Business Cycle & Growth

-Teacher Notes

Directions:
Fill in the blanks.

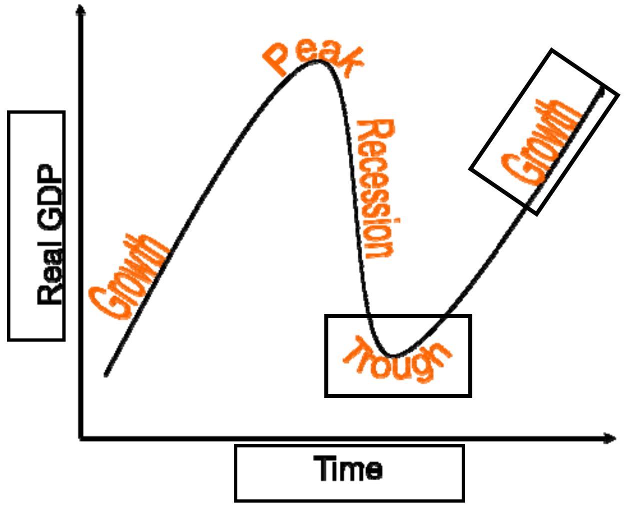
1. The Juglar Cycle

- Was invented by the French physician and statistician Clemente Juglar
- Was the first identified **cyclical** pattern within the economy
- **Recognizes** the business cycle occurring every eight to 11 years
- Is often referred to as "The Business Cycle"

2. The Business Cycle

- Explains the fluctuations in economic activities
- Represents the **pattern** of expansion and contraction in the economy over long periods of time
- Divides into four parts:
  - growth
  - peak
  - **recession**
  - trough

3. The Business Cycle



4. Growth

- May also be called **expansion** or recovery
- Occurs when **persistent** increases in the key measurements of aggregate economic activities are present

Aggregate: sum or whole amount of something

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5. Growth

- Accounts for the increase in **productivity** among companies toward full production
- Causes a rise in **price** before full employment and production is attained

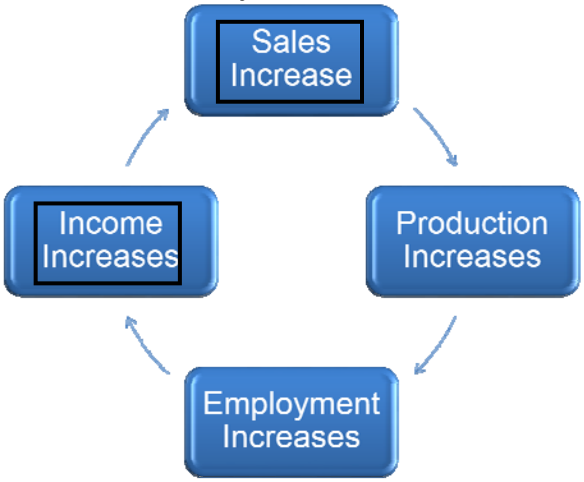
Productivity: measurement of physical output for each unit of input used, usually referring to labor hours.

6. Aggregate Economic Activities

- Are measured in terms of:
  - employment
  - **income**
  - sales
  - productivity

7. Growth

- Can be viewed as a virtuous cycle



8. Causes of Growth

- Include the following:
  - business is newly formed
  - more **branches** of the business are opened
  - need for the product **rises** or is created
  - introduction of new or improved product

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9. Operations

- Should focus on the **output** within a business to aim for potential growth
  - keeping employees motivated
- Involves effective management
  - important to create employment and profit benefits to provide potential growth and **financial** activity for a business

10. Organization

- Plays a large role in the success of growth in a business
- Establishes organizational structures
  - work to lay out the **structure** of a company to assign each person a task
    - someone is put in charge of each **function** of the company
  - ensures everything will be done in a timely manner

11. Growth Strategies

- Are methods companies use to expand their business in terms of customer groups and **customer** functions
- Can be horizontal or vertical
- Include:
  - market penetration
  - **market** expansion
  - product expansion
  - diversification
  - acquisition

12. Horizontal Growth

- Is a strategy which **broadens** a company by opening more locations
- Involves:
  - increasing customer **base** by going after more business
  - adding new products

13. Vertical Growth

- Is a strategy which looks to **expand** on different points in the supply chain Involves:
  - focusing on the current customers
  - developing new products/services to **appeal** to present customer base

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14. Market Penetration

- Is trying to increase the **usage** of a company's products by its current customers
- Works to:
  - maintain/grow market share
  - become the **dominant** player
  - drive out competitors

