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Macroeconomic Fluctuations and Asset Markets in India

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ABSTRACT:

A market economy is not static. It's dynamic. A rise in national income means an economy is growing, while a decline in national income means that an economy is contracting. Economic fluctuations are temporary departures of real GDP from its long-run growth trend. These departures include recessions, periods when real GDP falls below potential GDP, and booms, times when real GDP rises above potential GDP. Economic fluctuations are also called business cycles. Economic fluctuations are simply fluctuations in the level of the national income of a country representing growth or contraction. Economic fluctuations have diminished in frequency and severity in the United States and many other countries over the past 25 years, a phenomenon called the "Great Moderation. The growth of an economy can be measured through increase in its size in the current year in comparison to previous years, but economic development includes not only physical but also non-physical aspects that can only be experienced like improvement in the lifestyle of the inhabitants, increase in individual income, improvement in technology and infrastructure . If wants to understand two terms economic growth and economic development, we will take an example of a human being. The growth of human beings simply means the increase in their height and weight which is purely physical one. But if you talk about human development, it will take into account both the physical and abstract aspects like maturity level, attitudes, habits, behaviour, feelings, intelligence and so on. It has already been described, that the cause of these fluctuations has to be something that drives the whole economy instead of a small component of the economy. Over the last few centuries trade has taken place using money. Monetary metals like gold and silver fulfilled these characteristics and became acceptable as money across nations and between countries. In the first instance this money had value in use and value in exchange. It was something that was generally acceptable, held its value and was portable, durable, divisible and relatively stable over time. Business cycles are usually measured by considering the growth rate of real gross domestic product. Despite the often-applied term cycles, these fluctuations in economic activity do not exhibit uniform or predictable periodicity. The business cycle or economic cycle is the downward and upward movement of gross domestic product (GDP) around its long-term growth trend. The length of a business cycle is the period of time containing a single boom and contraction in sequence. These fluctuations typically involve shifts over time between periods of relatively rapid economic growth and periods of relative stagnation or decline .The common or popular usage boom-and-bust cycle refers to fluctuations in which the expansion is rapid and the contraction severe. In recent years economic theory has moved towards the study of economic fluctuation rather than a 'business cycle' though some economists use the phrase 'business cycle' as a convenient shorthand. In view of Milton Friedman calling the business cycle a "cycle" is a misnomer, because of its non-cyclical nature. Friedman believed that for the most part, excluding very large supply shocks, business declines are more of a monetary phenomenon. Real business cycle theories explain economic fluctuations by changes in potential GDP rather than by changes in aggregate demand that cause movements of real GDP around potential GDP. Although, in principle, short-run fluctuations in potential GDP are possible,

the factors that underlie potential GDP growth, population, capital, and technology, do not seem to exhibit enough short-run variation to account for the magnitude of observed fluctuations in real GDP.

INTRODUCTION:

In last two decade economic theory has moved towards the study of economic fluctuation rather than a 'business cycle' though some economists use the phrase 'business cycle' as a convenient shorthand. In view of Milton Friedman calling the business cycle a "cycle" is a misnomer, because of its non-cyclical nature. He believed that for the most part, excluding very large supply shocks, business declines are more of a monetary phenomenon. The main framework for explaining such fluctuations is Keynesian economics. In the Keynesian view, business cycles reflect the possibility that the economy may reach short-run equilibrium at levels below or above full employment. The explanation of fluctuations in aggregate economic activity is one of the primary concerns of macroeconomics. If the economy is operating with less than full employment, i.e., with high unemployment, Keynesian theory states that monetary policy and fiscal policy can have a positive role to play in smoothing the fluctuations of the business cycle. Beside the Keynesian explanation there are a number of alternative theories of business cycles, largely associated with particular schools or theorists in heterodox economics. Nowadays other notable theories are credit-based explanations such as debt deflation and the financial instability hypothesis. The latter two gained interest for being able to explain the subprime mortgage crisis and financial crises. Within mainstream economics, the debate over external (exogenous) versus internal (endogenous) being the causes of the economic cycles, with the classical school (now neo-classical) arguing for exogenous causes and the under consumptionist (now Keynesian) school arguing for endogenous causes. These may also broadly be classed as "supply-side" and "demand-side" explanations: supply-side explanations may be styled, following Say's law, as arguing that "supply creates its own demand", while demand-side explanations argue that effective demand may fall short of supply, yielding a recession or depression. This debate has important policy consequences: proponents of exogenous causes of crises such as neo classical largely argue for minimal government policy or regulation , as absent these external shocks, the market functions, while proponents of endogenous causes of crises such as Keynesians largely argue for larger government policy and regulation, as absent regulation, the market will move from crisis to crisis. This division is not absolute some classical argued for government policy to mitigate the damage of economic cycles, despite believing in external causes, while Austrian School economists argue against government involvement as only worsening crises, despite believing in internal causes. Until the Keynesian revolution in mainstream economics in the wake of the Great Depression, classical and neoclassical explanations (exogenous causes) were the mainstream explanation of economic cycles; following the Keynesian revolution, neoclassical macroeconomics was largely rejected. There has been some resurgence of neoclassical approaches in the form of real business cycle (RBC) theory. The debate between Keynesians and neo-classical advocates was reawakened following the recession of 2007. The asset class is a group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations. The three main asset classes are equities, or stocks; fixed income, or bonds; and cash equivalents, or money market instruments. Macroeconomists study aggregated indicators such as GDP, unemployment rates, national income, price indices, and the interrelations among the different sectors of the economy to better understand how the whole economy functions. Macroeconomists develop models that explain the relationship between such factors as national income, output, consumption, unemployment, inflation, savings, investment, international trade and international finance. While macroeconomics is a broad field of study, there are two areas of research that are emblematic of the discipline: the attempt to understand the causes and consequences of short-run fluctuations in national income (the business cycle), and the attempt to understand the determinants of long-run economic growth (increases in national income). Macroeconomic models and their forecasts are used by governments to assist in the development and evaluation of economic policy.

