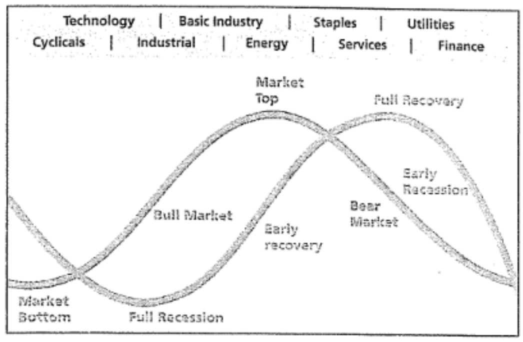
- the business cycle
- the investment cycle

Economic cycles

Reading

1 **Read the article and choose the best alternative in bold.**

The Business Cycle



Economic growth usually follows a pattern of contraction and expansion punctuated by troughs and peaks.

When an economy is in recession, central banks lower interest rates to encourage spending. After reaching market bottom, stock markets start to invest in the technology and industrial sectors. The bull market begins well before recovery is visible in the economy.

The stock market reaches market top before full recovery in the economy, and investors move into staples and services. But as growth increases, so does inflation and central banks raise interest rates in order to control it.

The markets then expect a period of contraction and become bearish: investors prefer to invest in utilities and bonds. Economic growth starts to slow, the economy moves into recession and the cycle continues.

1 Interest rates usually **rise** / **fall** in a period of recession.
2 When inflation increases, central banks **lower** / **raise** interest rates.
3 A bull market is **optimistic** / **pessimistic** about the economy.
4 A bear market begins **before** / **after** recession.
5 Bonds are a more popular investment than stocks in a **bull market** / **bear market**.

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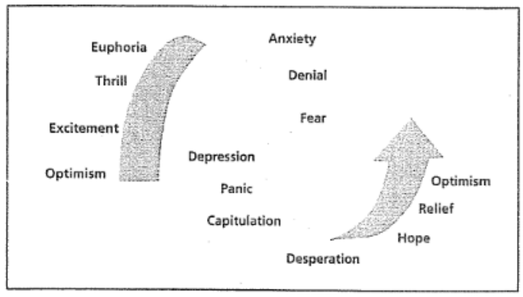
bear market
bond
bull market
euphoric
greater fool investor
staple
trough
value investor

2 **Read the article and mark statements 1–5 *T* (true) or *F* (false).**

The Investment Cycle



The first phase is accumulation. After the market has bottomed, innovators and early adopters begin to buy at attractive prices in a market which is still bearish.

In the mark-up phase, the fear of the majority of investors of losing money becomes weaker than the desire to make a profit and investors become first bullish, then excited and finally even euphoric.

In the distribution phase, value investors begin to sell. Prices can remain high for some time and greater fool investors continue to buy, hoping for further rises. Eventually, prices drop and sellers settle for a breakeven or a small loss.

Mark-down is the most painful phase. It is only when the market has plunged 50% or more that many investors first panic, then give in.

Adapted from http://www.investopedia.com

1 Early adopters are unwilling to take risks. ☐
2 Innovators buy when the market is bullish and sell when it is bearish. ☐
3 Most investors buy when prices are rising and sell when they are falling. ☐
4 During the distribution phase, value investors wait until prices begin to drop before selling. ☐
5 Greater fool investors prefer to make a small loss rather than accept a breakeven. ☐

Discussion

3 **In groups, discuss the questions.**

1 What stage of the business cycle is the economy in now? How long will it last?
2 What are the advantages and disadvantages for individuals, companies and countries when central banks **a**) raise or **b**) lower interest rates?