



Examining the Role of the Principles and Relations Governing Capitalist Economy in the Emergence and Expansion of Economic Fluctuations

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Abstract

Economic fluctuations, which primarily have adverse and detrimental consequences, are considered one of the main characteristics of market-based economies. In economic literature, such fluctuations are referred to as business cycles. The phenomenon of business cycles, which essentially represents the deviation of production from full employment conditions or the long-term production trend, is one of the most debated topics in macroeconomics. Various schools of thought and economic theorists have proposed different perspectives regarding the origins and causes of economic fluctuations. From Marxist and Keynesian viewpoints to Monetarist and Real Business Cycle (RBC) theories, each has sought to identify and analyze the causes and underlying factors of economic fluctuations and crises in the capitalist system. This study, conducted using a descriptive-analytical approach, aims to explain the role of principles and relations governing capitalist economy in the emergence and expansion of economic fluctuations. The findings of the research indicate that factors such as economic liberalism, profit-driven motives, financialization and reliance on non-real values, monopolization, and inequality have significantly contributed to the intensification of fluctuations, sometimes even leading to economic crises.

Keywords: *Business Cycles; Economic Crisis; Financial Crisis; Capitalism*

Introduction

According to several studies, capitalist economies, on average, experience cycles of boom and recession every 7 to 10 years, with varying degrees of intensity. The recessions and crises of 1825, 1836, 1847, 1856, 1873, 1882, 1900, 1907, 1913, 1920, and the Great Depression of 1929–1933 are part of these cycles (Gorji & Mirsepassi, 2002: pp. 14-17). Studies also indicate that, on average, a complete cycle of boom and recession occurred every decade in England and other industrial countries during the first half of the 19th century. However, after World War II, despite the relative stability and prosperity of industrial economies, financial and economic fluctuations have continued, periodically emerging as boom

and recession cycles, and in some cases, even simultaneous recession and inflation. The recession caused by the decline in wartime expenditures in 1945, 1949, 1952, and 1953, the 1960 recession, the 1969 economic crisis, the 1973 oil crisis, the 1987 financial crisis, the 1997 East Asian financial crisis, the 2001 dot-com crisis, and the 2008 financial crisis are among the crises faced by many capitalist industrial countries. Economic historian Charles Kindleberger, in explaining the history of economic crises in the capitalist system, states that over the past four hundred years, recessions and economic crises have occurred at approximately ten-year intervals, with the exception of the period from 1945 to 1971. According to Professors Franklin Allen and Douglas Gale, the growth accompanied by stability during this period was due to a global understanding of the need for strong regulation and effective government intervention in the economy (Stiglitz, 2013: pp. 369-370).

Various perspectives have been presented by different economic schools and scholars regarding the origin and causes of economic fluctuations. From Marxist and Keynesian views to monetary theories, real business cycle theory, and some more recent perspectives, each has attempted to explain the causes and contexts of fluctuations in the capitalist economy. Alongside these views, some economic thinkers argue that since the capitalist environment is naturally prone to economic turmoil and fluctuations, with ample room for disturbances and imbalances, fluctuations of any origin can potentially lead to profound and widespread economic crises. According to them, the presence of certain concepts and values in the capitalist system, such as economic liberalism, profit orientation, and certain rules and dynamics governing the economic environment, like monopoly, reliance on unreal values, financialization, and inequality, has caused capitalist economies to be exposed to frequent fluctuations, leading to economic crises from time to time. Therefore, this study aims to explain the role of institutional values as well as the rules and relations governing the capitalist environment in exacerbating and expanding economic fluctuations. Specifically, we intend to examine how fundamental capitalist values such as economic liberalism and profit maximization, along with the governing rules and relations, such as monopoly, inequality, and reliance on unreal values, affect the intensification and spread of economic fluctuations. In general, this study seeks to explore the role and impact of values, rules, and dynamics governing the capitalist economy in exacerbating and expanding economic fluctuations.

Research Methodology

This study aims to examine the role of rules and structures governing the capitalist economy in intensifying and expanding economic fluctuations. In this regard, the research falls within the category of descriptive-analytical studies from a methodological perspective and is conducted based on qualitative and documentary data. The research methodology is detailed below.

Type and Method of Research: This study is classified as fundamental research, seeking to develop theoretical knowledge in the field of macroeconomics and to analyze the factors influencing economic fluctuations within the framework of the capitalist system. From a methodological standpoint, the study adopts a descriptive-analytical approach and is conducted using documentary and library research methods.

Population and Data Collection Method: Given the qualitative nature of this study, the research population includes theoretical studies and relevant research on macroeconomics, business cycles, and economic crises within the capitalist system. The data collection method involves library research and the analysis of academic texts. The data utilized in this study have been extracted from sources such as specialized economics books, reputable academic articles, economic reports, and statistical documents. Additionally, to enhance the analysis, perspectives from various economic schools of thought—including Marxist, Keynesian, Monetarist, Real Business Cycle (RBC), and New Macroeconomic theories—have been incorporated.

