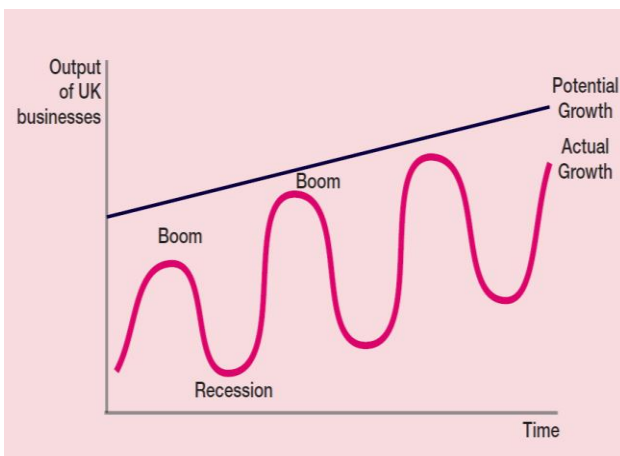


Recovery and boom in the business cycle - CIMA

CIMA, the Chartered Institute for Management Accountants, is the world's leading body for **management accountants**. Management accountants can provide management information and insights as well as financial data to help managers make decisions. Between 2008 and 2009 there was a fall in production and consumer spending. Economic performance has continued to be poor. During these hard times it is essential to have a good understanding of how to make important decisions to get the economy growing.

Gross Domestic Product (GDP) is the value of all the goods and services produced in an economy over a period of time. When GDP rises, economic activity is increasing. This is called economic growth. Periods of high growth are followed by periods of slow growth, or even negative growth. These fluctuations are known as the business cycle:



- **Boom** – the economy is growing quickly. Demand in the economy is high and consumer spending grows.
- **Downturn** – growth starts to slow down. Consumer spending begins to fall and businesses invest less.
- **Recession** – a continued downturn in economic activity can lead to a recession. Demand is low and firms may struggle to survive.
- **Recovery** – GDP starts to rise again as consumer spending rises & businesses increase production.

Recovery - The term 'green shoots' is used to refer to the first signs of economic recovery. Businesses respond perhaps after a short time lag by producing more goods and services. They will start to invest in new machinery. More jobs will be created or reinstated so unemployment will start to fall. The cause of recovery may be due to government actions such as reducing taxes, increasing investment in the economy or perhaps by improving **infrastructure**. A rising confidence in the economy leads to increased business activity and more spending by consumers. Although some uncertainty will undoubtedly remain, businesses are more likely to consider investment at this time. Management accountants can provide an assessment of what the expected returns might be on these investment ideas. For example, they can use investment appraisal tools to determine how long it will take to pay back the cost of a new production line; or analyse which opportunities will yield the best results.

Boom - A boom is a sustained period of strong economic growth. During this time confidence in the market is high. This leads to high levels of demand and consumer spending. Businesses increase their output and may be working at full capacity. It is during this phase that existing businesses tend to increase their spending on new capital. Many new firms also start up. Due to the level of business activity during a boom, employment levels are high. This makes it more difficult for companies to attract and employ staff. They may need to offer higher wages to attract quality workers. The boom can be an exciting part of the business cycle for organisations. However, high levels of demand, plus the increasing costs faced by organisations, can lead to high inflation. Inflation is the name given to the rise in the general level of prices. Boom periods therefore need to be as carefully managed as the other stages in the business cycle. CIMA encourages a balanced approach to managing the business cycle. The focus should be on long-term business growth rather than short-term profits. Management accountants can advise on how to make the most of the investment opportunities afforded by a boom, whilst assessing and managing the associated risks.

Questions

1. What is economic growth?

2. Describe the possible causes of recovery in the business cycle.

3. Explain why boom times might be difficult for firms who are trying to recruit new employees.

4. Analyse why management accountants may promote a cautious approach to investment opportunities during boom periods in the business cycle.

Task

Using the case study to help you, draw a business cycle and annotate it to show the characteristics and possible government intervention at the recovery and boom stages of the business cycle.

What have you learned?

Ready, steady, GO....write down as many things as you can remember about recovery and boom in the business cycle in 60 seconds.