KEYWORDS: Macroeconomic Fluctuation, Business cycle, GDP, Monetary Policy, Macroeconomics, Asset market etc.

OBJECTIVE:

- To analyze the role of the Macroeconomic Fluctuation in Economy.
- To identify the role of Monetary policy and Business cycle.
- To identify the role of Gross Domestic Product (GDP) in Fluctuations
- To analyze the role of Asset Market.

MACROECONOMIC FLUCTUATIONS:

Economic fluctuations are temporary departures of real GDP from its long-run growth trend. These departures include recessions, periods when real GDP falls below potential GDP, and booms, times when real GDP rises above potential GDP. Economic fluctuations are also called business cycles. Economic fluctuations have diminished in frequency and severity in the United States and many other countries over the past 25 years, a phenomenon called the "Great Moderation. Economic fluctuation is simply fluctuations in the level of the national income of a country representing growth or contraction. A market economy is not static. It's dynamic. A rise in national income means an economy is growing, while a decline in national income means that an economy is contracting. What happens if an increase in aggregate demand occurs. Suppose that the economy is in "normal times," neither in a recession nor in a boom, so that real GDP equals potential GDP. In theory, firms could respond to the greater demand for their goods either by expanding output or by raising prices. In practice, firms do not raise prices in the short run. Instead, they expand output, and the economy enters a boom. But prices are not fixed forever. Over time, if demand stays high, firms raise their prices and the boom ends. If aggregate demand falls, the reverse occurs. In the short run, firms lower output instead of cutting prices, and the economy enters a recession. Over time, if demand stays low, prices fall and the economy recovers. Aggregate demand is the total amount that consumers, businesses, government, and foreigners are willing to spend on all goods and services in the economy. Changes in aggregate demand occur when any or all of these groups expand or cut back their spending plans. These changes range from the government spending more on health care, to foreigners buying more American computers, to consumers feeling more optimistic about the future and buying more holiday presents. Real business cycle theories explain economic fluctuations by changes in potential GDP rather than by changes in aggregate demand that cause movements of real GDP around potential GDP. Although, in principle, short-run fluctuations in potential GDP are possible, the factors that underlie potential GDP growth population, capital, and technology do not seem to exhibit enough short-run variation to account for the magnitude of observed fluctuations in real GDP. The consumption function describes how consumption depends on income. If you receive income, you can either consume or save. In its simplest form, the consumption function says that when income increases for an individual, the United States, or the whole world consumption also increases. At low levels of income, individuals borrow they consume more than their income. At higher income levels, they save they consume less than their income..The marginal propensity to consume, MPC for short, measures how much consumption changes for a given change in income. It is defined as the change in consumption divided by the change in income. Disposable income is the income that households receive in wages, dividends, and interest payments plus transfers minus taxes. It is the preferred measure of income for uses in the consumption function because it measures what households have available to spend. Another form of income used in the consumption function is aggregate income, which is also equal to real GDP. The simple consumption function ignores the effects of interest rates and wealth on consumption. A forecast of real GDP is a prediction of its future level. A short-run forecast would be a prediction of real GDP one year ahead. Economic forecasters use the identity that real GDP is the sum of consumption, investment, government purchases, and net exports to predict future real GDP based on their predictions of the four categories of spending. A conditional forecast is a prediction of what real GDP will be under alternative assumptions about future government purchases. This can be used to make predictions about the effects on the economy of proposed changes in government spending.

