

LESSON 13: THE BUSINESS CYCLE

Focus Question: *To what extent can businesses avoid being hurt by downturns in the business cycle?*

Objectives

Students will be able to:

- Describe the different phases of the business cycle.
- Examine the suggested causes of business cycle fluctuations.
- Discuss the means by which the government uses fiscal policy to combat the harmful effects of the business cycle.

Standards

NES: 18, 19, 20

ELA: 1, 3

Materials

Text, pp. 360-368.

Teaching Strategies

Introduction:

- Distribute Worksheet 13A, “Business Cycle.” Have students complete the exercise for homework. For the introductory whole-class discussion, have students explain their answers to the following:
 - What do we learn about the business cycle from this chart?
 - Using this chart, how would you explain the business cycle to someone who knew nothing about it?
 - How would an understanding of the business cycle help you run your VE firm?
 - To what extent can businesses help protect themselves from downturns in the business cycle?
 - What questions does studying this chart raise?

Body of lesson:

- Distribute Worksheet 13B, “Business Cycles and Economic Indicators.” Divide students into groups of four. Have each group complete the exercise on the worksheet, then have them explain their answers to the following:
 - Describe the phase of the business cycle you read about.
 - How can you explain the name given to each of these phases (i.e., “expansion,” “peak,” “recession,” “trough”)?
 - How well would our VE business do during each of these phases of the business cycle? What kinds of businesses would do better than others in downturns in the business cycle?
 - Are businesses themselves most to blame for business cycles?
- Distribute Worksheet 13C, “Causes of Business Cycles.” Assign one student each to the following roles: VE President, VE Vice President, VE Treasurer, VE Secretary, Dr. Talman, Dr. Jones, Dr. Lukas, and Dr. Winters. After students act out the play, have the class explain their answers to the following:
 - Describe one cause of business cycles according to economists in this play.
 - What are some conclusions about the business cycle that you can draw from listening to this play?
 - Which is the most important cause of the business cycle?
 - Suggest an action that government or business can take to prevent the harmful changes in the business cycle.
- Distribute Worksheet 13D, “Fighting the Business Cycle.” Have students complete the exercise on the worksheet. Then have them explain their answers to the following:
 - In your own words, what is fiscal policy?
 - How do the charts show how fiscal policy is supposed to work to fight recessions? How do the charts show how fiscal policy is supposed to work to fight inflation?
 - How can you explain the fact that sometimes fiscal policy does not work or takes a long time to work?

Summary/Assessment:

As a homework assignment, ask students to write a memo to VE shareholders identifying the phase of the business cycle that we are currently experiencing. Have students support their answer with at least three arguments. Then, have them explain how they believe the VE business will be affected.

Worksheet 13A

Business Cycle

Study the chart below, then complete the following exercise.

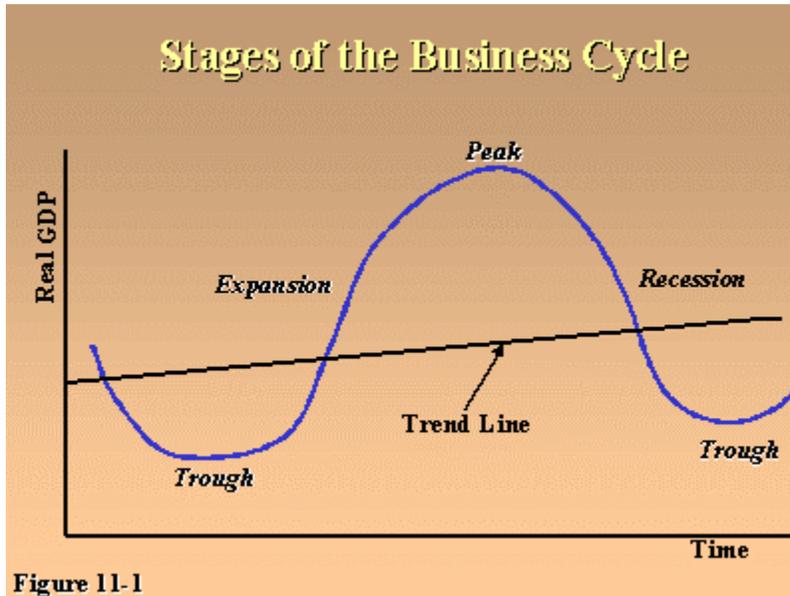


Figure 11-1

business.semo.edu/redmond/CH11a/sld025.htm. Permission pending.

