

What Business Cycles Cost Us

Part 3



The Answer

$$\lambda \approx 0.015$$

Eliminating business cycles is worth as much as a 1.5% increase in consumption.

The Answer

$$\lambda \approx 0.0$$

Eliminating business cycles is worth as much as a 1.5% increase in consumption.

Since C runs about \$7,000 billion per year, this is equal to about \$105 billion per year.

The Answer

A caution: there are some assumptions about volatility, etc.

Eliminating business cycles is worth as much as a 1.5% increase in consumption.

$$\lambda \approx 0.0$$

Since C runs about \$7,000 billion per year, this is equal to about \$105 billion per year.

The Answer

A big number but not the biggest number

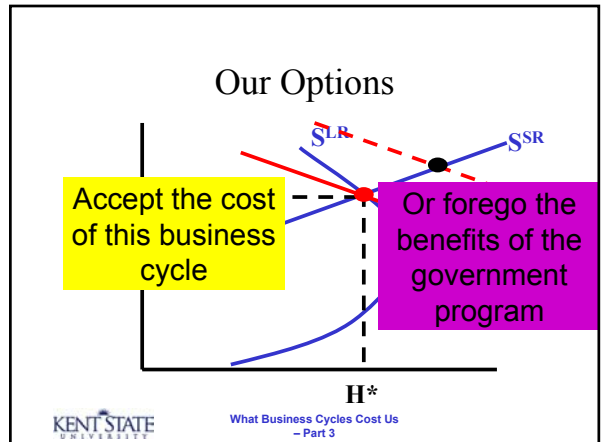
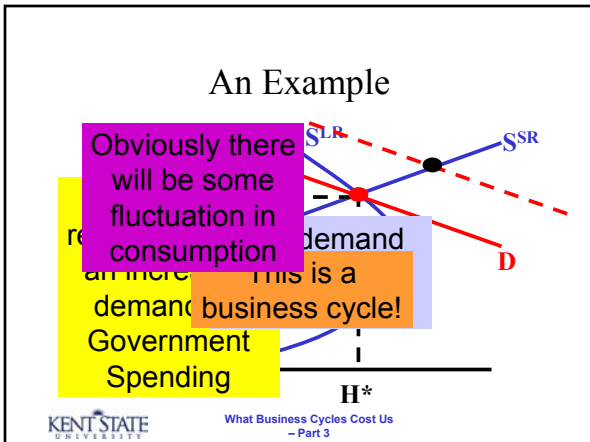
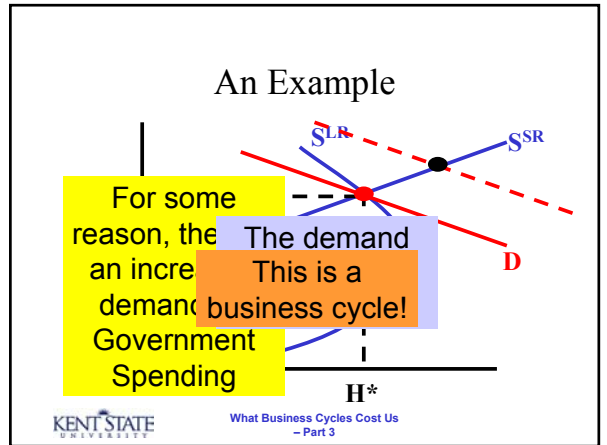
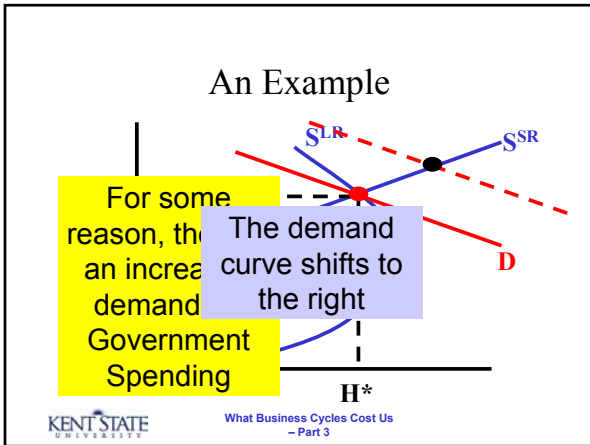
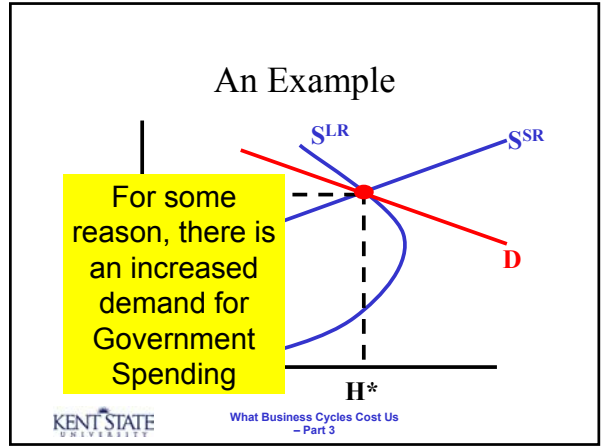
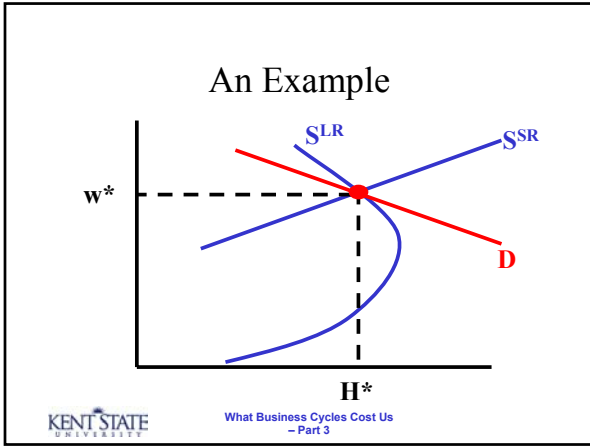
$$\lambda \approx 0.0$$

Eliminating business cycles is worth as much as a 1.5% increase in consumption.

Since C runs about \$7,000 billion per year, this is equal to about \$105 billion per year.

Moreover

- While Business Cycles have costs, it is also costly to eliminate them.



Our Options

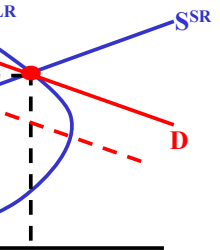
Accept
of this
cycle

Warning: there are some business cycles that are clearly wasteful and avoidable. But we don't want to avoid *all* business cycles

H^*

A Second Example

For some reason the demand curve has shifted to the left, and we have a business cycle



H^*

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Someone proposes to address the business cycle with a bit of pork barrel spending

H^*

A Second Example

While this will eliminate the business cycle, there are real resource costs to this wasteful pork.

Someone proposes to address the business cycle with a bit of pork barrel spending

H^*

The Decision

- If business cycles are due to imperfect information, then avoiding them is 100% gain.
 - The Great Depression

The Decision

- If they are due to demand fluctuations or real business cycles, the case is not so obvious.
 - In part the market deals with these fluctuations already.

The 80-20 Rule

- 80% of the damage is due to 20% of the cycles.

The 80-20 Rule

- 80% of the damage is due to 20% of the cycles.
 - The Great Depression
 - The Volker Business Cycle

End

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