Theoretical Framework: Since this research is based on theories related to economic fluctuations and financial crises within the capitalist system, the theoretical framework includes an examination of key concepts such as economic liberalism, profit orientation, financialization, monopolization, and inequality, all of which contribute to economic volatility. Several theories have been employed as the basis for analysis, including the Marxist theory of business cycles, Keynesian business cycle theory, the Monetarist business cycle theory, the Real Business Cycle theory, and the New Classical business cycle theory.

Data Analysis Method: The data analysis in this study has been conducted using a qualitative approach. In this regard, the collected data from various sources have been examined, compared, and interpreted. The qualitative content analysis method has been employed to extract and analyze key themes in the theoretical and empirical literature. Using this method, the study seeks to explain the relationship between institutional values, capitalist economic rules and structures, and the intensity and scope of economic fluctuations.

Research Validity and Reliability: To enhance the validity and reliability of the study, reputable academic sources and articles published in specialized economic journals have been utilized. Additionally, incorporating multiple theories and comparing different economic perspectives have strengthened the scientific rigor of the research. Moreover, historical data and economic reports have been cited as empirical evidence in the analyses.

Research Limitations: Like other qualitative studies, this research faces certain limitations. One of the most significant limitations is the restricted access to recent statistical data on the impact of economic values and rules on economic fluctuations across different countries. Furthermore, due to the theoretical nature of the study, the direct empirical measurement of these effects has been limited, and the research has primarily relied on qualitative analyses.

Theoretical Background

Various perspectives have been proposed regarding the causes and factors behind economic fluctuations and the occurrence of recessionary and inflationary periods in capitalist economies. Following the studies of Slutsky and Frisch on business cycles, numerous research efforts have been conducted to identify shocks and examine their transmission mechanisms. These perspectives are categorized in different ways. In one broad classification, the factors influencing economic fluctuations are divided into endogenous and exogenous factors, while another categorization focuses on whether the shocks are nominal or real. Finally, regarding the market manifestation of shocks, some theories emphasize demand-side effects, others focus on supply-side effects, and some consider both demand and supply influences.

From a historical perspective, studies on economic fluctuations in the context of business cycles date back to early theories such as William Stanley Jevons' sunspot theory and Henry Moore's hypothesis on the impact of climate changes. However, during the dominance of classical economic principles—before the Great Depression of the 1930s—economic thought was primarily focused on long-term equilibrium, and short-term fluctuations were not given significant attention. The issue of economic booms and busts was, therefore, less debated. However, with the emergence of the economic crisis of 1929–1933 and its devastating consequences, economic studies shifted their focus from analyzing long-term growth factors to explaining short-term fluctuations. This shift led to a profound transformation in economic thought, making the theory of economic fluctuations a central topic in economic discourse. Consequently, the recurrence of business cycles and concerns over their future occurrence—especially alongside the expansion of financial markets and innovations in finance—drew increasing attention from economists, leading to extensive research on various aspects of economic fluctuations.

Broadly speaking, perspectives on economic fluctuations can be categorized into three main groups:

1. **Marxist Economists** view economic fluctuations as inherent to capitalism, attributing them to overaccumulation.
2. **External Factor Theories** attribute business cycles to specific external factors such as wars, climate changes, technological advancements, or a combination of these elements.
3. **Internal Mechanism Theories** emphasize the interactions of economic components and the shocks resulting from economic policies as the primary drivers of fluctuations. Unlike Marxist economists, these theories do not consider economic fluctuations as intrinsic to the capitalist system.

The following sections elaborate on some of these perspectives.

Marxist Theory of Business Cycles

The Marxist perspective on business cycles is framed within the broader theory of capitalist crises. This theory attributes recurrent economic crises to the tendency of the rate of profit to fall in a capitalist economy, which, in turn, drives waves of boom and bust (Goldstein, 2010: p. 51). According to this view, capitalism, unlike all preceding social formations, is compelled to engage in the relentless accumulation of capital. However, this process is eventually halted by two contradictory yet complementary factors, both originating from within the capitalist system itself.

The first factor is the decline in the rate of profit, which results from the increasing organic composition of capital—the rising proportion of fixed capital (machinery, equipment) relative to variable capital (wages). This trend restricts the sources of accumulation. The second factor is overproduction beyond the market's capacity to absorb goods (insufficient consumption). Essentially, if a capitalist economy fails to generate sufficient demand and markets to absorb its expanding production, the accumulation process comes to a halt, production ceases, and the economy falls into a recession (Gempel & Walton, 2020: p. 7).

Advocates of this view argue that during economic booms—often characterized by sectoral imbalances—excess capacity emerges as the Achilles' heel of the industrial economy. This surplus capacity intensifies instability, exacerbating fluctuations and ultimately driving the economy away from equilibrium. In such conditions, an oversupply of goods confronts a consumer base with weak purchasing power (Yener, 2017: pp. 262–263).

From the Marxist perspective, economic disequilibrium is fundamentally rooted in class struggle over income distribution, which is closely linked to the broader issue of overaccumulation and capitalist crises. Overaccumulation refers to the excessive buildup of capital, which ultimately leads to a decline in the rate of profit.