Exercise. Write a brief description, based on what you see in the chart above, of the following phases of the business cycle:

1. Trough

2. Expansion

3. Peak

4. Recession

Worksheet 13B

Business Cycles and Economic Indicators

Exercise. Be prepared to give a one-minute talk describing conditions in the phase of the business cycle you were assigned to study.

INDICATOR	PHASE OF BUSINESS CYCLE			
	Trough	Expansion	Peak	Recession
Interest rates	<i>falling</i>	<i>starts to rise after a long time</i>	<i>climbing</i>	<i>reach highest point and then fall</i>
Stock prices	<i>starting to rise</i>	<i>rising, perhaps rapidly</i>	<i>still climbing</i>	<i>falling</i>
Consumer confidence	<i>at its lowest</i>	<i>rises after a slow start</i>	<i>“the sky’s the limit”</i>	<i>falling</i>
Business profits	<i>falling</i>	<i>rising</i>	<i>continues to rise</i>	<i>falls but after the others</i>
Consumer spending	<i>at its lowest</i>	<i>rising, especially on expensive items</i>	<i>rising on all items</i>	<i>falls</i>
Industrial production	<i>at its lowest</i>	<i>rises</i>	<i>rises to its highest point but goes no further</i>	<i>falls</i>
Housing construction	<i>about to go up</i>	<i>rises, more than the other indicators</i>	<i>rises to its highest point but goes no further</i>	<i>falls</i>
Business investment	<i>at its lowest</i>	<i>rises, though less than the others</i>	<i>still climbing</i>	<i>rises at first, then falls</i>

Worksheet 13C

Causes of Business Cycles

Assume that your VE leadership team was interested in learning more about business cycles, specifically what causes them. You bring in four economists to speak about their ideas about the causes of the business cycle.

VE 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.

VE 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.

VE 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.

VE 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.

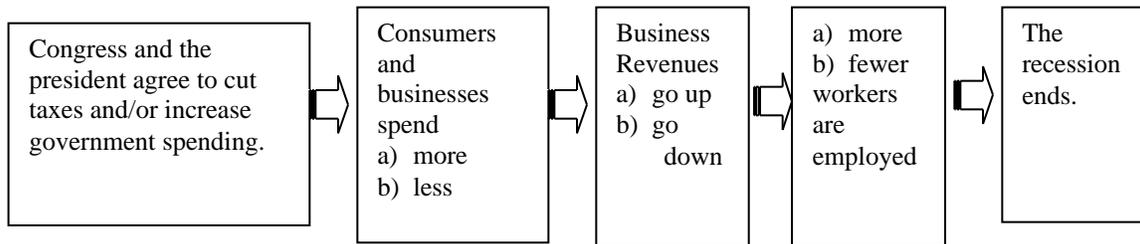
Worksheet 13D

Fighting the Business Cycle

When the economy is experiencing difficulties like recessions or periods of inflation, the government tries to take actions that will change the course of the business cycle. One kind of action is through monetary policy, the raising or lowering of interest rates by the Federal Reserve, which you will learn about in Lesson 14. Another way is through fiscal policy, the government's power to tax and spend.

Exercise. Indicate how fiscal policy is supposed to work to fight recessions and inflation by circling letter a) or b) in the frames below in both examples.

Example 1. Using fiscal policy to end a recession:



Example 2. Using fiscal policy to end inflation:

