



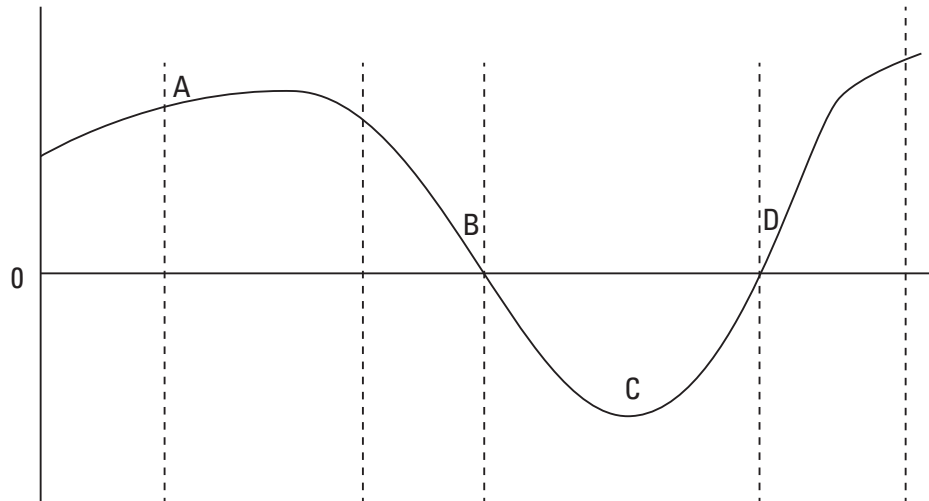
eLearneconomics: Business Cycle (1)

Student response

Use the diagram to answer the questions that follow.

(a) Label the axes appropriately.

Stages in the business cycle



(b) Match the situation in the table below to the interval segment of the business cycle with the appropriate letter.

Situation	Letter
(i) A slowdown in economic activity after a boom.	
(ii) Unemployment is falling and inflation is rising.	
(iii) A depression.	
(iv) A boom.	
(v) A recession (downswing in economic activity).	
(vi) A period of growth after a depression.	
(vii) A recovery phase.	
(viii) A peak in economic activity.	
(ix) A trough in economic activity.	
(x) There is a significant number of unemployed and price rises have slowed with a fall-off in demand.	

(c) Explain the difference between a recession and a depression.

(d) What is meant by the trade cycle?

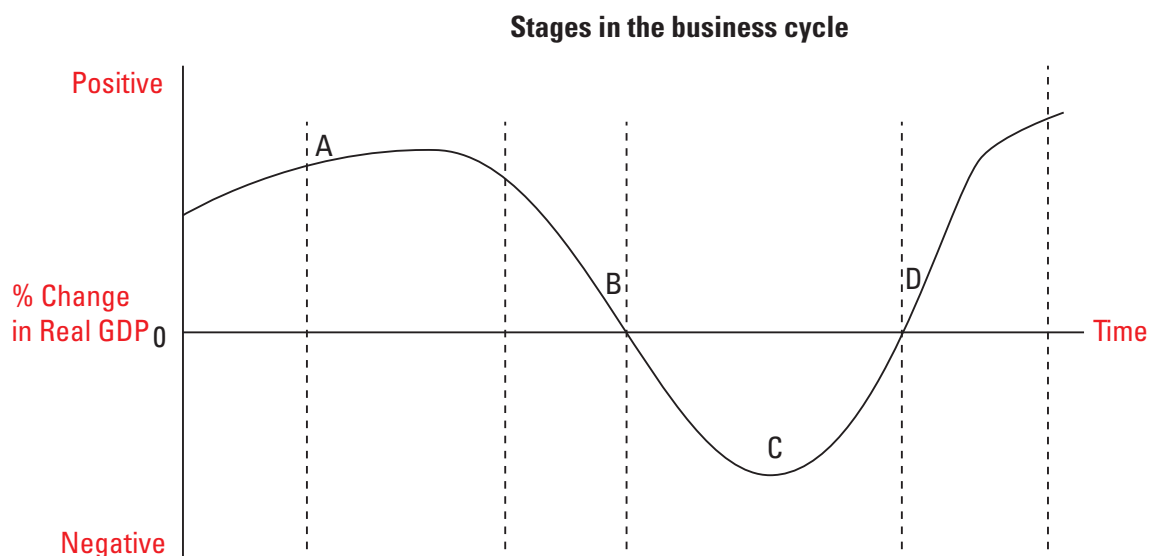
eLearneconomics: Business Cycle (1a)



Solution

Use the diagram to answer the questions that follow.

