

Business cycle and economic development

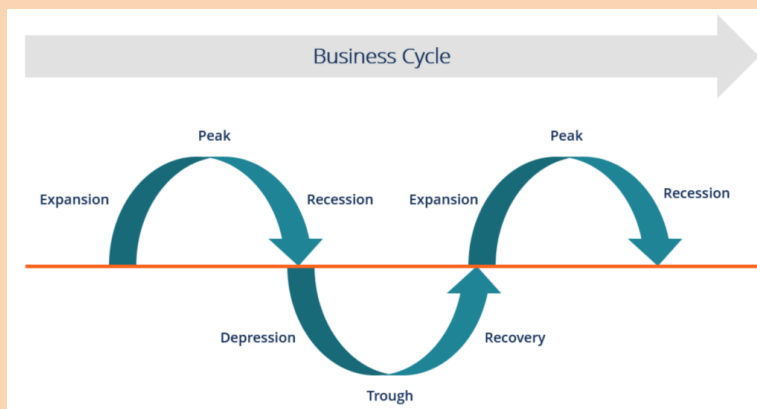
Part 1 Reading

TASK 1 Discussion

1. What is a business cycle?
2. Why do economies do well or badly?
3. What are the features of a prosperous economy?
4. What happens if an economy is in recession?
5. What might help an economy recover from the recession?
6. What is the role of the government in economic development?
7. What are economic indicators and which ones do you know?

TASK 2 Reading

A THE BUSINESS CYCLE



The **business cycle** is a series of rises and falls in economic activity over a period of time, i.e. **fluctuations** in the **Gross Domestic Product (GDP)**. Most economic theories mention four stages: **expansion, peak, contraction (recession), and trough**. Other experts refer to phases of **prosperity, recession, depression, and recovery**. They do not occur at regular intervals, but they have recognisable indicators. Business cycles vary from more than one year to ten or twelve years.

STAGES OF THE BUSINESS CYCLE

1. Expansion

An **economic expansion** is a period of **growth** throughout an **economy**. In this stage, there is an increase in positive **economic indicators** such as **employment, income, output, wages, profits, demand, and supply** of goods and services. The **stock market** experiences rising prices, and investors are confident. Businesses receive more **funding** and make more, and consumers have more money to spend.

The expansion phase nears its end when the economy begins to grow too fast. This is called **overheating** - the **unemployment rate** is well below the natural rate, and **inflation** is increasing. Stock market **investors** become too enthusiastic about prices and believe they will continue to rise - this causes stock prices to rise to a point where they are very **overvalued**.

2. Peak

The economy then reaches a **saturation point**, or **peak**, which is the second stage of the business cycle. The maximum limit of growth is **achieved**. Economic indicators do not grow further and are **at their highest**. Prices are **at their peak**. Consumers tend to **reconsider** their **budgets** at this point.

3. Contraction

The **contraction** begins after the economy peaks and it ends when the GDP and other indicators stop **decreasing**. The demand for goods and services starts **declining** rapidly. Producers do not **notice** the decrease in demand instantly and go on producing, which creates a situation of **excess supply** in the market. Prices tend to **fall**.

When the GDP rate is negative, the economy enters a **recession**. Businesses **lay off employees**, the **unemployment rate** rises above normal levels, and prices begin to decline.

4. Trough

In the contraction stage, the economy hits the lowest point. There is a further decline until the demand and supply of goods and services **contract** to reach their lowest point, i.e. the trough. After that, the economy starts growing, which is called the recovery.

B ECONOMIC DEVELOPMENT POLICIES

Policies of economic development cover three major areas:

- Governments' **efforts** to meet broad economic **objectives** such as **price stability**, high **employment**, and **sustainable growth**. Such efforts include **monetary policies** and **fiscal policies**, **regulation** of financial institutions, trade, and **tax policies**.
- Programmes that provide **infrastructure** and services such as motorways, parks, **affordable housing**, and crime prevention.
- **Job creation** and **job retention**, neighbourhood development, **workforce** development, **small business** development, and **real estate** development.

C DEVELOPMENT INDICATORS AND INDICES

Development indicators are a method used to measure how developed a country is. They are also used to compare levels of development between countries. There are two categories of development indicators – economic and social. Economic development indicators examine among others the Gross Domestic Product, **Gross National Product**, **inflation**, **balance of trade**, **credit rating**, **national debt**, etc. Social development indicators focus on the **literacy rate**, **life expectancy**, **birth rate**, people per doctor, etc. Using a combination of indicators can be a more accurate way of measuring development. For example, the Human Development **Index** (HDI) combines data for life expectancy, adult **literacy** and GDP **per capita** to produce one single **measure**, which puts countries into different levels of human development.

Gross Domestic Product (GDP)

Gross domestic product is a measure of economic activity in a country. It is calculated by **adding** the total value of a country's **annual output** of goods and services.

