THE TIMES 100
BUSINESS CASE STUDIES

The business cycle – UNISON

A business cycle is something that occurs over time in all economies across the world. A sequence of events, both positive and negative economic activity, takes place during the cycle. The business cycle consists of the following periods; boom, downturn, recession and recovery.

Gross Domestic Product (GDP) is the value of goods and services produced in an economy over a given period of time. Within the UK economy, the level of economic activity constantly changes. When times are good UK organisations create more goods and services. This is known as a boom. This period does not last forever. It will reach a peak and then there is a downturn. This downturn, if it continues, will become a recession. As the recession reaches a trough, organisations are producing fewer goods and services. Then a recovery takes place as the economy lifts itself out of the recession.

Organisations respond to the waves of a business cycle in different ways, for example, by increasing or reducing output and staffing. A boom period is one where economic growth takes place. During this period consumer spending, business investment and GDP increase at a growing pace. The economy grows and develops a higher capacity, employment increases and businesses often have to pay higher wages to attract skilled employees to meet the increasing demand for their goods and services.

During a boom it may be difficult for organisations to supply the growing demand for goods and services. This particularly applies to the capital goods industries where increasing demands for equipment result in delays in meeting customer needs. Then as the rate of growth slows down, economic activity slows down, leading to a downturn. Where there are two successive three-month periods of negative economic growth, the economy is in a recession. This causes the size of markets to shrink. People have less to spend and there is pressure for organisations to reduce costs to survive. Within a recession:

- there is reduced demand for goods and services
- unemployment increases as jobs are cut
- people have less disposable income
- some businesses may be forced to close.

The recession in recent years has increased demand for the services that There for You offers. For example, it provides guidance and support, both financial and non-financial, to its members who experience lower incomes. This may be due to rising redundancies or a reduction in benefits due to the government's benefits reforms. Government spending cuts have also seen legal aid and citizen advice services reduced. This has increased the demand on the services that There for You offers UNISON members.

A recovery follows a recession. A number of factors may drive recovery, including government intervention in the economy by reducing taxes or by the Bank of England reducing interest rates to increasing spending. It is a time when the economy becomes stronger and consumer and business confidence increases. This creates an upturn in the business cycle. It means the production of more goods and services as consumers start to spend more freely. As the recovery develops, unemployment levels start to fall as businesses invest and recruit to meet increasing demand. The key to sustaining a recovery is using preventative measures to stop another recession.

Questions

1. What is the definition of a recession?

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

3. Explain the characteristics of a recession. What actions do you think firms may take during a recession to survive?

4. Analyse two possible issues that a boom could create for a small organisation.

Task

Using the case study to help you, draw a business cycle and annotate it to show the characteristics at the four 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.