(a) Label the axes appropriately.



(b) Match the situation in the table below to the interval segment of the business cycle with the appropriate letter.

Situation	Letter
(i) A slowdown in economic activity after a boom.	B
(ii) Unemployment is falling and inflation is rising.	A
(iii) A depression.	C
(iv) A boom.	A
(v) A recession (downswing in economic activity).	B
(vi) A period of growth after a depression.	D
(vii) A recovery phase.	D
(viii) A peak in economic activity.	A
(ix) A trough in economic activity.	C
(x) There is a significant number of unemployed and price rises have slowed with a fall-off in demand.	C

(c) Explain the difference between a recession and a depression.

A recession is a falling-off in economic activity characterised by decreasing levels of investment and rising levels of unemployment.

A depression is a phase of the business cycle characterised by a severe decline in the level of economic activity. Output and investment will be at very low levels and there is a high rate of unemployment.

(d) What is meant by the trade cycle?

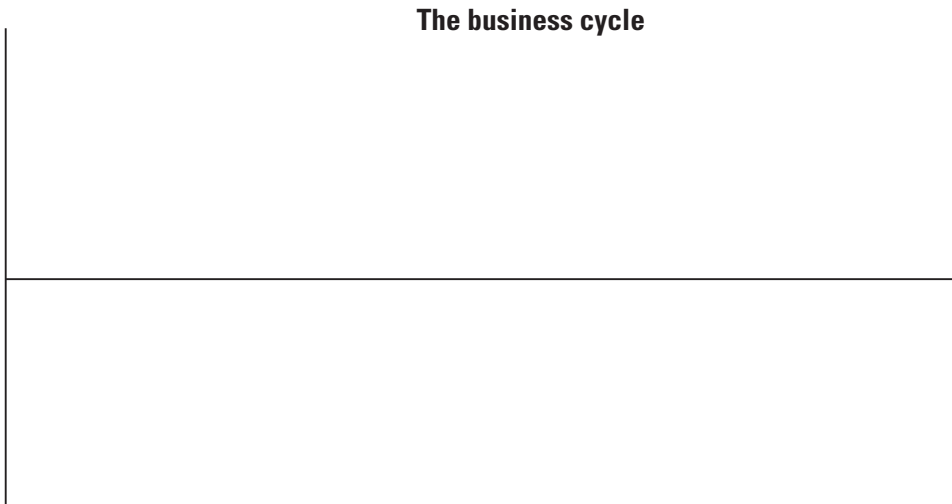
The term describes recurring fluctuations in economic activity an economy experiences over a number of years from boom to depression to recovery again.



eLearneconomics: Business Cycle (2)

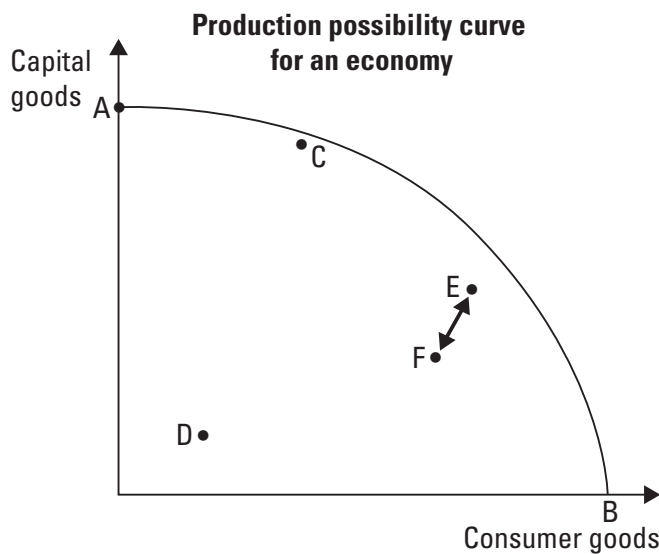
Student response _____

(a) Complete the diagram below to show the trade cycle. Label the axes appropriately. Indicate the phase of the trade cycle by writing on the line you have drawn.



(b) Refer to the production possibility curve below to answer the questions that follow. Match the points and shifts to the phase described. Write the correct answer beside each phase. Assume the production curve AB represents the potential output position for an economy. Some answers may be used more than once.

- (i) Point C
- (ii) Point D
- (iii) Point E to F
- (iv) Point F to E



Phase in the trade cycle	Answer
Recovery phase	
Boom	
Depression	
Downswing in economic activity	
Trough in the business cycle	
Peak in economic activity	
Upswing or expansion	

(c) What is the name given to the regular fluctuations in economic activity that a country experiences over a number of years from boom to depression to recovery again.

