**Business Cycle, Unemployment, and Inflation**

**Business Cycle**
Is alternating rises and declines in the level of economic activity, sometime over several years.

**Phases of the Business Cycle:** there are four phases of Business Cycle as follows

1. **Peak:** business activity has reached a temporary maximum. Here the economy is near or at full employment and the level of real output is at or very close to the economy’s capacity.
2. **Recession:** is a period of decline in total output, income, and employment.
3. **Trough:** output and employment “bottom out” at their lowest levels.
4. **Expansion,** a period in which real GDP, income, and employment rise. At some point, the economy again approaches full employment.

There are two problems that arise from the business cycle: Unemployment and Inflation.
First: Unemployment

Labor force: consists of both people who are employed and those who are unemployed.

Labor force = employed people + unemployed people

Unemployment: is the state a person cannot get a job despite being willing to work and actively seeking work.

The unemployment rate: is the percentage of the labor force unemployed, or the portion of the labor force currently without a job.

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\text{Unemployment rate} = \frac{\text{unemployed}}{\text{labor force}} \times 100
\]

Types of Unemployment

There are three types of unemployment: frictional, structural, and cyclical.

1. Frictional Unemployment:

   The flow of workers into and out of jobs such as:
   
   - Some of them will be moving voluntarily from one job to another.
   - Others will have been fired and will be seeking reemployment.
   - Others will have been laid off temporarily because of seasonal demand.
   - Those between jobs, many young workers will be searching for their first jobs.
   - Workers who are voluntarily between jobs are moving from low-paying, low-productivity jobs to higher-paying, higher-productivity positions.
2. **Structural Unemployment:**
   - A mismatch between workers’ skills and current employer needs.
   - Workers can’t find jobs that match their qualifications, and employers can’t find employees with the skills their job.
   - Unemployment results because the composition of the labor force does not respond immediately or completely to the new structure of job opportunities, so workers are structurally unemployed until they adapt or develop skills that employers want.

3. **Cyclical Unemployment:**
   - Unemployment that is caused by an economic fluctuations such as decline in total spending.
   - As the demand for goods and services decreases businesses reduce production, employment falls and unemployment rises.
   - Cyclical unemployment results from insufficient demand for goods and services.
Second: Inflation

Inflation is a rise in the general level of prices. When inflation occurs, each pound of income will buy fewer goods and services than before. Inflation reduces the “purchasing power” of money.

Types of inflation:

1. Demand-pull inflation: occurs when total spending exceeds the economy’s ability to provide goods and services at the existing price level; total spending pulls the price level upward.

2. Cost-push inflation: occurs when factors such as rapid increases in the prices of imported raw materials drive up per-unit production costs at each level of output; higher costs push the price level upward.