The falling rate of profit, in turn, results from the inability to generate sufficient surplus value and the failure to fully realize profits. More broadly, the saturation of investment opportunities—caused by excessive capital concentration—leads to declining returns, disrupting the savings-investment balance. This insight bears similarities to Keynesian analyses. Under such conditions, a portion of national income is effectively withdrawn from the economic cycle, and resources—including raw materials, machinery, financial capital, and labor—become idle and unused.

Wesley Mitchell's Theory of Business Cycles

Wesley Mitchell, a structuralist economist and proponent of evolutionary theories, argued that business cycles are fundamentally linked to a monetary-based production system. He maintained that in a feudal economy, where regions operated in isolation with limited interconnection, market-based exchange systems were underdeveloped, preventing the occurrence of business cycles. According to Mitchell, the foundation of business cycles lies in the monetary system, where individuals holding money face the choice of either spending it (generating demand) or saving it. These monetary decisions, in turn, influence market demand, business profitability, and overall economic income, potentially leading to disruptions and disequilibrium (Eisa Zadeh Roshan, p. 32).

Mitchell's theory, often referred to as the self-generating cycle, explores the continuous process of boom, crisis, and boom. His central argument is that business cycles are inherently self-sustaining, meaning that each phase of the cycle inherits conditions from the past and transmits them to the future. In this sense, business cycles function as self-perpetuating phenomena (Gorji & Mirsepasi, p. 59). He demonstrated that business cycles did not originate in pre-capitalist economies but rather emerged as a result of capitalist institutions. While economic crises have existed throughout history, Mitchell contended that regular and systematic business cycles only became a feature of modern economic organization.

Knut Wicksell's Business Cycle Theory

Unlike classical economists, who did not emphasize a distinction between the real (productive) and monetary sectors, Knut Wicksell introduced a fundamental separation between the classical production system and the monetary system. According to classical and neoclassical doctrines, the economy follows the principle of Classical Duality, meaning nominal variables (such as money supply) do not affect real variables (such as output and employment) but only influence monetary factors.

In classical thought, money primarily serves as a medium of exchange, a unit of account, and a short-term store of value, without any long-term real effects. However, Wicksell challenged this view by distinguishing between the market interest rate (actual interest rate) and the natural interest rate. According to his theory, whenever these two rates diverge, economic disequilibrium occurs:

- If the market interest rate falls below the natural interest rate, investment activity expands, particularly in durable goods industries, leading to an economic boom.
- Conversely, if the market interest rate exceeds the natural interest rate, investment declines, output shrinks, and the economy enters a recession, with falling prices and profits.
- Equilibrium is achieved only when the market interest rate equals the natural interest rate, ensuring balance between savings and investment, and stabilizing the economy (Eisa Zadeh Roshan, 1389: p. 23).

Thus, Wicksell's theory underscores the role of monetary imbalances in driving business cycles, highlighting how deviations in interest rates can disrupt investment behavior and economic stability.

Keynesian Perspective on Economic Fluctuations

Contrary to the classical view, which assumes long-run equilibrium and full employment, Keynes and his followers argue that economies often operate below full employment, with idle capacity and unemployment necessitating expansionary policies (Ramezani, 1389: pp. 143-145). According to Keynesian theory, business cycles emerge when the economy deviates from full-employment equilibrium. Empirical evidence strongly supports the idea that fluctuations in aggregate demand, driven by shocks to spending, cause deviations from full employment.

Inflationary booms occur when public or private spending surges, leading to increased consumer optimism and higher consumption. As demand rises, firms expand production, establish new factories, and accelerate economic growth beyond its natural rate. Conversely, recessions or depressions arise when these forces reverse, causing economic contraction (Mostafapour, 1390: pp. 88-90).

Keynes emphasized that the economy is inherently unstable, frequently exposed to unpredictable shocks that affect the marginal efficiency of capital. He attributed this instability to investor expectations about an uncertain future. Since investment decisions are largely psychological and based on limited knowledge, investment levels can fluctuate unpredictably, creating instability in output and employment. In Keynesian analysis, the core of business cycle fluctuations lies in excessive uncertainty regarding firms' future returns on investment. These uncertainties generate shocks, which then affect aggregate demand, causing fluctuations in the real economy—represented by the IS curve (Snowdon & Vane, 2015: p. 71).

Monetary Theory of Business Cycles

Monetary business cycle theories argue that changes in the money supply are the primary drivers of economic fluctuations. For example, the severe recessions of the early 1970s and 1980s were directly linked to the Federal Reserve's decisions to raise interest rates. Similarly, the inflationary booms of the mid-1960s and late 1970s were at least partially caused by expansionary monetary policies and low interest rates.

Before World War II, the role of money in generating business cycles was even more pronounced. Many severe pre-war recessions—including the 1908, 1921, and 1930 Great Depression crises—were primarily caused by monetary contractions and high interest rates.

Milton Friedman argued that the Great Depression of 1930 was not due to the inherent instability of private economic activity but rather a consequence of policy mistakes by monetary authorities. He asserted that a small number of policymakers with extensive monetary control can trigger massive economic losses (Taghavi, p. 24).