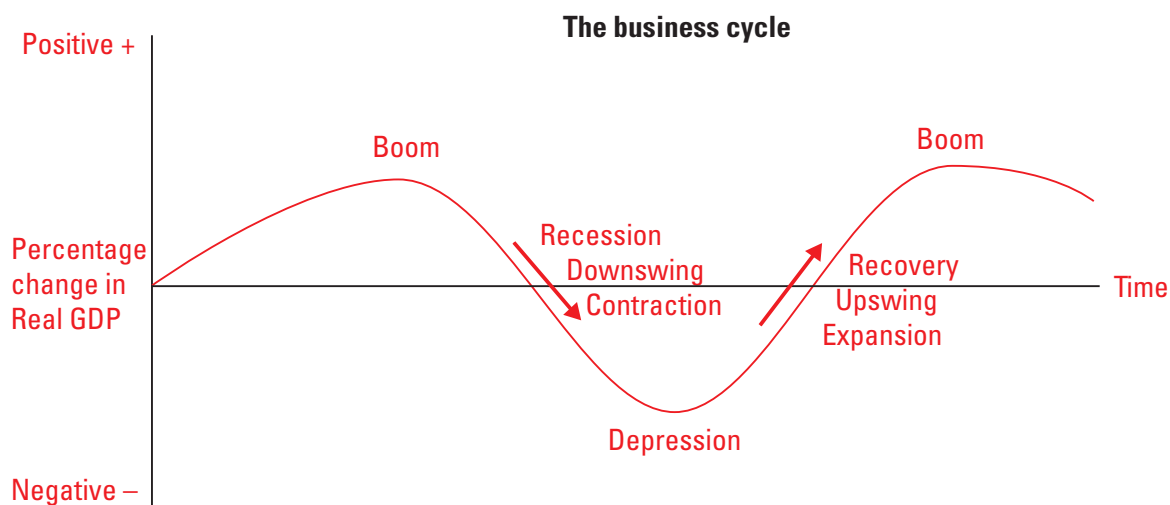
(d) Explain the link between the business cycle and inflation rates.

eLearneconomics: Business Cycle (2a)



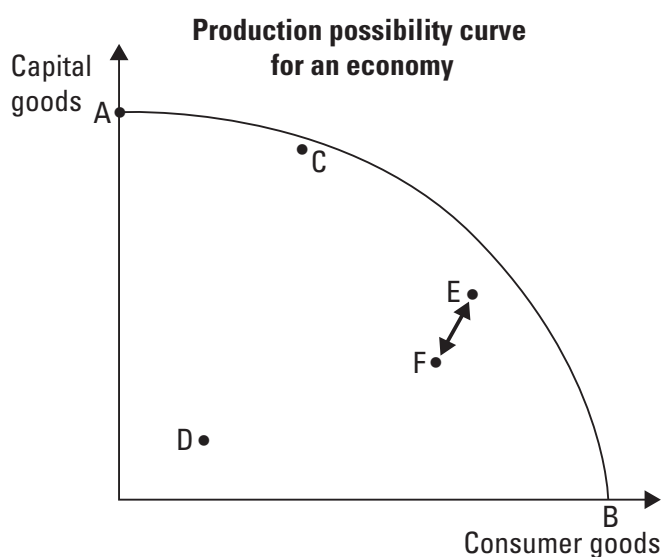
Solution

- (a) Complete the diagram below to show the trade cycle. Label the axes appropriately. Indicate the phase of the trade cycle by writing on the line you have drawn.



- (b) Refer to the production possibility curve below to answer the questions that follow. Match the points and shifts to the phase described. Write the correct answer beside each phase. Assume the production curve AB represents the potential output position for an economy. Some answers may be used more than once.

- (i) Point C (iii) Point E to F
(ii) Point D (iv) Point F to E



Phase in the trade cycle	Answer
Recovery phase	Point F to E
Boom	Point C
Depression	Point E to F
Downswing in economic activity	Point E to F
Trough in the business cycle	Point D
Peak in economic activity	Point C
Upswing or expansion	Point F to E

- (c) What is the name given to the regular fluctuations in economic activity that a country experiences over a number of years from boom to depression to recovery again.

The trade (or business) cycle.

- (d) Explain the link between the business cycle and inflation rates.

When the overall demand for goods and services exceeds the economy's capacity to sustainably supply goods and services then inflation will rise. Similarly, when the economy's capacity to produce is greater than demand, then the rate of inflation will tend to fall.