Figure 14.12. The role of the private sector and the government in the business cycle.

	Dampening mechanisms offset shocks (stabilising)	Amplifying mechanisms reinforce shocks (may be destabilising)
Private sector decisions	• Consumption smoothing	• Credit constraints limit consumption smoothing • Rising value of collateral (house prices) can increase wealth above the target level and raise consumption • Rising capacity utilization in a boom encourages investment spending, adding to the boom
Government and central bank decisions	• Automatic stabilizers (e.g. unemployment benefit) • Stabilization policy (fiscal or monetary)	• Policy mistakes such as limiting the scope of automatic stabilizers in a recession or running deficits during low demand periods while not running surpluses during booms.