Friedman further noted that at least one-third of the price increases during and after World War I were directly attributable to the Federal Reserve's monetary expansion. He claimed that had the pre-Fed banking system remained intact, these inflationary episodes would not have occurred. Furthermore, he attributed the severe recessions of 1920-1921, 1929-1933, and 1937-1938 to policy actions such as the creation and elimination of various Federal Reserve commissions, which would not have happened under previous banking arrangements (Friedman, 2001: p. 62).

In summary, monetarists believe that money and monetary policies are the primary causes of economic fluctuations. Thus, they argue that stabilizing the economy requires effective monetary policy reforms.

New Classical Business Cycle Theory

This theory emerged in response to the sharp decline in money velocity during the 1980s recession, which rendered fixed monetary rules ineffective. Economists such as Lucas, Sargent, Barro, Wallace, and Prescott introduced a new framework based on rational expectations, continuous market clearing, and the supply-side "surprise" hypothesis, reshaping the discussion on economic fluctuations.

Unlike Keynesian models, which struggle to incorporate endogenous expectations, new classical economists argue that the only valid way to introduce expectations into macroeconomic models is through the rational expectations hypothesis. According to this hypothesis, economic agents are rational and use all available information optimally, meaning their expectations are unbiased predictors of future realities.

As a result, only unexpected monetary policies can influence the economy. Anticipated changes are already factored into decision-making, rendering them ineffective (Shakeri, 1387: p. 1066).

New classical theory suggests that anticipated and unanticipated monetary changes have different effects. If a monetary policy is expected, individuals incorporate it into their economic models and adjust accordingly, making the policy neutral. However, if an unanticipated monetary policy creates a surprise, it leads to a discrepancy between expected and actual prices, affecting output and employment in the short run (Shakeri, p. 1066).

Thus, classical dichotomy holds only in the absence of surprise effects. An unexpected monetary shock, which influences aggregate demand and price levels, surprises both firms and workers, leading to changes in output and employment. This reaction is primarily due to incomplete information.

In summary, from the new classical perspective, deviations in output and employment from their natural levels result from random shocks to money supply, leading to errors in price expectations. Moreover, these random shocks have stronger effects in stable economies. Lucas's model, in particular, emphasizes that business cycles result from exogenous monetary shocks, which transmit imperfect price signals to economic agents with limited information.

Real Business Cycle (RBC) Theory

The Real Business Cycle (RBC) theory emerged to address the limitations of the new classical approach, particularly regarding market clearing despite incomplete information and the failure of monetary neutrality in empirical studies.

Economists such as Edward Prescott, Finn Kydland, Charles Plosser, Robert Barro, John Long, and Stephen Stockman developed RBC theory, which attributes economic fluctuations to large variations in production technology. According to RBC theory, individuals rationally adjust their labor supply and consumption in response to these fluctuations, making business cycles a natural and efficient response to technological changes. In this framework, technological advancements cause significant random fluctuations, ultimately shaping real business cycles. These cycles reflect voluntary decisions made under varying technological and economic conditions, giving them an equilibrium-based and real (non-monetary) nature.

A positive technological shock, which increases production, leads to higher demand for labor and rising real wages. However, the key question is whether the shock is temporary or permanent. If economic agents perceive the shock as temporary, they respond by increasing labor supply and output. If they believe the shock is permanent, they focus on capital accumulation, investing in new capital goods to sustain future production growth (Gorji & Madani, p. 303).

Thus, RBC theory sees business cycles as optimal economic adjustments to changes in technology, rather than monetary or demand-driven disruptions.

Literature Review

Regarding economic fluctuations within the framework of business cycles, most studies have been conducted empirically, focusing on the role and impact of specific factors. Some of these studies are as follows:

Ludvigson et al. (2021), in a study titled "*Uncertainty and Business Cycles: External Shocks or Endogenous Reactions*," examined whether uncertainty is a driving factor behind business cycles or if business cycles themselves generate uncertainties. Using a Structural Vector Autoregression (SVAR) model, they analyzed the relationship between industrial production cycles in the United States and

macroeconomic and financial uncertainties. The results indicated that macroeconomic uncertainties during recessions are an endogenous response to production shocks, while financial market uncertainties act as a driving factor of business cycles.

Chang and Lee (2021) investigated the factors influencing business cycles in East Asian countries from 1980 to 2018. They employed the Generalized Method of Moments (GMM) approach for data analysis and calculated business cycles using the Hodrick-Prescott filter. Their findings indicated that productivity, capital, budget deficits, and employment rates are key factors influencing business cycles in the studied countries.

Yan Hong and Wenju (2020), in a study titled *"Examining the Asymmetric Effects of Monetary Policy on Business Cycles in 40 Countries Using Quantile Regression (2005-2016)"*, found that monetary policy aligns with and amplifies business cycles. This effect was more pronounced in emerging economies compared to developed ones.

Severio and Weber (2019) analyzed the impact of automobile production and sales on business cycles in selected countries using the GMM method. Their findings revealed a significant but minimal impact of automobile production and sales on business cycles. Additionally, the trend of automobile sales and business cycles showed that during recessions, the decline in car sales was much greater than the increase in sales during periods of economic boom.