Gross National Product (GNP)

GNP is calculated by adding to the GDP the income earned by **residents** from investments abroad, less the corresponding income sent home by foreigners who are living in the country.

National debt

National debt is the total unpaid amount of money borrowed by a country's government. It is often described as a **burden**, because debt **incurred** by one generation may become a problem for later generations, especially if the money borrowed is not invested wisely.

Balance of trade

The balance of trade is the difference between the **monetary value** of **exports** and **imports** in an economy over a certain period. A positive balance of trade, known as a **trade surplus**, happens if the country exports more than it imports. A negative balance is called a **trade deficit** or, informally, a **trade gap**.

Credit rating

A credit rating estimates the **creditworthiness** of a country based on its **credit history**. It is an evaluation of a potential borrower's ability to **repay** debt to the **lender**. Credit ratings are calculated from **financial history** and **current assets** and **current liabilities**. A poor credit rating indicates a high risk of **defaulting on a loan**, and leads to high interest rates, or the refusal of a **loan** by the **creditor**.

Listening 1 - Economic development and economic growth

TASK 1 Lead-in

Before you listen, think about the following:

1. Is there a difference between economic growth and economic development?
2. What problems may rapid economic growth cause?

TASK 2 Listening

Listen to the recording on the difference between economic growth and economic development and fill in the gaps with up to three words.

Economic growth and economic development are (1) _____, but different concepts. Economic growth is a rise in the country's (2) _____ measured by a percentage change in the GDP or national income per capita.

Economic development is a concept which includes measures such as the (3) _____ and sustainable development goals. It tracks progress in countries expanding the economic, social, and (4) _____ of the population.

The economic growth does not inevitably lead to economic development. The first reason is persistent and embedded (5) _____ in the society, which means that the most people do not really (6) _____ from the growth.

The second point is that income per capita may be going up, but the level of income and wealth (7) _____ inequality ___ may also be rising.

Fast growth may also present a threat to the (8) _____. In many countries, the GDP may be high, but the (9) _____ from pollution and waste endanger their sustainability. The last reason is that the growth may be driven by high levels of (10) _____. If the capital investment is high, there may be less resources to produce goods and services.

Source: https://www.youtube.com/watch?v=tVh2kOgAg2E&ab_channel=tutor2u

Listening 2 BBC podcast Understand - episode Recessions

TASK 1 Lead-in

Answer the following questions:

1. How would you define an economic recession?
2. What may cause an economic recession?

TASK 2 Listening

Listen to part of the BBC podcast *Understand the Economy on recessions* and complete the sentences below with the words and phrases in the box

20%	60%	asset values	carpenter	chef	confidence	consecutive quarters	cut back on <i>sth</i>
economics observatory			Extreme economies	go down	household sector	income	
multiplier effect		plumber	procession	ripple effect	shrink	trim <i>sth</i> back	

1. Tim Hartford compares economic growth to a) _____.
2. Richard Davies is a director of the UK's b) _____ and he wrote a book called c) _____.
3. The technical definition of a recession is two d) _____ of negative growth.
4. When it comes to spending, the household sector represents e) _____ and the government represents f) _____.
5. During a recession, something is wrong with the g) _____.
6. If an external factor hits an economy, it hits h) _____ and when people see it, they are likely to lose i) _____.
7. All this leads to a j) _____, which is called k) _____ by economists.
8. If an individual decides against going on holiday, the jobs of a l) _____, m) _____, and n) _____ are affected.
9. One person's spending is another person's o) _____.

What synonyms of "decrease" have been used in the podcast? p) _____, q) _____, r) _____, and s) _____.

Source: <https://www.bbc.co.uk/programmes/m001dwr7/episodes/downloads>

Listening 3 Economic indicators explained in one minute.

TASK 1 Listening

Listen to the recording and put the indicators below in the proper category:

consumer price index	building permits	default rates	nonfarm payrolls	personal income
unemployment rate	interest rates	share prices	money supply	the GDP
				net business formations

Key:

LEADING INDICATORS	LAGGING INDICATORS	COINCIDENT INDICATORS

Source: https://www.youtube.com/watch?v=XOIZGfc5N1s&t=1s&ab_channel=HistoryScope

Video activity Do tax cuts stimulate the economy?

Source: TED Ed [lessons](#)

TASK 1 Lead-in

Answer the following questions:

1. How high is the income tax in the Czech Republic?
2. What might happen if corporate taxes are too high?
2. Have you ever heard of a trickle-down theory?
4. How did the US economy do at the end of the 20th century?

