Name: ______________________________ Date: ________________ Block: ______

Business Cycle Practice

I. Introduction

1. Draw and label the phases of the business cycle.

2. Write a brief description (in your own words) each of the four phases of the business cycle.
   a. Trough

   b. Expansion

   c. Peak

   d. Recession

II. Economic Indicators

Complete the chart below by explaining what the condition of each indicator would be during each phase of the business cycle.

	PHASE OF THE BUSINESS CYCLE			
INDICATOR	Trough	Expansion	Peak	Recession
3. Interest rates				
4. Stock prices				
5. Consumer confidence				

	PHASE OF THE BUSINESS CYCLE			
INDICATOR	Trough	Expansion	Peak	Recession
6. Business profits				
7. Consumer spending				
8. Industrial production				
9. Housing construction				
10. Business investment				

III. Causes of Business Cycles

As a class, we are going to act out the play given below. Be sure to be prepared to be a volunteer or to be voluntold to participate in the acting of the play. There are 8 roles each with only one speaking part.

Scene: Leadership team (LT) of a company asks four economists to teach them more about business cycles especially what causes them.

LT President: Ladies and gentlemen, thanks for coming here today. We are interested in learning more about what causes business cycles. Having this knowledge, perhaps we can avoid their most harmful effects. Dr. Talman, will you start, please?

Dr. Talman: I believe that you, the business leaders of this country, cause business cycles by either investing or not investing in capital goods. Let me explain. Good economic times come about when you people, expecting strong future sales, purchase large amounts of new equipment and machinery or build or expand your plants. These investments lead your businesses to produce more, resulting in a stronger economy. However, after a while you stop spending on capital goods. These cutbacks lead to recessions.

LT Vice President: Dr. Jonas, do you agree with Dr. Talman?

Dr. Jonas: I have focused my studies on inventory adjustments. Quite often, your businesses start building inventories at the first sign of an upturn and start cutting back inventories when you think there will be a downturn. It's these readjustments in inventories that lead to recessions and expansions.

LT Treasurer: We are eager to hear your views on the issue, Dr. Lukas.

Dr. Lukas: It's the commercial banks and the Federal Reserve that lead to changes in the business cycle. When the Fed lowers interest rates and loans are easy to get, that stimulates the economy. Generally, when the economy really gets going the Fed raises interest rates. This eventually leads to less borrowing and eventually the economy slows down.

LT Secretary: Finally, Dr. Winters. What's your thinking on the issue?

Dr. Winters: I think my colleagues have overlooked the effects of external shocks to our economy. By that I mean actions that create sudden problems for the economy, like increases in oil prices or wars. Not all shocks are bad for the economy. For example, the unexpected discovery of huge amounts of a resource like natural gas or oil can lead to an economic boom.

11. Describe one cause of business cycles according to the economists in this play.

12. What are some conclusions about the business cycle that you can draw from listening to this play?

13. Which is the most important cause of the business cycle?

14. Suggest an action that government or business can take to prevent the harmful changes in the business cycle.

IV. Conclusion

15. Assume that interest rates are beginning to rise, the number of hours worked per week is going up, and there is an increase in the number of new building permits. What would these indicators say about the economy? Explain your answer.

16. How might the psychological strains that many people feel during difficult economic times help prolong an economic downturn? Provide specific examples.