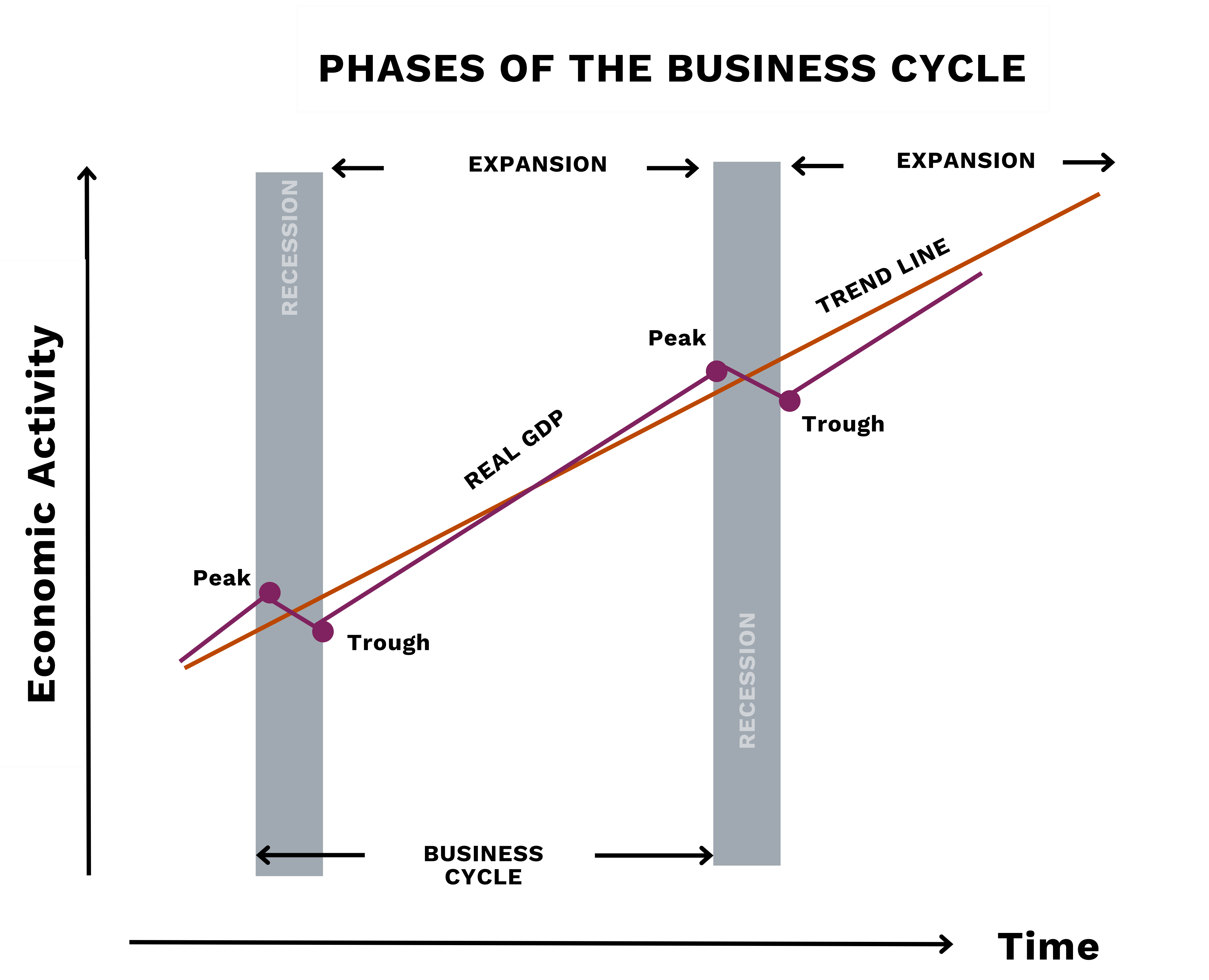
PHASES OF THE BUSINESS CYCLE



1. Expansion (Recovery/Growth)
Economic activity increases: GDP grows, employment rises, consumer confidence improves.
Businesses invest more, production ramps up, and incomes rise.
Interest rates may be low to stimulate growth.
Often marked by rising stock markets and increased consumer spending.

2. Peak
The **highest point** of economic activity before a downturn.
Inflation may start to rise due to high demand.
Labor markets tighten, wages increase.
Central banks may begin to **raise interest rates** to cool the economy.

3. Contraction (Recession)
Economic activity declines: GDP shrinks, unemployment rises, spending slows.
Businesses cut back on investment and hiring.
Consumer and business confidence drops.
May be triggered by high interest rates, external shocks, or financial crises.

4. Trough
The **lowest point** of the cycle, marking the end of a recession.
Economic indicators begin to stabilize.
Central banks may **lower interest rates** to stimulate recovery.
Sets the stage for the next expansion phase.