TASK 2 Vocabulary

Match the words and their definitions:

1	economic policy	a)	people who have high incomes and the potential to be wealthy in the future.
2	tax cuts	b)	a range of incomes subject to a certain income tax rate
3	high-income earners	c)	a tax on the profits of a corporation
4	trickle-down theory	d)	a wide range of measures which governments use to manage their economy.
5	median income	e)	changes to the tax code that reduce the amount of tax people have to pay
6	tax revenue	f)	the amount that divides the income distribution into two equal groups, half having income above that amount, and half having income below
7	tax rate	g)	A comprehensive statement of the assets, liabilities of government
8	tax bracket	h)	the revenues collected from taxes on income and profits, taxes imposed on goods and services, payroll taxes, taxes on the ownership and transfer of property
9	corporate tax	i)	the percentage of an income or an amount of money that has to be paid as tax.
10	balance sheet	j)	a reduction in tax rates assuming that corporations and entrepreneurs would reinvest tax savings to generate more employment opportunities

TASK 3 Video

Now watch a Ted-Ed video on *Whether tax cuts stimulate the economy (until 3:35)* and answer the questions below:

1. How was the US economy doing when Ronald Reagan became a president?
2. What economic policy introduced by Reagan's administration was mentioned?
3. What was the reasoning behind the trickle-down theory?
4. How did the US economy do in the 1980s and 1990s?
5. How is the tax revenue related to high taxes?
6. How might the government profit from a lower tax rate?
7. Which tax was higher in 1981 – the income tax or the corporate tax? And which was higher in 2021?
8. What was the outcome of the tax cuts in Kansas in 2012/13?
9. What did the study by the London School of Economics find out about cutting tax?
10. What would the rich have to do to stimulate the economy?

Revision time:

Business cycle definitions – [Quizlet](#)

Economic development – [Quizlet](#)

Business cycle definitions – [Wordwall](#)

Development indicators definitions – [Wordwall](#)

Economic indicators categories - [Wordwall](#)

Translation of vocabulary – [Learning Apps](#) crossword

Sources:

1. <https://www.thebalancemoney.com/what-is-the-business-cycle-3305912>
2. <https://corporatefinanceinstitute.com/resources/economics/business-cycle/>
3. <https://www2.gov.bc.ca/gov/content/employment-business/economic-development/plan-and-measure/economic-development-basics>
4. <https://www.investopedia.com/terms/b/businesscycle.asp>
5. https://en.wikipedia.org/wiki/Economic_development
6. <https://wedc-knowledge.lboro.ac.uk/resources/e/mn/054-Economic-development-indicators.pdf>
7. <https://www.bbc.co.uk/programmes/m001dwr7/episodes/downloads>
8. https://www.youtube.com/watch?v=XOiZGFc5N1s&t=1s&ab_channel=HistoryScope
9. https://www.youtube.com/watch?v=tVh2kOgAg2E&ab_channel=tutor2u
10. <https://www.tutor2u.net/economics/reference/economic-cycles-supply-side-shocks>

DEFINITIONS

BUSINESS CYCLE

achieve	to succeed in getting something, usually after a lot of effort
at their highest	reaching peak values
at their peak	reaching the highest values
budget	the money that is available to a person or an organization and a plan of how it will be spent over a period of time
business cycle	a cycle or series of cycles in a business or in the economy in which economic activity increases and then decreases
contract	to become less or smaller
contraction	the process of becoming smaller
debt	a sum of money that somebody owes
decline	a continuous decrease in the number, value, quality, etc. of something; to become smaller, fewer, weaker, etc.
decrease	to become smaller in size, number; to make something smaller in size, number; the process of reducing something
demand	the desire or need of customers for goods or services that they want to buy or use
depression	a period when there is little economic activity, and many people are poor or without jobs
economic indicators	economic data that help indicate and assess the economic health of any nation. knowing about them helps individuals and entities make more informative and wiser investment decisions. examples – GDP growth rate, interest rate, inflation rate, credit rating...
economy	1. a country, in terms of its economic system; 2. the relationship between production, trade and the supply of money in a particular country
employee	a person who is paid to work for somebody
employment	the state of being employed; the situation in which people have work
excess supply	also known as surplus, refers to a situation in which the quantity of a good or service that is being offered for sale exceeds the quantity that is being demanded by consumers at the current price
expansion	an act of increasing or making something increase in size, amount or importance
fall	to drop down from a higher level to a lower level
fluctuation	one of several changes in size, amount, quality, etc. that happen frequently, especially from one extreme to another
funding	money for a particular purpose; the act of providing money for such a purpose
Gross Domestic Product	the total value of all the goods and services produced by a country in one year
growth	an increase in the size, amount or degree of something
income	the money that a person, a region, a country, etc. earns from work, from investing money, from business, etc.
inflation	a fall in the value of money and a general increase in prices

