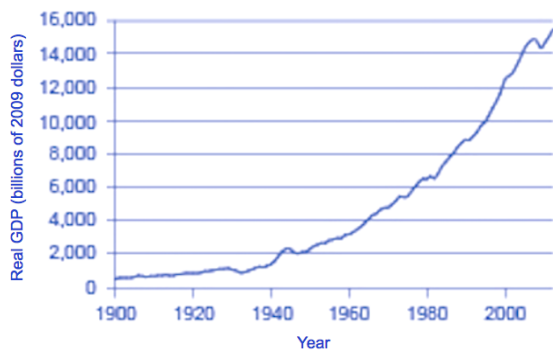


Figure 1. U.S. GDP, 1900–2016. Real GDP in the United States in 2016 (in 2009 dollars) was about \$16.7 trillion. After adjusting to remove the effects of inflation, this represents a roughly 20-fold increase in the economy’s production of goods and services since the start of the twentieth century. (Source: bea.gov)

Figure 1 shows the pattern of U.S. real GDP since 1900. The generally upward long-term path of GDP has been regularly interrupted by short-term declines. A significant decline in real GDP is called a **recession**. Recessions typically last at least six months (or two quarters). An especially lengthy and deep recession is called a **depression**. The severe drop in GDP that occurred during the Great Depression of the 1930s is clearly visible in the figure, as is the Great Recession of 2008–2009.

Real GDP is important because it is highly correlated with other measures of economic activity, like employment and unemployment. When real GDP rises, so does employment.

The most significant human problem associated with recessions (and their larger, uglier cousins, depressions) is that a slowdown in production means that firms need to lay off or fire some of the workers they have. Losing a job imposes painful financial and personal costs on workers, and often on their extended families as well. In addition, even those who keep their jobs are likely to find that wage raises are scanty at best—they may even be asked to take pay cuts or work reduced hours.

Table 1 lists the pattern of recessions and expansions in the U.S. economy since 1900. The highest point of the economy, before the recession begins, is called the **peak**; conversely, the lowest point of a recession, before a recovery begins, is called the **trough**. Thus, a recession lasts from peak to trough, and an economic upswing runs from trough to peak. The movement of the economy from peak to trough and trough to peak is called the **business cycle**. It is intriguing to notice that the three longest trough-to-peak expansions of the twentieth century have happened since 1960. The most recent recession started in December 2007 and ended formally in June 2009. This was the most severe recession since the Great Depression of the 1930s.

Phases of the Business Cycle

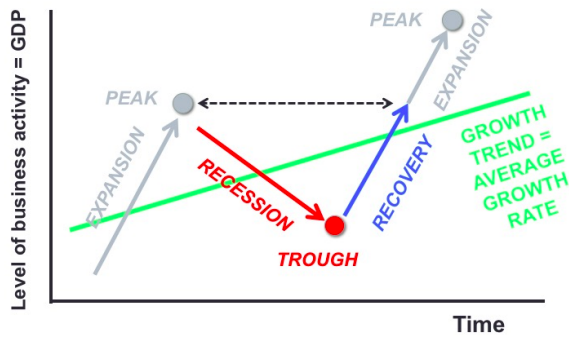


Figure 2. The Business Cycle. This is an example of a typical business cycle showing expansion, recession, then recovery. The growth trend is the average growth rate over time.

Table 1. U.S. Business Cycles since 1900

Trough	Peak	Months of Contraction	Months of Expansion
December 1900	September 1902	18	21
August 1904	May 1907	23	33
June 1908	January 1910	13	19
January 1912	January 1913	24	12
December 1914	August 1918	23	44
March 1919	January 1920	7	10
July 1921	May 1923	18	22
July 1924	October 1926	14	27
November 1927	August 1929	23	21
March 1933	May 1937	43	50
June 1938	February 1945	13	80
October 1945	November 1948	8	37
October 1949	July 1953	11	45
May 1954	August 1957	10	39
April 1958	April 1960	8	24
February 1961	December 1969	10	106
November 1970	November 1973	11	36
March 1975	January 1980	16	58
July 1980	July 1981	6	12
November 1982	July 1990	16	92

Source: <http://www.nber.org/cycles/main.html>

Table 1. U.S. Business Cycles since 1900

March 2001	November 2001	8	120
December 2007	June 2009	18	73

Source: <http://www.nber.org/cycles/main.html>

A private think tank, the *National Bureau of Economic Research*, is the official tracker of business cycles for the U.S. economy. However, the effects of a severe recession often linger on after the official ending date assigned by the NBER.

Try It

<https://assessments.lumenlearning.co...essments/7459>

Watch It

Watch this short video for another explanation of business cycles.

A link to an interactive elements can be found at the bottom of this page.

Business Cycle Vocabulary

Other terminology to know in relation to the ebbs and flows of the business cycle include:

- **Overheating**, which means the economy is picking up speed leading to increased inflation. It occurs when its productive capacity is unable to keep pace with growing aggregate demand. It is generally characterized by an above-trend rate of economic growth, where growth is occurring at an unsustainable rate. Boom periods are often characterized by overheating in the economy.
- **Stagflation**, which means the simultaneous occurrence of stagnant growth (or recession) and inflation. It is a situation where the inflation rate is high, the economic growth rate slows down, and unemployment is also high. It raises a dilemma for economic policy since actions designed to lower inflation may exacerbate unemployment, and vice versa.

Learning Objectives

[/glossary-page]

Contributors and Attributions

CC licensed content, Original

- Modification, adaptation, and original content. **Authored by:** Steven Greenlaw and Lumen Learning. **License:** [CC BY-SA: Attribution-ShareAlike](#)
- The Business Cycle Image. **Authored by:** Sophie Haci. **Provided by:** Houston Community College. **License:** [CC BY: Attribution](#)

CC licensed content, Shared previously

- Tracking Real GDP over Time. **Authored by:** OpenStax College. **Located at:** https://cnx.org/contents/vEmOH-_p@4.44:q0M-qJRG@7/Tracking-Real-GDP-over-Time. **License:** [CC BY: Attribution](#). **License Terms:** Download for free at <http://cnx.org/contents/bc498e1f-e1fe...69ad09a82@4.44>
- Stagflation. **Provided by:** Wikipedia. **Located at:** <http://en.wikipedia.org/wiki/Stagflation>. **License:** [CC BY: Attribution](#)
- Overheating. **Provided by:** Wikipedia. **Located at:** http://en.wikipedia.org/wiki/Overheating_%28economics%29. **License:** [CC BY-SA: Attribution-ShareAlike](#)

All rights reserved content

- (Macro) Episode 23: Business Cycles. **Authored by:** Dr. Mary J. McGlasson. **Located at:** https://www.youtube.com/watch?time_continue=14&v=jGP-vPEHRRE. **License:** *Other*. **License Terms:** Standard YouTube License

6.18: Business Cycles is shared under a [not declared](#) license and was authored, remixed, and/or curated by LibreTexts.