15. Market Expansion

- Involves selling the current products in a new market
- Is used when:
  - competition **increases** and there may be no room for growth
  - companies find more uses for their **products**

16. Product Expansion

- Involves **expanding** the line of products by adding new features in hopes of increasing sales and profits
- Works to:
  - update products when **older** ones become outmoded
    - usually works well when technology begins to change

17. Diversification

- Involves selling new products to new markets
- Usually involves **research** to ensure the new customers will like the products
- Can be **risky** to a company

18. Acquisition

- Is when a company purchases another company to broaden their operations
- Can be used for **smaller** companies to extend their product lines and enter new markets
- Can present risks, but not as much as **diversification**
  - products and markets are already established

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19. The Peak

- Accounts for the time when business activity has reached a maximum, including:
  - full employment
  - level of **output** at or near capacity
- Often causes higher prices
- Acts as a **transition** point from growth to recession

20. Causes for the Peak

- Include the following:
  - **boom** in the economy
  - sudden need or want of the product
  - **availability** of product rises
  - product is unique for the time being

21. Recession

- May also be referred to as contraction
- Follows the peak
- Is commonly defined as two **consecutive** quarterly declines in gross domestic product
- Accounts for a **decline** in:
  - total output
  - income
  - employment
  - trade

22. Gross Domestic Product

- Is the total market **value** of all goods and services produced within the borders of a country during a **specific** time period

23. Recession

- Occurs in all companies
- Rarely causes price level to fall
  - unless severe and **prolonged**, as in a depression
- Differs from depression
  - depression occurs when GDP drops by more than 10 percent while a **recession** experiences a less severe drop

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24. Causes of Recession

- Include the following:
  - product falls behind in **<u>usefulness</u>**, technology or want
  - value of the dollar declines
  - customer **<u>debt</u>**

25. The Trough

- Marks the **<u>lowest</u>** levels during a recession
- Accounts for the **<u>least</u>** amount of output and employment
- May be short or long lived

26. Causes of the Trough

- Include the following:
  - product is severely **<u>outdated</u>**
  - need or want for the product is at an all time low
  - product has not changed over time
  - many customers already **<u>possess</u>** the product

27. Exit Strategies

- Are plans developed by business owners to leave their business
- Are important for knowing the **<u>long-term</u>** plans of a business
  - for example: if a business wants to be **<u>listed</u>** on the stock market, it will have to follow specific accounting regulations from the start

28. Exit Strategies

- Should be developed while determining business plans
- Can include:
  - **<u>selling</u>** the business
  - going **<u>public</u>**
  - liquidating the business

29. Selling the Business

- Can allow for an **<u>easy</u>** exit from a business, which detaches the owner from the business and gives them the money from the sale
- Is most likely used when:
  - the business is becoming a **<u>hassle</u>** for the owner to control on their own
  - the owner wants to diversify the worth of the business over multiple properties

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30. Selling the Business

- Allows the owner to:
  - **negotiate** for equity in the buying company
  - earn **dividends** afterward

Equity: the value of shares which are issues by a company
Dividends: distribution of a share of the company's earnings to its shareholders

31. Going Public

- Entails offering **shares** of a company to the public market
- Is most likely used when:
  - the business is challenged with an opportunity to grow
  - the success of the business is **significant**

32. Going Public

- Can **limit** exit options for a business owner
  - when shares are traded in public markets, it is difficult for the business owner to keep more than 50 percent of stocks
  - owners lose **control** when the company is public

33. Liquidating the Business

- Is shutting down the company and **closing** the business doors
- Is used when the **markets** the owner invested in could implode

34. Liquidating the Business

- Is most likely used when:
  - the success or growth of a business has come to a halt
  - personal issues arise with the business owner and there is no buyers interested in **purchasing** the business
- Can be looked at as a "last resort"
  - owners almost never receive the full value of their company using this **strategy**

35. Business Cycle Indicators

- Are used to **foresee** changes in the economy of a country
- Help predict peaks and **troughs** within business cycles

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36. Business Cycle Indicators

- Account for reports comprised of **statistical** data which are studied by economists
- Should not be **trusted** to always accurately predict changes in the economy

37. Business Cycle Indicators

- Include the following factors:
  - labor force
  - wages, **labor** costs and productivity
  - exports and imports
  - national defense
  - personal incomes and consumer **attitudes**
  - output, production and capacity utilization