Sidney et al. (2019) investigated the relationship between economic fluctuations and business cycles using a Structural Vector Autoregression (SVAR) model. Their results demonstrated that uncertainty and volatility in macroeconomic indicators during economic recessions are often an endogenous response to output shocks. In contrast, uncertainty in financial markets is likely a source of production fluctuations. Their findings also highlighted that uncertainty and volatility in macroeconomic indicators play a crucial role in economic downturns, with key contributors including currency fluctuations, financial crises, oil price volatility, and monetary shocks.

Fabiani et al. (2014) examined the impact of information and communication technology (ICT) on business cycles in European Union countries from 1990 to 2011 using a Vector Autoregression (VAR) model. Their estimations were conducted separately for each country. The study's results indicated that ICT had a significant and positive impact on business cycles in EU countries during the study period.

In Iran, Shaygani et al. (2023), in a study titled *"Identifying the Factors Influencing Business Cycles in the Iranian Economy: A Quantile Regression Approach"*, analyzed the causes and factors of business cycles in Iran. Their results showed that economic recessions in Iran deepened and expanded due to the imposition of new sanctions and the emergence of the COVID-19 pandemic. Furthermore, the findings from the ARDL method indicated that labor productivity, employment rates, and foreign trade negatively influenced business cycles, while final consumption expenditures, oil revenues, and sanctions had a positive effect (intensifying economic downturns). Overall, the effects of these variables on business cycles were symmetric.

Additionally, Gholami et al. (2023) examined the role of Islamic financial instruments in Iran's business cycles using the Stochastic Dynamic General Equilibrium (DSGE) model. To estimate the parameters, they employed calibration and a first-order Vector Autoregression (VAR) model. They assessed the effects of economic shocks under two scenarios: with and without Islamic financial instruments. The findings indicated that when Islamic financial instruments were included, the impact of economic shocks differed significantly, underscoring their role in Iran's business cycles.

Another study by Bagheri et al. (2022) analyzed the impact of macroeconomic banking, financial, and economic indicators, as well as economic crises, on business cycles in Iran and selected developing and developed Islamic countries using the System GMM (SGMM) method and dynamic panel data. Their

results revealed that liquidity risk, credit growth rate, and financial crises had a negative effect on output gaps, while return on assets, capital adequacy ratio, crude oil prices, exchange rates, and financial market development negatively affected the selected developing countries.

Finally, Keshki et al. (2020), in a study titled *"Examining the Relationship Between Credit Cycles and Business Cycles in the Iranian Economy,"* analyzed this relationship using annual data from 1973 to 2016 and a Structural Vector Autoregression (SVAR) model. Their study, incorporating key variables influencing business cycles, found that credit cycles positively impacted business cycles, whereas business cycles negatively affected credit cycles. Credit cycle fluctuations accounted for the largest share of business cycle fluctuations in Iran's economy. Business cycle fluctuations, following credit cycle shocks, inflation, and consumption, had the fourth-highest share in explaining credit cycle fluctuations. The study also found that the co-movement between credit and business cycles became evident from the second period onward, with 24 years of observed co-movement. Moreover, in the long run, the continuation of this co-movement during expansionary and recovery phases has contributed to severe financial crises in Iran's economy.

An Analysis of the Impact of the Fundamental Principles and Governing Rules of the Capitalist Economy on the Occurrence of Economic Fluctuations

It is evident that capitalism, as the economic and social framework of modern civilization, is based on a series of specific intellectual and philosophical foundations in ontological, anthropological, and epistemological dimensions. These intellectual principles, which emerged as a result of the expansion of the rationalist movement and in opposition to the Church during the 17th and 18th centuries, have led to the establishment of new values and behavioral rules in capitalist societies. Consequently, various aspects of life in these societies have undergone transformation. In the economic dimension, these values primarily include economic freedom, private property, self-interest and economic rationality, profit orientation, and competition.

Although some believe that these concepts and values have enabled capitalist societies to achieve the highest levels of individual and social welfare and satisfaction, the economic reality suggests otherwise. The rules and relations embedded within capitalist economies have themselves given rise to numerous problems, inequalities, conflicts, and, notably, economic instability. In fact, this set of rules and values has led individuals and economic institutions to act solely based on personal interests, with little regard for broader social considerations and without adhering to any regulatory constraints.

In capitalism, economic philosophy is embodied in the principle of "freedom of action" and the concept of the invisible hand, meaning that no obstacle should hinder an individual's pursuit of personal gain. In this regard, Professor Lester Thurow, highlighting the dangers of excessive emphasis on self-interest, asserts that the greatest weakness of the capitalist system is that everyone thinks only of themselves. He further states that a doctrine rooted in extreme individualism, with a short-term perspective, cannot effectively emphasize long-term collective interests (Thurow, 1997).

It thus appears that the institutional conditions and governing rules within capitalism encourage individuals to engage in selfish and high-risk behaviors, thereby creating conflicts between personal interests and social welfare. This, in turn, contributes to economic fluctuations and instability, inflicting significant harm on society.

