The Business Cycle

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Definition
- The business cycle refers to fluctuations in the level of economic activity over time
- The business cycle can be broke up into four key phases

The Upswing
- The upswing occurs as the economy begins to recover from a trough
- During an upswing the economy begins to expand as investment and consumption spending grow
- Confidence increases and thus demand-pull inflation begins to increase
- National income, output and employment all begin to rise
- As the economic outlook begins to improve the RBA will begin to tighten monetary policy to prevent the economy from overheating

The Peak
- The economy is now operating at above full capacity
- There is virtually zero cyclical unemployment or inventories
- Very high consumption spending and business confidence
- National income, output and employment are beyond a full employment position
- RBA is seeking to employ a contractionary monetary policy stance

The Downswing
- The downswing occurs as the economy begins to contract after a boom
- Investment and consumptive spending begin to fall
- Confidence falls and thus demand-pull inflation falls
- National income, output and employment fall
- As economic outlook begins to worsen the RBA will seek to implement a looser monetary policy

The Trough
- The economy is now operating at far below the full employment position
- High cyclical unemployment and inventories
- Very little consumptive spending or investment
- National income, output and employment are far below full capacity
- RBA is seeking to employ an expansionary fiscal policy

The ABS effect on the Business Cycle
- The ABS work to smooth the curves of the business cycle decreasing the size of the peaks and troughs
- This occurs due to the fact that at the peak the government is collecting large tax receipts but welfare spending is falling creating a cyclical surplus
- On the other hand during a trough tax receipts have fallen while welfare calls are increasing and thus a cyclical deficit is created

Economic Indicators

Leading	Co-incident	Lagging
Dwelling approvals	Retail sales	Unemployment data
Stock prices	Vehicle sales	Inflation data

Cyclical Indicators

Positive	Negative
Investment	Inventories
Consumption	Cyclical UE
Confidence	Savings
Interest rates	Welfare spending
DD Inflation	
Tax revenue	