- **Economic fluctuations** are temporary departures of real GDP from its long-run growth trend. These departures include recessions, periods when real GDP falls below potential GDP, and booms, times when real GDP rises above potential GDP.
- **Aggregate demand** is the total amount that consumers, businesses, government, and foreigners are willing to spend on all goods and services in the economy.
- **Business cycle** theories explain economic fluctuations by changes in potential GDP rather than by changes in aggregate demand that cause movements of real GDP around potential GDP.
- **Consumption function** describes how consumption depends on income. If you receive income, you can either consume or save.
- **Marginal propensity** to consume-MPC for short, measures how much consumption changes for a given change in income. It is defined as the change in consumption divided by the change in income.
- **Disposable income** is the income that households receive in wages, dividends, and interest payments plus transfers minus taxes.
- **Economic Forecast** of real GDP is a prediction of its future level. A short-run forecast would be a prediction of real GDP one year ahead.

ASSET MARKET:

The asset class is a group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations. The three main asset classes are equities, or stocks; fixed income, or bonds; and cash equivalents, or money market instruments. Asset Market Model theory suggests that a currency will be in more demand and hence will likely appreciate in value if the flow of funds into other financial market of the country such as equities and bonds increases and vice versa. This is especially true in developed nations, where both public and institutional investors hold their funds in investment products such as stocks and bonds which dwarf the amount of funds that are exchanged as a result of import and export processes.

Anything tangible or intangible that can be owned or controlled to produce value and that is held by a company to produce positive economic value is an asset. Simply stated, assets represent value of ownership that can be converted into cash, although cash itself is also considered an asset. The balance sheet of a firm records the monetary value of the assets owned by that firm. It covers money and other valuables belonging to an individual or to a business. One can classify assets into two major asset classes: tangible assets and intangible assets. Tangible assets contain various subclasses, including current assets and fixed assets. Current assets include inventory, while fixed assets include such items as buildings and equipment. Intangible assets are nonphysical resources and rights that have a value to the firm because they give the firm some kind of advantage in the marketplace. Examples of intangible assets include goodwill, copyrights, trademarks, patents and computer programs, and financial assets, including such items as accounts receivable, bonds and stocks. One of the most widely accepted accounting definitions of asset is the one used by the International Accounting Standards Board. The following is a quotation from the IFRS Framework: "An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

1.**The probable** present benefit involve a capacity, singly or in combination with other assets, in the case of profit oriented enterprises, to contribute directly or indirectly to future net cash flows, and, in the case of nonprofits organizations, to provide services;

2. **The entity** can control access to the benefit; the transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred. Similarly, in economics an asset is any form in which wealth can be held. In the financial accounting sense of the term, it is not necessary to be able to legally enforce the asset's benefit for qualifying a resource as being an asset, provided the entity can control its use by other means.

3. **Current assets:** Are cash and other assets expected to be converted to cash or consumed either in a year or in the operating cycle (whichever is longer), without disturbing the normal operations of a business. These assets are continually turned over in the course of a business during normal business activity.

4. **Fixed assets:** Also referred to as PPE (property, plant, and equipment), these are purchased for continued and long-term use in earning profit in a business. This group includes as an asset land, buildings, machinery, furniture, tools, IT equipment, e.g., laptops, and certain wasting resources e.g., timberland and minerals.

5. **Intangible assets:** Intangible assets lack of physical substance and usually are very hard to evaluate. They include patents, copyrights, franchises, goodwill, trademarks, trade names.

6. **Tangible assets:** Tangible assets are those that have a physical substance, such as currencies, buildings, real estate, vehicles, inventories, equipment, art collections, and precious metals. This has created a need for tangible asset managers.

COMPARISON: CURRENT ASSETS, LIQUID ASSETS AND ABSOLUTE LIQUID ASSETS:

CURRENT ASSET	LIQUID ASSET	ABSOLUTE LIQUID ASSET
Stocks		
Prepaid expenses		
Bill receivables	Bill receivables	Bill receivables
Cash in hand	Cash in hand	Cash in hand
Cash at bank	Cash at bank	Cash at bank
Accrued incomes	Accrued incomes	Accrued incomes
Loan and advances-short term	Loan and advances-short term	Loan and advances-short term
Trade investments-short term	Trade investments-short term	Trade investments-short term

MONETARY POLICY OF INDIA:

Monetary policy is the process by which monetary authority of a country, generally central bank controls the supply of money in the economy by its control over interest rates in order to maintain price stability and achieve high economic growth. In India, the central monetary authority is the Reserve Bank of India (RBI). It is so designed as to maintain the price stability in the economy. Other objectives of the monetary policy of India, as stated by RBI, are:

Price Stability

Price Stability implies promoting economic development with considerable emphasis on price stability. The centre of focus is to facilitate the environment which is favourable to the architecture that enables the developmental projects to run swiftly while also maintaining reasonable price stability.

Controlled Expansion of Bank Credit

One of the important functions of RBI is the controlled expansion of bank credit and money supply with special attention to seasonal requirement for credit without affecting the output.

Promotion of Fixed Investment

The aim here is to increase the productivity of investment by restraining non essential fixed investment.

Restriction of Inventories and stocks

Overfilling of stocks and products becoming outdated due to excess of stock often results in sickness of the unit. To avoid this problem the central monetary authority carries out this essential function of restricting the inventories. The main objective of this policy is to avoid over-stocking and idle money in the organization.

Promote Efficiency

It is another essential aspect where the central banks pay a lot of attention. It tries to increase the efficiency in the financial system and tries to incorporate structural changes such as deregulating interest rates, ease operational constraints in the credit delivery system, to introduce new money market instruments etc.

REDUCING THE RIGIDITY

RBI tries to bring about the flexibilities in the operations which provide a considerable autonomy. It encourages more competitive environment and diversification. It maintains its control over financial system whenever and wherever necessary to maintain the discipline and prudence in operations of the financial system.

BUSINESS CYCLE:

Over the period since the Industrial Revolution, technological progress has had a much larger effect on the economy than any fluctuations in credit or debt, the primary exception being the Great Depression, which caused a multi-year steep economic decline. The whole economy will likely be upward or downward, it is always necessary to look the aggregate demand side of economy and that shows we are looking at what is going to happen at the rate of growth of monetary demand. There has been an unresolved question over what causes fluctuations in economic development of the country. The fluctuation occurs are given names according to their cycle like Business cycle, Trade cycle etc. In capitalist economies cycles are observed but one must not be mistaken that these capitalist are the cause of the economy. The business cycle or economic cycle is the downward and upward movement of gross domestic product (GDP) around its long-term growth trend. The length of a business cycle is the period of time containing a single boom and contraction in sequence. These fluctuations typically involve shifts over time between periods of relatively rapid economic growth (expansions or booms), and periods of relative stagnation or decline (contractions or recessions).Business cycles are usually measured by considering the growth rate of real gross domestic product. Despite the often-applied term cycles, these fluctuations in economic activity do not exhibit uniform or predictable periodicity. The common or popular usage boom-and-bust cycle refers to fluctuations in which the expansion is rapid and the contraction.

REAL BUSINESS CYCLE THEORY

Within mainstream economics, Keynesian views have been challenged by real business cycle models in which fluctuations are due to technology shocks. This theory is most associated with Finn E. Kydland and Edward C. Prescott, and more generally the Chicago school of economics (freshwater economics). They consider that economic crisis and fluctuations cannot stem from a monetary shock, only from an external shock, such as an innovation.

POLITICALLY BASED BUSINESS CYCLE:

Another set of models tries to derive the business cycle from political decisions. The partisan business cycle suggests that cycles result from the successive elections of administrations with different policy regimes. Regime A adopts expansionary policies, resulting in growth and inflation, but is voted out of office when inflation becomes unacceptably high. The replacement, Regime B, adopts contractionary policies reducing inflation and growth, and the downwards swing of the cycle. It is voted out of office when unemployment is too high, being replaced by Party A.

CREDIT/DEBT CYCLE:

One alternative theory is that the primary cause of economic cycles is due to the credit cycle: the net expansion of credit (increase in private credit, equivalently debt, as a percentage of GDP) yields economic expansions, while the net contraction causes recessions, and if it persists, depressions. In particular, the bursting of speculative bubbles is seen as the proximate cause of depressions, and this theory places finance and banks at the center of the business cycle. Business cycles are a type of fluctuation found in the aggregate economic activity of nations that organize their work mainly in business enterprises: a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; in duration, business cycles vary from more than one year to ten or twelve years.