From this perspective, it becomes clear that the fundamental principles, values, and rules shaping economic decision-making and behavior stem from a specific intellectual and philosophical framework that forms the foundation of the capitalist economic system. Therefore, economic phenomena observed in capitalist societies and countries ultimately reflect the values and rules governing this system and are, in essence, the outcomes of actions and behaviors driven by such values.

Accordingly, in the case of economic fluctuations—one of the defining realities of capitalist economies—it can be argued that their occurrence is fundamentally linked to the governing rules and values of the economic environment. Hence, it is essential to examine their role and impact. With this explanation, we will now explore some of these values and behavioral rules and their role in generating and expanding economic fluctuations.

A) Economic Liberalism and Unregulated Freedom

Economic freedom is considered the most important pillar of liberal capitalism. This concept, which actually has its roots in naturalistic thinking and the logic of the natural order, forms the foundation for many other concepts and terms and is the main basis of classical-neoclassical economics. Advocates of economic freedom regard it as a natural right in accordance with human nature, and they argue that economic freedom within the context of competition ensures both individual and collective interests (Alizadeh, 1999: p. 110 - 125).

Despite this description of economic freedom, many scholars believe that its unregulated nature, especially in the selfish and profit-driven environment of capitalism, creates the conditions for many economic hardships and crises, resulting in significant costs for capitalist societies. Joseph Stiglitz, rejecting the deregulation slogan influenced by liberal ideas in the U.S., acknowledges: "The lack of necessary regulation has cost us dearly; if proper oversight had existed, the number of crises and the costs associated with them would have been lower" (Stiglitz, 2013: p. 64 - 67). Dieter Lesch, another economic thinker, criticizes the unregulated freedom in capitalist societies, which has caused considerable harm, and emphasizes the need for government intervention in the economy. He states: "A liberal economy, or what is referred to as a self-regulating market system, like all automatic technical systems, requires continuous supervision. In the absence of such oversight, the likelihood of deviations increases." Therefore, contrary to liberal thought, it is governments that, by creating effective and specific institutions, must monitor market performance and prevent its deviations (Dieter Lesch, 2000: p. 94). Evidence also shows that following neoliberal slogans such as the "Free Market Revolution" in the U.S. and the U.K., implemented by Ronald Reagan and Margaret Thatcher, led to recessions and financial crises such as the 1987 Dow Jones crash and the bursting of the housing bubble, resulting in harmful consequences.

In essence, true economic freedom in capitalism amounts to giving freedom to capital and a small number of capitalists, removing any barriers in their way. This often leads to economic tensions and becomes a tool for pressuring governments to accept their selfish demands. Marx comments on this issue: "The historical denial of the guild system and others by capital through free competition only highlights that, as soon as capital becomes powerful enough, it removes historical barriers that hinder its movement and blocks its path using the methods of exchange appropriate to its nature. However, the significance of competition is not limited to this historical dimension or its negative force. Free competition is the relationship of capital to capital itself. It is not individuals who are freed through free competition, but capital, which is freed through competition... Therefore, the idea that free competition is the ultimate development of human freedom and that rejecting it equals rejecting individual freedom and social production based on individual freedom is meaningless" (Karl Marx, 1999: p. 137).

Studies also show that excessive and unconditional support for economic freedom in the capitalist context has led individuals to act based solely on their personal desires and ambitions, without considering broader social interests. This behavior occurs with a disregard for regulatory constraints and ethical frameworks, fueling rumors, false narratives, and risky actions, which lead to the destabilization of the economy and economic disruptions. Overall, the dominance of a liberal mindset and the disregard for any regulation within the economic environment inevitably results in disorder and instability, causing fluctuations that are either desired or unwanted in the economy.

B) Profit-Centricity and the Absence of Value Criteria

Another value dominating capitalist economies is utilitarianism, based on materialistic ideas and full adherence to self-interest. Self-interest, which is essentially the result of the two fundamental principles of individualism and hedonism, manifests itself in private property and is constantly praised in capitalist circles. From the perspective of capitalist ideology proponents, self-interest is the only reliable element for each individual, and pursuing it within rational principles ensures the maximum benefit for both individuals and society. Therefore, any limitation in the pursuit of self-interest that hinders the attainment of maximum benefits is unacceptable.

In analyzing the validity of this claim, it can be said that although the principle of self-interest in humans is undeniable and universally accepted, the dominance of materialistic thinking in capitalist societies and the absence of ethical and value-based standards has led to situations where self-interest does not result in maximum social benefit. On the contrary, it often causes conflicts, confrontations, and contradictions, ultimately leading to economic fluctuations. In fact, absolute self-interest and disregard for social desires and expectations make decisions and actions in the economic environment more likely to occur in a tense and hostile context, with individuals resorting to any means or methods to achieve greater benefits. The history of liberal capitalist economies shows that the absence of a moral framework and reliable regulations has led to significant disruptions. In these economies, during periods of economic boom, when markets are usually in a state of euphoria and optimism prevails, the absence of a proper value system and guiding tools has led the economy to drift without direction, like a ship sailing in a stormy and tumultuous sea toward an unknown destination. In this journey, the only determinant of direction and economic destination is the desires and wishes of individuals and institutions, who, regardless of any rules or regulations, pursue their interests at all costs.

