Frequently Asked Questions

1. What does the term cycle refer to?
   Answer:
   The Term Cycle refers to the recurrent variations in time series that usually last longer than a year but not regular in length or amplitude.

2. What is a cyclical fluctuation?
   Answer:
   Cyclical fluctuations are long term movements that represent consistently recurring increase and decline in activity.

3. What is the use of studying cyclical variation?
   Answer:
   The study of such cyclical variations is extremely useful in framing suitable policies for stabilizing the level of business activity and for avoiding periods of booms and depressions as both are bad for an economy – particularly depression which brings about a complete disaster and shatters the economy.

4. What is the difficulty in cyclical variation?
   Answer:
   Cyclical variations are mixed with erratic, random forces which make it difficult to isolate separately the effect of cyclical and irregular forces.

5. How is business cycle different form seasonal variation?
   Answer:
   Business cycles are distinguished from seasonal variation in the following respects where in the cyclical variations are of a longer durations – more than a year. Typical business cycles could vary from 2 to 10 years. Moreover, they do not ordinarily exhibit regular periodicity as successive cycles vary widely in timing, amplitude and pattern.

6. What are the various methods used to measure cyclical variation?
   Answer:
   The various methods used for measuring cyclical variations are: residual method, reference cycle analysis method, direct percentage variation method, harmonic analysis method or fitting of sine functions.

7. What is a residual method?
   Answer:
   Residual method consists of eliminating the two components seasonal variation and trend, thus obtaining the cyclical irregular movements. The data are usually smoothed in order to obtain cyclical movements, which are sometimes termed the cyclical relatives, since they are always percentages

8. Why the method called residual method?
   Answer:
   The method is called the residual method because cyclical, irregular or the cyclical movements remain as residuals in this procedure.

9. What is a reference cycle method?
   Answer:

A procedure involving ‘references dates’ has been designed by the National Bureau of Economic Research as a device which allows one not only to compare each series with a standard set of dates and to observe the behavior of individual series during expansion and contraction of general business but also to compare the results for the various individual series.

10. What are reference cycle relatives?

Answer:

For each segment, the monthly values are expressed as percentages of averages of all the values in the segment. These are “reference-cycle-relatives”.

11. What is the benefit of nine stage averages?

Answer:

The nine stage averages for each reference cycle segment serves to reduce the erratic movements in a series and gives a reference cycle pattern for particular series under considerations.

12. What are the benefits of involving reference dates?

Answer:

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13. What are the steps involved in reference cycle?

Answer:

Data is adjusted for seasonal variations, seasonally adjusted data are divided into reference cycle segments, these segments corresponding to the intervals between adjacent reference troughs, and each reference cycle segment is broken into nine stages to correspond to the same nine stages of business cycle and the reference cycles relatives are averaged for each of the nine stages.

14. What is the important type of fluctuation in the economic data?

Answer:

Business cycles are perhaps the most important type of fluctuation in economic data. This is because successive cycles vary so widely in timing, amplitude, pattern and the cyclical rhythm is inextricably mixed with regular factors. Because of these reasons it is impossible to construct meaningful typical cycle indexes or curves similar to those that have been developed for trends and seasonal.

15. What are the phases of the business cycle?

Answer:

The period of prosperity, decline, depression and improvement viewed as four phases of a business cycle are generated by factors other than weather, social customs and those which create seasonal patterns.