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Comparison of Last Crisis in the Point of View of Cycles and Crisis Management

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Abstract: Facing another crisis that is not only affecting our economy, but rather the goal of preserving our health, so curbing the pandemic is a priority. However, this is not possible without a continuous response to the economic crisis. Thanks to the rapid response of the nations, the economy was able to overcome its initial difficulties. Unfortunately, this is not yet a reason to restart the recovery, as new restrictions are coming into force day by day. Regulation is causing huge losses in many sectors and rising unemployment is spreading rapidly. People are also suffering from the changed situation and there has already been a loss of confidence, which is an aggravating factor for the crisis. Unfortunately, we do not anticipate the depth and length of the crisis, but based on statistics, the outlook is not very encouraging. The right leadership decisions, interventions and cohesion are needed to recover from the crisis. It can be a big question for us whether we can really anticipate a crisis, whether it can be prevented by taking the right measures, with the right preparedness, or whether we will only realize when it has already happened and try to mitigate the serious consequences. What are the factors that always appear when a crisis develops, and what are the factors that exacerbate it? However, we must also not forget that by experiencing a crisis, we can always learn something new, fix the faults of the old system and improve a lot while looking for a solution.

Keywords: crisis, cycles, COVID, change management

1. Economic cycles and their characteristics

Economic and business life is characterized by constant change, which we experience every day. Forecasts play an important role in economic life, and we can examine them through cycles. They help shape economic policy and strategy, signal the expected evolution of economic life, and provide an opportunity to prepare for turning points. Throughout history, there have always been repetitive processes, economic booms, and recessions. Examination of cycles is also essential in this



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respect, as continuous observation can avoid lows, ups and downs, and alleviate stagnation or depression.

“The business cycle is an economy-wide fluctuation in gross national product, income and employment, usually lasting two to ten years; while there is a general recovery or decline in most sectors of the economy. ” (Samuelson - Nordhaus 2012, p. 388).

Cycles can be examined from several perspectives. Based on its phases, we can divide it into two major parts, distinguishing a period of expansion (boom), when output, consumption and national economic prosperity increase in the economy. This is called expansion or recovery. The other phase is the period of recession (downturn), when output decreases, which is known as the recession, the period of decline. Thus, the economy is characterized by fluctuations as a function of time. From the outset, economics has sought to explain market phenomena and seeks answers to questions about what can cause various fluctuations and how to mitigate its harms. In summary, “the aim of business research is to observe the changes and movements of economic life as numerically as possible, to explore the connections between the individual phenomena, to evaluate them statistically, and to deduce their future development in addition to determining the current state of economic life” (Andreich 1937).

Short-term fluctuations, although called cycles, are actually irregular. No two cycles are exactly alike. Therefore, we cannot determine an exact formula for the length of the cycles, and the time of their occurrence is also uncertain. Aside from the fact that the cycles are different for each, we can often discover similar traits during a recession. Such characteristics may include declining investment, shrinking employment, slowing inflation, declining output, declining demand for goods, falling business profits, or deteriorating business conditions. (Samuelson - Nordhaus 2012)

We can also group economic fluctuations, there are random fluctuations that do not show any regularity, the causes cannot be systematized. These fluctuations are not addressed by business theories. Random fluctuations are followed by fluctuations with a regular rhythm, which can be limited, but are not of economic origin. These are already cyclically repetitive deviations from the trend, but cannot be traced back to economic reasons. The third group is cyclical fluctuations, also known as cyclical fluctuations, which are cyclical deviations from the trend of economic origin, where we can already discover a causal relationship between the descending and ascending branches. Depending on the area of application of the cyclical movement, business cycles, financial cycles, agricultural cycles, and industrial cycles may appear.

Business cycles are grouped according to their duration:

- Kitchin cycle (10-40 months periodicity),
- Classic business cycle (every 8-10 years),



- Kuznets cycle, (18-20 years period),
- Kondratyev's long cycle (40-60 years cycle),
- Super long cycles (150-200 year cycle).

Cycles can also be examined for root causes. There are overproduction and underconsumption cycles that result from differences in production and consumption. Economic policy cycles are shaped by government decisions. Monetary cycles affect the demand and supply side of the macroeconomy. Investment cycles are based on committing money, making investments, achieving results and the time lag between them. The cycles caused by the procurement of durable consumer goods result from irregular shopping habits. Finally, political cycles can be linked to elections, and economic cycles can be observed for the same period between elections. (Katits - Pogátsa - Zsupanekné 2018)

1.2 Preventive indicators in economic forecasts

After the recognition of the business cycle phenomenon, it has become more and more common in developed countries to study business cycles. They are characterized by business cycle indicators and indicators. These are mostly variables whose turning points are closely related to turning points in the aggregate performance of the economy.

Economic interactions seek to maintain a state of equilibrium, if this equilibrium is upset by some external or internal factor, the attempt to restore the original state of equilibrium in economic life begins. The problem is caused by the fact that the economy cannot stay in its equilibrium state, there are always outbursts and differences. Cyclical movements are caused by different reaction rates of different economic factors, each with different adaptability. The turning point is induced by the fact that the economy deviates from the equilibrium state, so the counterforce forces work more strongly to bring the economy back into equilibrium or to move in the opposite direction. It is important to observe how often the cycles are repeated, these can be classified by periods. Different periods denote different equilibrium points, due to the fact that goods and economic goods perform their economic functions at different times. (Kehl - Sipos 2007)

Based on the theory of Kondratyev (Kondratyev 1980), a Russian economist, and also Russian, Nobel laureate Kuznets, shorter- and longer-term equilibrium types were divided into 4 levels. The essence of the theory is that for cycles of different lengths, other economic goods are always considered unchanged, their time-lapse means the length of a cycle. These Kondratyev cycles are also characterized by globality, they affect the entire world economy, and they are not only observable in the economy, we can discover them in demography, politics, art, literary trends, schools, and so on.



Based on the international literature, we distinguish these four cycles:

- Kitchin cycle (inventory or inventory cycle), 3-5 years;
- Juglar cycle (permanent investment cycle), 7-11 years;
- Kuznets cycle (construction cycle), 15-25 years);
- Kondratyev cycle (long or wave cycle), 45-60 years.

The relationship between the cycles is best illustrated by choosing the appropriate average of the lengths of the cycles, such as the Kondratyev cycle at 54 years, the Kuznets cycle at 18 years, the Juglar cycle at 9 years, and the Kithin cycle at 4.5 years. .

1 Kondratyev cycle = 3 Kuznets cycle = 6 Juglar cycle = 12 Kithin cycle

Thus, we can state that cycles of different lengths coexist, mix and meanwhile reduce or increase the amplitude of the ripple. (Sipos 2005)

The turning points of the indexes of co-moving indicators indicate approximately the peaks and troughs of the reference time series. Based on this, it can be determined in which phase the business cycle is actually.

The best forecast is provided by the preceding indicators, as the maximum and minimum values of its indices constantly precede the peaks and troughs of the business cycle over a given period of time, so these indicators start to increase or decrease earlier than the business cycle curve. (Kiss 2002)

Thus, the monitoring and research of indicators is beneficial for the economy, their calculation and practical application can be fully justified. The results provide useful information on the development of business cycles. However, it is not enough to observe the indicators, we cannot draw appropriate conclusions from them. It is also worth examining whether the predictions were indeed correct, whether they were the same as reality, and whether our calculation was correct. Only then can a correct conclusion be drawn about the given period

1.3 The reasons of 2008 crisis

The 2008 economic crisis started in the United States. Unfortunately, the crisis was not caused by chance, but by the activities of a runaway sector, the financial sector. There has been no comparable global economic crisis since the 1930s.

The financial crisis is causing the biggest turmoil in the financial system, which is hampering the interaction of the economy between those who want to save and those who want to borrow or invest. The deepest recessions in history have followed the failures of financial systems. Financial crises are not all the same, but we can discover commonalities in them. According to Mankiw's study, six such elements



can be highlighted, which have been at the heart of most financial crises, we can also call them the causes.

1. Asset-price boom and bust: A period of optimism often leads to a significant rise in asset prices, which is what precedes an economic crisis. Many times we experience an increase in the price of assets that exceeds their true value. In this case, the asset market swells into a speculative bubble. (Czeczeli 2019) Later, when the period of optimism turned to pessimism, the bubble burst and prices began to fall. Falling asset prices are a catalyst for the economic crisis.

In 2008 and 2009, the most important asset market was real estate. In the United States, average home prices began to rise sharply at the beginning of the decade. This was made possible in part by loose lending rules, with banks providing high-risk loans to investors with almost no hedge fund. In essence, the financial system did not do its job of handling asymmetric information by providing loans to many borrowers who later found out they would have trouble paying off their mortgages. The urge to buy a home was also stimulated by government policy, accompanied by excessive optimism from home buyers who believed that house prices would rise forever. However, this state of growth proved unsustainable. Later, the number of landlords who could not repay their loans began to rise and the desire to buy a home gradually decreased. Between 2006 and 2009, house prices fell by 30%. The American nation has not seen such a drop in house prices since the 1930s.

2. Insolvency of Financial Institutions: A significant decline in asset prices can cause problems for banks and other financial institutions. In order for borrowers to repay their debts, banks ask them for collateral so that they can seize these values in the event of non-payment. However, when the value of these assets decreases, the value of the collateral will also be less, thus not covering the value of the loan provided by the bank.

Banks also rely heavily on leverage, ie the use of borrowed funds for investment purposes. Leverage amplifies the positive and negative impact of asset returns on a bank's financial position. In the United States, commercial banks sought to maintain fixed leverage, so as asset prices rose they deliberately increased their debt stock. (Berlinger - Horváth - Vidovics 2012) It is essential to pay attention to the leverage ratio, the ratio of bank assets to bank capital, because a bank can easily become insolvent. Widespread insolvency within the financial system is the second element of the economic crisis.

3. Loss of trust: The third element of the economic crisis is the decline and loss of trust in financial institutions. Not all deposits with banks are properly regulated. As the insolvency progresses, each financial institution all becomes a potential candidate for the next bankruptcy. Individuals are beginning to withdraw their capital in turn, resulting in the cessation of banks' cash reserves.



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In 2008, the financial system was gripped by great uncertainty, it was not possible to know where the insolvency would stop. The collapse of giants like Bear Stearns and Lehman Brothers has terrified people as to whether other big financial companies like Morgan Stanley, Goldman Sachs and Citigroup will suffer a similar fate. The problem was exacerbated by the interdependence of companies. Since they had plenty of contracts with each other, the termination of any of them would have dragged all the others with it. Furthermore, due to the complexity of the arrangements, depositors were unsure of the vulnerability of some firms. The lack of transparency fueled the crisis of confidence.

1.4 How is the current situation different

The 2008 crisis has been ringing for years, driven by increased risk appetite due to low interest rates, triggering an irresponsible lending process in real estate markets both in the United States and later in Europe. The crisis first erupted in America, spilling a mass of non-performing loan packages into the global banking system, leading to a liquidity crisis. Not long after, the bursting of the credit bubble hit Europe as well. Most banks have all found themselves in crisis, lending has become almost impossible, people's confidence has shaken, GDP has begun to fall sharply and the number of unemployed has risen sharply.

The previous crisis was slower in time, gradually appeared in the economy and its effects became apparent later. In contrast, the crisis caused by COVID-19 came suddenly and overturned our lives and, with it, the economy overnight. This is because closures had to be resorted to to stop the epidemic. This had an immediate effect on both the decline in consumption and the rise in unemployment. The biggest problem was in the service sector, as many institutions had to close, such as restaurants and hotels, left without guests. Tourism has almost disappeared, so airlines have been forced to shut down as well. Shipping was also difficult to deal with, broken due to supply chains, border locks and entry bans. (Hardi - Szapáry 2020)

However, the biggest test is the health care system, as it requires equipment, tools and capacities that could not be prepared for. The number of patients is growing rapidly and the virus is claiming more and more human lives.

"Although the current fluctuations in stock market trading are similar to those of the 2008 crisis, the recent global downturn has not been so extreme and rapid: the economy has now frozen extremely fast and growth has stalled in almost all sectors," said Frigyes Schannen, Roland Berger is his Hungarian partner.

To save the economy, governments have created economic rescue packages. The majority of packages significantly exceed the number of packages deployed in 2008, but this is also needed. The speed of action by governments and the scale of rescue packages are noteworthy.



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Although it may be a great advantage that some governments already have experience in dealing with economic crises, we cannot solve everything on the model of the previous crisis, the concrete measures must be adapted to the current situation. Governments must first and foremost preserve the health of the population, so measures to promote health and economic recovery must be balanced. (Roland Berger 2020)

When the crisis arose, Member States reacted individually, as there was a need for effective health care management, which temporarily put national interests first. It is also clear that decisions by Member States are taken much faster than decisions by EU bodies. Here, however, the Member States of the Union all faced the same problem, were unable to provide health care (lack of doctors, equipment), did not have strategies developed for the epidemic situation, and procured the means to defend themselves. (Szijártó 2020)

Individual action by Member States initially generated conflicts, disrupted the single internal market, and distribution and procurement difficulties also created tensions between Member States. The situation was also exacerbated by forecasts of economic downturns.

2. How it affects people

The COVID pandemic is not only having a severe impact on the economy, but is also putting the daily lives of our entire society to the test. It is difficult to cope with the situation that we have to adapt to a completely different living conditions overnight, our usual agenda, our tasks are completely overturned; we cannot meet our friends, certain members of our family, relatives, as we have become accustomed to so far.

We conducted a poll using a questionnaire survey to get a comprehensive picture of how people's lives are affected by the epidemic, whether adverse effects, consequences are already visible or will only be felt later.

I can group the questionnaire into five aspects of the questions. The first part concerns personal data, we can find out the person's gender, age, place of residence and education. The second part, examining his occupation, reveals whether the sector in which he works is affected by the coronavirus situation, whether it has had an impact on, or even lost, a change in his working conditions. In the third part, we can observe changes in shopping habits, what people spend on, whether priorities in terms of shopping have changed. The fourth part asked him about the examination of personal relationships, this question concerns the quarantine period. Finally, in the fifth part, I compared the health and economic risks with the help of the questionnaire, who considers what a greater risk opportunity, maintaining their



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health or ensuring their livelihood, and whether the economic crisis caused by the coronavirus can be felt for them.

I distributed the questionnaire on the community interface so that it would be accessible to everyone, I would reach more age groups, and the survey could show as colorful a picture as possible. A total of 87 questionnaires were received for the questionnaire, of which 55 were women and 32 were men, all of which were evaluable. The majority of the respondents belong to the age group of 20 to 35 years, their distribution is shown in more detail in the figure.

Only 36% of workplace conditions were not affected by the virus in any form. Working conditions have mostly changed everywhere. Based on the employment sector, most workers in services and trade have lost their jobs or been disadvantaged due to fewer shifts and wage cuts.

For this study, I categorized the responses received into five groups according to occupation: the group of those working in the public sector, services, trade, industry, and agriculture. The service sector consisted mostly of those working in hospitality and tourism, based on the respondents. Based on the data and announcements of the CSO, the result of the questionnaire can be supported, according to which due to the intensive decline in demand in the sectors most affected by the COVID-19 epidemic, employment decreased significantly and unemployment increased. In the first half of 2020, the average number of employees decreased by 75 thousand compared to the average level in 2019. The number of jobseekers increased in March each year, but in the spring of this year it diverged markedly, and the number of unemployed also increased in terms of trade, hospitality, intangible services and industry. Most employers saw the economic downturn as only temporary and retained some of the workforce at the cost of material sacrifices. According to the questionnaire, it is encouraging that those who have lost their jobs have already managed to find another job, but this was mostly possible in another employment sector. There was also an example of workers being recalled to their previously lost jobs.

In the evaluation of the questionnaire, I examined the effect on the change of the employment relationship based on the theories of the relationships of statistical relationships. The question of whether gender, age, place of residence, or education among respondents completed a change in employment shows a relationship. We distinguish these relationships on the basis of the types of criteria inherent in them. In the case of an association relationship, both criteria are qualitative.

The results of the examined criteria showed a weak relationship in all cases, as the values of the indicators ranged from 0 to 0.3. The calculation can be found in Annex 2. Thus, it can be concluded that the change in employment was not influenced by the age, gender, place of residence or education of the employees based on the calculations. This is supported by the fact mentioned above that the restrictions and sector shutdowns introduced due to the virus had an impact on the change in



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employment, and not education or greater experience was decisive for job losses and changes.

In the last part of the questionnaire, I wanted to compare economic and health risks, who considers what is a greater risk. 65.5% of respondents believe that the collapse of the economy is a greater threat than the collapse of health care. However, 85% consider health more important

Conclusions

Based on the literature search and primary research, several conclusions can be drawn about the importance of examining economic cycles and effective crisis management. The questions raised in the introduction are also answered during the writing of the dissertation.

We must first prioritize the importance of examining economic cycles. During the examination of the cycles, the change of economic processes can be monitored. This provides an opportunity to develop the right strategy in the event of a crisis. Cycles can be examined in a number of ways, such as by duration, phase, or cause. The turning points are monitored with the indicators of a developed indicator system, which helps to prepare for unexpected situations. A crisis can only be avoided if we are aware of the current phases of the cycles and the right intervention is taken in time to avoid a recession. Cyclical phenomena can be observed not only in our economy, we can also discover these repetitions in our everyday lives, even as the seasons change. These cycles teach us that there will always be recurring phenomena, crises. However, we need to be able to accept these changes and learn to adapt to them. If we recognize the importance of examining cycles and learn to make good use of the knowledge and resources we have, we can be prepared for a new situation, be it an economic crisis or a difficulty or challenge affecting our personal lives.

Examining crises, it can be seen that rising unemployment, declining GDP and loss of confidence are the three factors that always appear when a crisis develops. These factors may also increase the scale of the crisis.

Signs of mistrust appear already at the beginning of the crisis and later greatly enhance the depth of the crisis and the success of its management. Building trust is not an easy task, but you can lose it in almost no time. Trust is based on stability and credibility. The harmonious functioning of the market and the state can only be formed on the basis of trust. The loss of confidence will lead to depreciation, capital withdrawals and cessation of investment, which are also present during the 2008 and current crises and will increase the depth of the crisis and hinder the restoration of economic balance. Trust is therefore a key factor in both the development and management of a crisis, as it has a direct impact on business development, which is the driving force of the economy. I would also like to support this statement with the dissertation of Vadasi Aida (2009).



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Both networks and trust are based on common norms, which must be accepted by members of a given community in order to be mutually expected to adhere to each other. Only after the adoption of norms can trust become common among members of an economic group. Trust also means taking risks. Two types of trust can be distinguished: trust between individuals and trust in institutions. If the political, social and economic functions function properly, they will further strengthen the willingness to cooperate, as well as the trust itself. However, without the binding force of economic communities, we get poor economic results, and mistrust can lead directly to corruption. (Vadasi 2009)

The growth of the economy depends on the recognition of common interests and values between businesses, which also increases the level of trust and the willingness to cooperate. Mutual support is needed not only in the hope of growth, but also in times of crisis, with established relationships of trust, we can support and help each other to recover from the recession. The growing impact of globalization also requires the co-operation of societies and corporate networks, so that the growth of high-level social capital and trust can start more widely. The level and types of trust are influenced by societal expectations, which have a direct impact on economic decisions, including the economy itself. "Opinion is not the cause of performance, but performance becomes dependent on prejudice. This is as true for relationships between individuals as it is for collaborations between groups of people, including economic collaborations." (Vadasi 2009 p. 68.)

In summary, therefore, positive expectations and trust-based decisions have a stimulating effect on the economy, while negative expectations stemming from a lack of trust and a lack of cooperation hamper decisions that help the economy grow. It is therefore particularly important in times of crisis not to lose the trust that has developed and to trust the recovery of the economy.

The rise in the unemployment rate was also brought to our attention by Okun's law. At the time of the 2008 crisis, there was a significant mass redundancy, with the unemployment rate taking on a value that was unprecedented decades ago. The economy suffered huge losses, as despite the official start of the economic recovery in June 2009, GDP growth remained subdued and unemployment was barely declining. The current crisis is particularly relevant in this regard. The questionnaire also revealed that certain sectors, such as services, trade, tourism, but also the car industry, are falling victim to the restrictions caused by the epidemic and suffering huge losses. There is a need for subsidies and measures to help keep jobs. The goal is for companies to lay off as few workers as possible. This will allow demand to pick up again, customer confidence and confidence to return, and investment to resume. Only in this way can economic processes start to grow again, and so we have a chance to overcome the crisis as soon as possible.

Comparing the two crises: The 2008 global crisis was financially based and in many respects acted as a novelty to economic thinking. It started from the United States,



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considered the most developed economy in the world, and reached the whole world. The crisis was mainly caused by the collapse of the US mortgage market, but this was due to a lack of regulation, deregulation of markets and global interconnection. This crisis has highlighted the fact that belief in market omnipotence and market forces alone are few to avoid a crisis. Therefore, immediate interventions and re-regulation of the economy were needed. The measures taken also served to prevent a further crisis so that such a recession would not occur again and the serious consequences of the lack of regulation were avoided.

The current crisis is not financially based, it is caused by a global epidemic that is very dangerous for humanity. The epidemic almost immediately paralyzed our daily lives and with it our economy. Immediate intervention was needed, primarily to stop the epidemic. However, the measures and restrictions introduced also directly affected the economy. Signs of the crisis are already being felt, in particular putting great pressure on unemployment. The decline and complete cessation of sectors is threatening the jobs and livelihoods of many people. To successfully cope with the situation ahead of us, we will need a well-developed crisis management plan and experience from decision-makers. In order to save the economy, it is essential to deploy rescue packages, maintain confidence and restore economic balance. There is also a need for people to be disciplined to follow the rules.

Active crisis management techniques are recommended for decision makers for the next crisis management period. This method of crisis management is present in the early detection of a crisis and helps to prevent the crisis from deepening. In the course of crisis management and the study of crises, we have learned that it is worthwhile to have a crisis management plan and the necessary reserves so that we can act effectively against the crisis and intervene as soon as possible, thus mitigating the damage and consequences of the crisis. In the period ahead, decision-makers and our leaders have a responsibility to take steps to stimulate economic development, to help companies survive, to keep jobs and to keep people healthy. The process of preparing for change needs to be defined, which requires thorough analysis and expertise, but is a key factor in successfully overcoming the crisis. As a first step, I consider setting priorities to be the most important task. The first must be to save human lives, so health care and its smooth operation must be ensured. This requires an adequate number of doctors, nurses, protective equipment, tools, and expansion of hospital capacity. Retaining jobs is another priority. Companies need to be supported through wage takeovers, investment opportunities and the suspension of loan obligations. Primary research also revealed redundancies as a consequence of downtime threatening the sectors. Retraining could be launched to provide employment opportunities for the majority of people, thus supporting the expansion of health capacities. In the questionnaire, several mentioned a significant rise in prices, a drop in demand and rising inflation as a tangible sign of the crisis. The rise in the price of basic foodstuffs can place a particular burden on citizens who lose their jobs.



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During the first wave of the epidemic, shops rushed in because people feared that adequate food would not be available later. Most traders took advantage of this, working with huge margins to make a profit. As a solution to this, I propose the introduction of official prices for basic foodstuffs, so that continuous price increases can be stopped and access to food is guaranteed for everyone.

Once priorities have been set, there is a need to reallocate financial resources. Government subsidies and rescue packages, as well as loans, should be used to support the functioning of health care, the survival of companies, the retention of jobs and the prevention of economic downturns.

Expectations of economic processes are affected by the re-emergence of the epidemic. With the strengthening of the second wave, the economic downturn can no longer be considered temporary. The prolongation and severity of the epidemic complicate the recovery process. As the crisis does not affect different sectors in the same way, recovery is expected to take place at different rates.

Changes during crises always bring something new, we can learn from every crisis. With the experience we have gained in crisis management, we can become more and more, and we can already apply this experience in a new crisis. Based on the cycles examined in the dissertation, it is certain that there will always be booms and busts in the economy, but the depth of crises will be determined by the speed of recognition and the extent of interventions.

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