Studies show that the dominance of a toxic advertising environment in capitalist societies has led, contrary to the principles of rational behavior, to decisions being made in the economic environment largely influenced by emotions and feelings, often accompanied by haste. This phenomenon, known today as systematic irrational behavior in behavioral economics, has drawn the attention of many researchers. Joseph Stiglitz comments on this matter: "In fact, irrational exuberance leads to economic bubbles and booms, while irrational pessimism leads to recessions. During periods of irrational exuberance, people's assessments of risks are lower than they should be. Therefore, they engage in actions they have done before, and likely will do again when memories of past crises fade. In such situations, the government can play an important role, meaning not only should it prevent the abuse of irrational individual behavior, but it should also help people make better decisions" (Stiglitz, 2013: p. 388). Lester Thurow, another economist, acknowledges the irrational and absurd increase in asset values in financial markets, which has led to market crashes in multiple periods. He asks: "How is it that intelligent people don't see that asset prices are exaggerated?" He then answers: "The answer lies in greed. People know what will happen, but they can't stop themselves. When, in the midst of a financial mirage, prices rise, a few individuals make vast amounts of money, even if everyone knows that prices are too high and will eventually fall. Everyone rushes into the market, believing they are smart enough to get out before the end comes" (Thurow, 2005: p. 227).

In general, it can be said that the absence of a value framework and disregard for ethical principles has caused reckless, emotional, and self-interested decisions and behaviors to occasionally destabilize the economic environment of capitalist societies. By fueling these behaviors and creating waves in the market, they pave the way for economic fluctuations and crises, resulting in considerable damage, particularly to low-income groups in society.

C) Monopolistic Norms and Implications

The issue of monopolies in capitalist economies has long attracted the attention of researchers and scholars. Studies show that, despite the initial claims by market proponents about the existence of perfect

competition, what was actually observed over time were various forms of monopolies, which were far from the principles of competitive markets. This phenomenon reflects both the growth and further evolution of capitalism, manifesting itself more fully in the economic arena, while simultaneously deviating significantly from the initial ideals of market proponents.

Joseph Stiglitz, regarding the spread of monopolistic and cartel powers and their consequences in the U.S. economy, states: "Despite President Eisenhower's warning about the dangers of military-industrial coalitions, these alliances have expanded over the last fifty years, with interest groups including the financial, pharmaceutical, oil, and coal industries, effectively shaping economic and social policies. The political influence of these industries has made rational policymaking nearly impossible" (Stiglitz, 2013: p. 440).

In reality, the core thesis of monopoly capitalism is that the tendency toward average profit rates in the system, as demonstrated in classical and neoclassical economics, has lost its former meaning. What truly exists is a hierarchy of profit rates, with the highest rates in industries dominated by large, centralized firms and the lowest rates in industries with intense, competitive pressures (Foster & Chesney, 2009: p. 42).

Economists and experts discussing the effects of growing monopolistic firms on the fate of countries highlight various issues, such as inefficient resource allocation, reduced consumer purchasing power and bargaining ability, weakening and isolation of small and medium-sized businesses, increased social costs, inequality, environmental issues, and most importantly, the repeated emergence of economic fluctuations and crises. They argue that because the nature of monopoly capitalism inherently tends toward accumulation and its development is tied to such practices, capitalist economies inevitably face a phenomenon called "economic surplus" or "overaccumulation," which inhibits further investments and ultimately leads to stagnation and rising unemployment, referred to as prolonged recession in capitalist economies.

Paul Sweezy, commenting on the consequences of monopoly capitalism, states: "There is no mechanism in the system to regulate investment opportunities in the direction that investors desire for accumulation, and there is no reason to assume that if investment opportunities are insufficient, investors will turn to buying – quite the opposite. Therefore, capitalism essentially loses its internal driving force, and as a result, without an external force, like foreign encouragement, it will inevitably drift toward recession" (Baran & Sweezy, 1964).

In any case, the fact that in monopolistic structures both price and quantity are controlled by very large firms provides ample opportunity for monopolistic companies to manipulate the market, enabling them to collude and control the markets. This often results in unwanted economic fluctuations. Many economists today believe that these monopolistic firms, due to their growing size and market dominance, not only control markets and determine their destinies but also influence many economic policies through their power in governance. They attempt, through various strategies, to steer these policies toward their profit-driven goals. Therefore, it is certain that the monopoly rules and relations governing capitalist economies, which have expanded over time and gained global dominance, are a major source of economic instability and fluctuations, whether intended or not, exposing markets to cycles of recession and inflation.

