[Frequently Asked Questions]

Advances in Business Cycle Theory

Subject:	Business Economics
Course:	B. A. (Hons.), 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 301 Microeconomics - I
Unit No. & Title:	Unit – 5 Economics of Great Events
Lecture No. & Title:	Lecture – 2 Advances in Business Cycle Theory

Frequently Asked Questions

Q1. What is Business cycle?

A1. The trend of any country's economy activity which is randomly goes for expansion and contraction is called business cycle.

Q2. Real theory is based on which assumption?

A2. Even in short run price are fully flexible, the price itself adjusts to clear the market, the nominal variables, as supply of money and level of price do not influence the real variable as output and employment, The technological progress and economic growth occurs unevenly.

Q3. Recession as Coordination Failure. Prove.

A3. The outcome of this theory is both the firms will cut a price for preferable outcome in which each firm makes good profit. On the other hand, if expects other firm to maintain the price, both will maintain and result gets, both will earn similar profit.

Q4. How the Staggering helps the Wage and Price adjustment?

A4. The staggering reduces the speed in the process of coordination and price adjustment. 'Staggering makes the overall level of wages and prices adjust gradually, even when individual wages and prices changes frequently'.

Q5. What is expansion?

A5. The trend of high income, output and employment has been called the period of expansion.

Q6. What is Contraction?

A6. The trend of low income, output and employment has been called as contraction.

Q7. What is aggregate demand and how it helps in real money to increase with the customer?

A7. When one firm reduces the price, everywhere price level fall. This raises the real money balance with the consumer and increases the aggregate demand. This benefits the other firms and this known as aggregate demand externality.

Q8. Staggering reduces the speed in the process of what?

A8. This staggering reduces the speed in the process of Co-ordination and price adjustment.

Q9.Profit does not depend on price cut, but also the decision taken by other firms. Which are they?

A9. If none of the firm cuts price then real money balance reduces, hit the recession and earns little profit. If both the firms cuts price then real money balance increases, recession avoided and earns more profit. If one firm reduces its prices and the other do not then recession hits and price cut firm will earn less compare to the other firm which avoids cutting the price.

Q10. What leads firms to adjust prices not continuously but intermittently?

A10. 'The costs of changing prices are menu cost'. This leads firms to adjust prices not continuously but intermittently.