

Describe the business cycle and outline its effects on people's standard of living

The business cycle is a fluctuation of GDP over a period of time within an economy. There are four terms that are associated with this model and are known as the different phases of a business cycle, these terms are defined as an expansion, contraction, a peak and a recession. The business cycle will always continue to move and fluctuate as the economy of a country/ region will never remain constant for an extended period of time. It naturally experiencing growth and decline with influences that affect the movement of the cycle. The many influences that can affect the changes within a business cycle include taxation, government expenditure, exports and imports, employment, productivity and many other factors. All these factors interrelate and contribute in affecting an individual's degree of wealth and material comfort, or in other words an individual's standard of living.

When an economy experiences a period of time where there is growth, it is defined as an expansion. This means there is an increase in consumption and consumer confidence, production, income, investment, overall GDP and falling unemployment. This overall, impacting on the country/regions standard of living greatly. Individuals and firms having an increased contribution to the circular flow of income as a result of the expansion, allows individuals and firms to benefit and the growth of an economy as a whole. When an expansion is at its highest point it reaches what is known as a peak, this is when the previously mentioned factors are at its height, the standard of living also being at its highest point.

This can be seen in Australia's Mining Phase approximately between the years of 2010-2013. The growth charged by the large demand for resources, by rising economies, China playing a major role. During the expansion the increased prices of commodities as a result of inflation translates into higher terms of trade, directly boosting the real gross domestic income by about 13% in 2013 (Refer to Figure 1, green line). Australian households having higher incomes allowed individuals' standard of living to rise. This is because as the individual's accumulated wealth increases, this allows them to consume and endorse themselves in an increased amount of goods and services. With the rise in consumer confidence, leading to more consumption this also benefits the growth of a business as there is an acceleration in their services being utilised. This furthermore adds to the effect on the upswing of GDP. This evidently exhibited in the GDP climbing to an increase of 6% in 2013.

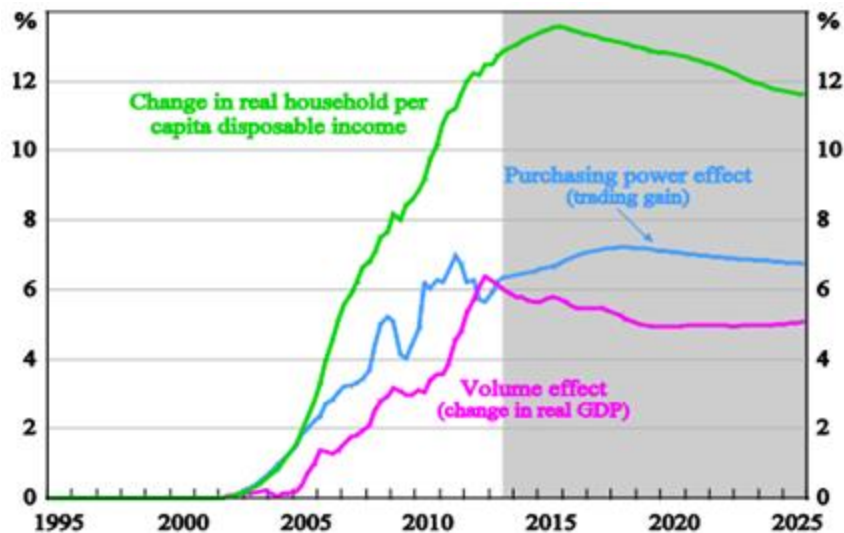


figure 1

On the other hand when an economy experiences a period of time when there is a decline in growth, this is known as a contraction. During a contraction the economy shrinks, leading to rising levels of unemployment, a decrease in consumption, investments, consumer confidence, production levels and GDP. When the downsizing of an economy continues on for two or more quarters this is known as a recession, this is when the growth is at low levels, this affecting the individuals' standard of living. An extended period of decline can lead to a depression. As economic growth and the standard of living correspond, when there is prolonged negative growth the standard of living also declines. This evident when the GFC occurred around 2009.

A significant impact affecting most of Australian households was the large decline in the ownership of a stock or equity prices, which reduced the wealth of Australian households by nearly 10% in March 2009. As well as incomes within the households decreasing, the dollar value of Australian currency also depreciated at a very rapid rate. Declining over 30% by the end of November 2009. With the decreased value of money the downsizing of the economy continued, affecting the amount of trade that was able to be conducted, this also further affecting the business and economy. Due to decreased income businesses begun firing employees making unemployment rates rise to 5.8%. That being 722,000 people in the December of 2009, being 45% more than what it was at the start of the GFC (refer to figure 2). The standard of living for individuals being significantly lowered. This resulting in individuals and firms spending less money on goods and services that individuals normally would consume, causing them to decide to save their money instead.

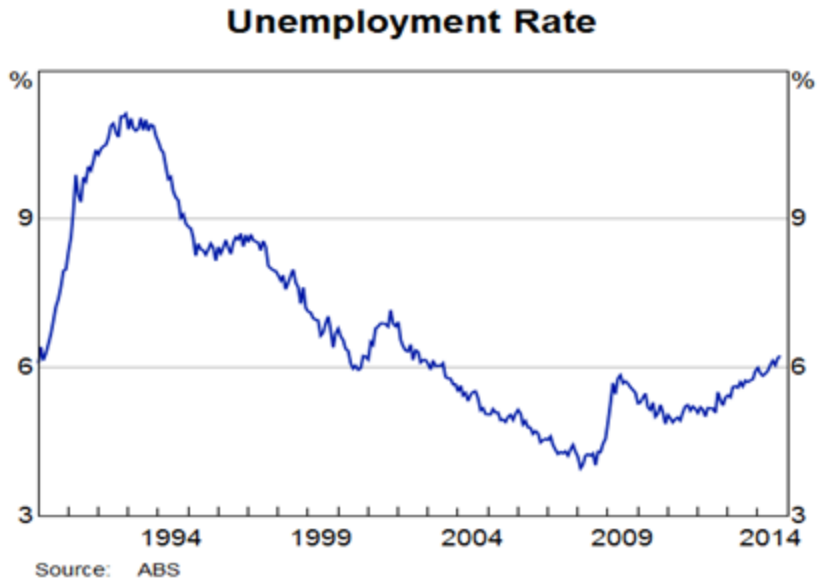


figure 2

The fluctuation within an economy, that being known as the business cycle, is constantly changing as an economy experiences different influences. This affecting the country/region and their standard of living. At different phases, the business cycle affects the economy differently. Generally expansions meaning a higher standard of living and contractions resulting in lower standards of living. The natural fluctuations of the business cycle will continue to affect the individual's standard of living.