CLASSIFICATION BY PERIODS:

Business cycle with it specific forces in four stages according to Malcolm C. Rorty, 1922.In 1860 French economist Clement Juglar first identified economic cycles 7 to 11 years long, although he cautiously did not claim any rigid regularity, economist Joseph Schumpeter (1883–1950) argued that a Juglar Cycle has four stages:

1. Expansion (increase in production and prices, low interest-rates)

2. Crisis (stock exchanges crash and multiple bankruptcies of firms occur)

3. Recession (drops in prices and in output, high interest-rates)

4. Recovery (stocks recover because of the fall in prices and incomes)

EXOGENOUS VS. ENDOGENOUS:

Within mainstream economics, the debate over external (exogenous) versus internal (endogenous) being the causes of the economic cycles, with the classical school (now neo-classical) arguing for exogenous causes and the under consumptions (now Keynesian) school arguing for endogenous causes. These may also broadly be classed as "supply-side" and "demand-side" explanations: supply-side explanations may be styled, following Say's law, as arguing that "supply creates its own demand", while demand-side explanations argue that effective demand may fall short of supply, yielding a recession or depression.

GROSS DOMESTIC PRODUCT (GDP) IN FLUCTUATION:

Gross domestic product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly). Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons. Nominal GDP per capita does not, however, reflect differences in the cost of living and the inflation rates of the countries; therefore using a basis of GDP per capita at purchasing power parity is arguably more useful when comparing differences in living standards between nations. The "rate of economic growth" refers to the geometric annual rate of growth in GDP between the first and the last year over a period of time. Implicitly, this growth rate is the trend in the average level of GDP over the period, which implicitly ignores the fluctuations in the GDP around this trend. An increase in economic growth caused by more efficient use of inputs (such as labour productivity, physical capital, energy or materials) is referred to as intensive growth. GDP growth caused only by increases in the amount of inputs available for use (increased population, new territory) is called extensive growth. Increase in aggregate demand caused by: An increase in consumption this may be caused by a rise in income levels, an decrease in interest rates, house price inflation. A rise in the level of government spending. The economy's output of goods and services measured by real GDP. Recession is typically used to mean a downturn in economic activity, but most economists use a specific definition of "two consecutive quarters of declining real GDP" for recession. The average level of prices measured by the CPI or the GDP deflator. Economist uses the model of aggregate demand and aggregate supply to explain short-run fluctuations in economic activity around its long-run trend. A balance of payments surplus. Short-run nominal fluctuations result in a change in the output level. In the short-run an increase in money will increase production due to a shift in the aggregate supply. More goods are produced because the output is increased and more goods are bought because of the lower prices.

The movement of the economy through business cycles also highlights certain economic relationships. While growth will rise and fall with cycles, there is a long-term trend line for growth; when economic growth is above the trend line, unemployment usually falls. The relationship between inflation and growth is not as clear, but inflation does tend to fall during recessions and then increase through recoveries.

MACROECONOMICS:

Macroeconomics and microeconomics, a pair of terms coined by Ragnar Frisch, are the two most general fields in economics. In contrast to macroeconomics, microeconomics is the branch of economics that studies the behaviour of individuals and firms in making decisions and the interactions among these individuals and firms in narrowly-defined markets. Macroeconomists study aggregated indicators such as GDP, unemployment rates, national income, price indices, and the interrelations among the different sectors of the economy to better understand how the whole economy functions. Macroeconomists develop models that explain the relationship between such factors as national income, output, consumption, unemployment, inflation, savings, investment, international trade and international finance. Macroeconomic models and their forecasts are used by governments to assist in the development and evaluation of economic policy. Macroeconomics encompasses a variety of concepts and variables, but there are three central topics for macroeconomic research. Macroeconomic theories usually relate the phenomena of output, unemployment, and inflation.

OUTPUT AND INCOME:

Output can be measured as total income, or it can be viewed from the production side and measured as the total value of final goods and services or the sum of all value added in the economy. Macroeconomic output is usually measured by gross domestic product (GDP) or one of the other national accounts.

UNEMPLOYMENT:

The amount of unemployment in an economy is measured by the unemployment rate, i.e. the percentage of workers without jobs in the labour force. The unemployment rate in the labour force only includes workers actively looking for jobs.