interest rate	the amount of interest due per period, as a proportion of the amount lent, deposited, or borrowed
investment	the act of investing money in something; the money that you invest, or the thing that you invest in
investor	a person or an organization that invests money in something
lay off	to stop employing somebody because there is not enough work for them to do
notice	to become aware of somebody/something
output	the amount of something that a person, a machine or an organization produces
overheating	the fact of a country's economy being too active, with rising prices
overvalued	to put too high a value on something
peak	to reach the highest point or value; the point when somebody/something is best, most successful, strongest
profit	the money that you make in business or by selling things, especially after paying the costs involved
prosperity	the state of being successful, especially in making money
prosperous	rich and successful
recession	a difficult time for the economy of a country, when there is less trade and industrial activity than usual, and more people are unemployed
reconsider	to think about something again, especially because one might want to change a previous decision
recovery	the process of improving or becoming stronger again
rise	verb - to come or go upwards; to reach a higher level or position; noun - an increase in an amount, a number, or a level
saturation point	the point at which there are so many of a thing that no more can be added successfully
stock market	the business of buying and selling shares in companies and the place where this happens
supply	an amount of something that is provided or available to be used
trough	a period of time when a business or the economy is not growing
unemployment rate	the percentage of the labour force without a job
wage	a regular amount of money that you earn, usually every week or every month

ECONOMIC DEVELOPMENT AND INDICATORS

adding	putting something together with something else so as to increase the size, number, amount, etc.
affordable housing	housing that a household can pay for, while still having money left over for other necessities like food, transportation, and health care.
annual output	a quantity of goods or services produced over a year
balance of trade	the difference in value between imports and exports
birth rate	the number of births every year for every 1 000 people in the population of a place
burden	a duty, responsibility, etc. that causes worry, difficulty or hard work

credit	an arrangement that you make, with a shop for example, to pay later for something you buy
credit history	a record of how a person has handled money and debt, including credit card accounts and other loans
credit rating	an estimate of the ability of a person or organization to fulfil their financial commitments, based on previous dealings
creditor	a person, company, etc. that somebody owes money to
creditworthiness	the extent to which a person or company is considered suitable to receive financial credit, often based on their reliability in paying money back in the past
current assets	cash and other assets that are expected to be converted to cash within a year
current liabilities	cash and other assets that are expected to be converted to cash within a year
default on a loan	to fail to pay a debt
economic development	the process by which the economic well-being and quality of life of a nation, region, local community, or an individual are improved according to targeted goals and objectives
employment	the state of being employed
exports	products that are sold to another country
financial history	information about income, employee's finances, assets, salaries, wages, monetary incentives, beneficiaries, insurance, benefits, financial transactions, credit worthiness, and debts
fiscal policy	the use of government spending and tax policies to influence economic conditions
Gross Domestic Product	the total value of all the goods and services produced by a country in one year
Gross National Product	the total value of all the goods and services produced by a country in one year, including the total income from foreign countries
imports	products or services that are brought into one country from another
incur	if you incur costs, you have to pay them
index (pl. indices)	a system that shows the level of prices and wages, etc. so that they can be compared with those of a previous date
indicator	a sign that shows you what something is like or how a situation is changing
inflation	a fall in the value of money and a general increase in prices
infrastructure	the basic systems and services that are necessary for a country or an organization to run smoothly, for example buildings, transport and water and power supplies
job creation	the provision of new opportunities for paid employment, especially for those who are unemployed
job retention	an organization's ability to keep its employees
life expectancy	how long, on average, a newborn can expect to live, if current death rates do not change
literacy	the ability to read and write
literacy rate	the percentage of the population that can read and write
loan	money that an organization such as a bank lends and somebody borrows
measure	a way of judging or measuring something

monetary policy	the actions taken by a central bank to manage the money supply and interest rates in an economy
monetary value	the amount that would be paid in cash for an asset or service if it were to be sold to a third party
national debt	the total amount of money which a country's government has borrowed
objective	something that you are trying to achieve
per capita	for each person
price stability	the condition in which the domestic currency retains its purchasing power by maintaining low and stable inflation as measured by the Consumer Price Index over the medium term
real estate	property in the form of land or buildings
regulation	an official rule made by a government or some other authority
repay	to pay back the money that you have borrowed from somebody
resident	a person who lives in a particular place or who has their home there
small business	a business that has a limited number of employees and operates independently of larger corporations. Small businesses are typically privately owned and operated and have a single owner or a small group of owners
sustainable growth	a rate of growth that can be maintained without creating other significant economic problems, especially for future generations.
tax policy	the guidelines and principles established by a government for the imposition and collection of taxes
trade deficit	a situation in which the value of a country's imports is greater than the value of its exports
trade gap	a situation in which the value of a country's imports is greater than the value of its exports
trade surplus	a situation in which the value of a country's exports is greater than the value of its imports
workforce	all the people who work for a particular company, organization, etc.; all the people in a country or an area who are available for work