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Dr. Akhay Kumar Pathak	Content of the Paper:-
Deptt. of Economics,	Macro Economics
Marwari College,	Module :- 6
Darbhanga (LNMU)	

TOPIC :- MEASURES TO CONTROL TRADE CYCLES

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The term 'Tradecycle' refers to the wave-like fluctuations in the aggregate economic activity, Particularly in employment, output and income. In other words, trade cycles are ups and downs in economic activity. Tradecycles being a complex phenomenon are caused and conditioned by various factors like monetary, non-monetary, exogenous and endogenous and it is not easy to attribute it to any one single factor. Different cycles at different times are caused by different factors.

As we have analysed that trade cycles are ups and downs of economic activity, so economic stabilisation is one of the main remedies to effectively control or eliminate the Periodic trade cycles which plague capitalist economy. Economic stabilisation, it should be noted, is not merely confined to a single individual sector of an economy but embraces all the facts. In order to ensure economic stability, a number of economic measures have to be devised and implemented. By implementing economic stabilisation, the wave-like fluctuations in economic activity can be corrected. Following are the measures by which the trade cycles can be controlled:

Monetary Policy:-

The commonly advocated Policy of solving the Problem

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of fluctuations is monetary Policy. The fundamental Problem of monetary Policy in relation to trade cycles is to control and regulate the volume of credit in such a way as to attain economic stability. For this purpose, following weapons are used under monetary management:-

(I) Bank Rate Policy:-

Under credit analysis, a rise in the bank rate indicates that the central bank considers that liquidity in the banking system possesses an inflationary Potential. It implies that the flow of money and credit is very much in excess of the actual Productive capacity of the economy and therefore, a restraint on the expansion of money supply through dear money Policy is desirable. On the other hand, a reduction in the bank rate is generally interpreted as an evidence of a shift in the direction of monetary Policy towards a cheap and expansive money policy.

(II) Open Market Operations:-

The technique of open market operations refers to the purchase and sale of securities by the central bank. A selling operation reduces commercial banks' reserves and their lending power. However, because of the need to maintain the government securities market, the central bank is completely free to sell government securities when and in what amounts it wishes in order to influence commercial banks' reserves position. Thus, when a large Public debt is outstanding by expanding the securities market, monetary Policy and management of the public debt become inseparably intertwined.

(III) Cash Reserve Ratios :-

The monetary authorities have at their disposal another most effective way of influencing reserves and activities of commercial banks and that weapons is a change in cash reserve ratios. Changes in the reserve ratios become effective at a Pre-announced date. Their immediate effect is to alter the liquidity Position in the banking system.

(IV) Selective Controls :-

Selective control or qualitative credit control is used to divert the flow of credit into and out of Particular segments of the credit market. Selective Controls aim at influencing the Purpose of borrowing. They regulate the extension of credit for particular Purposes. The rationale for the use of selective controls is that credit may be deemed excessive in some sectors at a time when a general credit control would be contrary to the maintenance of economic stability.

Fiscal Policy :-
Fiscal Policy is an important tool to establish economic stability in economy. Fiscal Policy operates through the control of government expenditures and tax receipts. Basically, two sets of techniques can be employed for planning the desired flexibility in the relation between tax revenue and expenditure. They are built-in flexibility or automatic stabilisers and discretionary action.

(i) Built-in Flexibility :-
In order to minimise the difficulties that arise from uncertainties of forecasting and timing of fiscal operations, an automatic stabiliser programme is often advocated. Automatic stabiliser programme implies that in a given framework of expenditure and revenue relation in a budgetary Policy, there exists factors which Provide automatically corrective influences on movements in national income, employment etc. This is what is called built-in flexibility. It refers to a passive budgetary policy.

(ii) Discretionary Action :-
Quite often, it becomes absolutely necessary to have fiscal operations with a tool kit of discretionary Policies consisting of measures for putting into effect with a minimum delay, the changes in govt. expenditures.

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Direct Controls:-

Direct Control are imposed by government which expressly forbid or restricts certain kinds of investments or economic activity. Sometimes direct government control over prices and wages as a measure against inflation have been advocated and implemented.

Conclusively we can say that there is no full-proof method of solving the problem of trade cycles. All measures suggested above must be carefully co-ordinated and implemented to achieve economic stabilisation.