INFLATION AND DEFLATION:

A general price increase across the entire economy is called inflation. When prices decrease, there is deflation. Economists measure these changes in prices with price indexes. Inflation can occur when an economy becomes overheated and grows too quickly. Similarly, a declining economy can lead to deflation.

RESERVE BANK OF INDIA (CENTRAL BANK)

Central bankers, who manage a country's money supply, try to avoid changes in price level by using monetary policy. Raising interest rates or reducing the supply of money in an economy will reduce inflation. Inflation can lead to increased uncertainty and other negative consequences. Deflation can lower economic output. Central bankers try to stabilize prices to protect economies from the negative consequences of price changes. Changes in price level may be the result of several factors. The quantity theory of money holds that changes in price level are directly related to changes in the money supply. Most economists believe that this relationship explains long-run changes in the price level. Short-run fluctuations may also be related to monetary factors, but changes in aggregate demand and aggregate supply can also influence price level. For example, a decrease in demand due to a recession can lead to lower price levels and deflation. A negative supply shock, such as an oil crisis, lowers aggregate supply and can cause inflation. Central banks can use unconventional monetary policy such as quantitative easing to help increase output. Instead of buying government bonds, central banks can implement quantitative easing by buying not only government bonds, but also other assets such as corporate bonds, stocks, and other securities. This allows lower interest rates for a broader class of assets beyond government bonds. In another example of unconventional monetary policy, the United States Federal Reserve recently made an attempt at such a policy with Operation Twist. Unable to lower current interest rates, the Federal Reserve lowered long-term interest rates by buying long-term bonds and selling short-term bonds to create a flat yield curve.

MACROECONOMIC POLICY

Macroeconomic policy is usually implemented through two sets of tools: fiscal and monetary policy. Both forms of policy are used to stabilize the economy, which can mean boosting the economy to the level of GDP consistent with full employment. Macroeconomic policy focuses on limiting the effects of the business cycle to achieve the economic goals of price stability, full employment, and growth.

MONETARY POLICY

Central banks implement monetary policy by controlling the money supply through several mechanisms. Typically, central banks take action by issuing money to buy bonds or other assets, which boosts the supply of money and lowers interest rates, or, in the case of contractionary monetary policy, banks sell bonds and take money out of circulation. Usually policy is not implemented by directly targeting the supply of money.Central banks continuously shift the money supply to maintain a targeted fixed interest rate. Some of them allow the interest rate to fluctuate and focus on targeting inflation rates instead. Central banks generally try to achieve high output without letting loose monetary policy that creates large amounts of inflation.Conventional monetary policy can be ineffective in situations such as a liquidity trap. When interest rates and inflation are near zero, the central bank cannot loosen monetary policy through conventional means.

FISCAL POLICY:

Fiscal policy is the use of government's revenue and expenditure as instruments to influence the economy. Examples of such tools are expenditure, taxes, debt. For example, if the economy is producing less than potential output, government spending can be used to employ idle resources and boost output. Government spending does not have to make up for the entire output gap. There is a multiplier effect that boosts the impact of government spending. For instance, when the government pays for a bridge, the project not only adds the value of the bridge to output, but also allows the bridge workers to increase their consumption and investment, which helps to close the output gap. The effects of fiscal policy can be limited by crowding out. When the government takes on spending projects, it limits the amount of resources available for the private sector to use. Crowding out occurs when government spending simply replaces private sector output instead of adding additional output to the economy. Crowding out also occurs when government spending raises interest rates, which limits investment.

CONCLUSION:

Detail discussion for fluctuation, asset management and macroeconomics system, we can say that economic development is a much bigger concept than economic growth. In other words, the economic development includes economic growth. We uses various indicators to judge the progress in an economy as a whole, some uses only specific indicators like gross domestic product, individual income etc. Economic fluctuations are temporary departures of real GDP from its long-run growth trend. These departures include recessions, periods when real GDP falls below potential GDP, and booms, times when real GDP rises above potential GDP. Economic fluctuations are also called business cycles. Economic fluctuations are simply fluctuations in the level of the national income of a country representing growth .The whole economy to trend upward or downward, it is necessary to look at the aggregate demand side of the economy and that means looking at what is happening to the rate of growth of monetary demand. The supply side explanations of fluctuations in economic activity may have had some relevance to individual sectors of the economy like a region or an industry, but they do not explain what is happening to the economy as a whole. When it is growing significantly quicker or slower than the rate of growth required to maintain stable prices, then fluctuations in economic activity will be initiated.

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