D) Inequality

One undeniable reality in capitalist economies is the significant income inequality and the formation of class societies. Since income inequality leads to a reduction in the purchasing power of a portion of society, which in turn affects aggregate demand, it can thus be considered one of the main factors and contexts for the emergence of recessions and crises in the economy. Joseph Stiglitz, criticizing the increasing inequality in American society, states regarding the effects of this inequality on

consumption and subsequent changes in supply and demand: "The reality is that the transfer of money from the lower layers of society to the upper classes leads to reduced consumption. The rich save 15 to 25 percent of their income, while lower-income individuals spend all of their income. As a result, supply will exceed demand, which means an increase in unemployment; in other words, the weakness in aggregate demand, and thus weakness in the capitalist economy today, can be attributed to widespread inequality." (Stiglitz, 1994: p. 131-132)

In fact, increasing inequalities, which naturally lead to a decrease in purchasing power and subsequent demand shortages, stem from the capitalist system of production and consumption. The production system is based on two main factors: capital and labor. Thus, capital receives a return, and labor receives wages. Capitalist economists often justify the significant difference in the share of each factor of production by claiming that this difference is temporary, and in the long run, their shares will equalize. However, economists like Piketty, in his book *Capital in the Twenty-First Century*, demonstrate that not only do these two factors never equalize, but recent findings show that the slowdown in population growth and production growth has caused the return on capital to exceed the share of labor, leading to deeper class divides. He argues that since the only variable factor in firms, in the short term, is labor, and since labor is also a consumer, any change or adjustment in wages directly affects its purchasing power and consumption. Accordingly, in boom periods, due to inflation and rising business costs, business owners—who inherently prefer to employ cheaper labor—reduce wages to compensate for their production costs. Over time, this reduction in wages, on one hand, and inflation on the other, leads to a reduction in purchasing power, which in turn results in an inventory surplus for firms and, ultimately, a reduction in production. Thus, the economy enters a phase of stagnation, and in such circumstances, firms are forced to adjust their labor force, leading to an increase in unemployment. An increase in unemployment means a sharp decline in purchasing power and a shortage of demand, and thus the economy enters a recession. (Foster and Chesney, op. cit., p. 42)

Although wages may temporarily rise during economic booms, improving living conditions to some extent, since prices in goods and services markets experience faster and larger fluctuations during booms and wage adjustments are often faced with obstacles, the overall income conditions tend to favor the wealthy classes and capital owners. As a result, wage earners and those with fixed incomes are relatively poorer and face more limitations, which in turn creates conditions for the economy to enter longer recessionary periods. When the economy enters a recession, economic problems appear on a larger scale, leading to a reduced willingness to invest and produce, an increase in the unemployment rate, a reduction in wages, and ultimately a decline in the purchasing power of society. This leads to numerous hardships and limitations in household living conditions. In this way, capitalist economies continuously fall into a vicious cycle of inequality and recession. Various factors such as the increasing dominance of capital, monopolies, and growing financialization have contributed to the spread of inequality in capitalist societies. By weakening the purchasing power of a significant portion of society, they create a gap between supply and demand and ultimately lead to economic fluctuations.

H) Financialization and Dependence on Unrealistic Values

One of the significant and influential realities in recent decades of capitalist economies is the tendency towards financialization. Economists point to various factors involved in the emergence of this process. Among them, the surplus capital in the real economy, along with the appearance of financial innovations on one hand, and the extensive allocation of credit lines and provision of loans in the production and consumption sectors with the goal of supporting the purchasing power of fixed-income groups and ensuring economic growth, on the other hand, play a key role in the financialization of the economy and the expansion of financial markets.

Studies show that the surplus capital resulting from increasing accumulation in capitalist economies, combined with financial innovations leading to complex monetary and financial mechanisms,

including money creation and bond issuance, has caused the capitalist economy to unintentionally move towards the accumulation of more financial capital. This has resulted in a situation where, in a relatively short period, the income share from transactions in the financial sectors exceeds the total income. (Grüner, *op. cit.*, p. 125-126) Foster and Chesney, while understanding the historical shift in the capitalist system towards financial capitalism, point out two types of price structures in capitalist economies: the pricing of production, which relates to the real sector, and asset pricing, which in the new era primarily refers to financial assets—paper-based assets. They note that financial and paper assets, which have emerged as a result of the growing surplus of capital in the real economy, have not only directed a large volume of investments towards financial markets but also contributed to an increase in debts throughout the economy. This, in turn, has made the economy increasingly dependent on the financial sector, which eventually led to a significant failure in the real economy during a financial crisis. (Foster and Chesney, *op. cit.*, p. 73-74)

The formation of various forms of speculative banking, banking enterprises, converting currency into a commodity, and trading on the future prices of various currencies, along with various forms of unproductive investment, has led to an astonishing rise in the value of financial assets in these sectors. This process has experienced a much faster pace. (Samiei, 1391: p. 45) In this process, the uneven flow of monetary and financial capital has often led to the formation of bubble prices, and its continuation has destabilized financial markets, ultimately causing fluctuations in supply and demand in the real economy. A clear example of this can be observed in the 2008 financial crisis. On the other hand, the allure of financial markets and their substantial profitability has caused an increasing tendency to invest in this sector, while the real economy has experienced stagnation and disruptions on the supply side. Similarly, on the demand side, limitations caused by rising debt burdens and forced savings can create conditions for some fluctuations.

In any case, the dominance of debt has caused firms to continuously take loans with fixed interest rates to compensate for production costs and financing, while consumers take out loans to make up for reduced purchasing power, which in turn increases their costs. Thus, firms' profits are simultaneously affected on both sides, both in terms of production costs and loan and interest payments, leading to a reduction in profits. Naturally, the repeated demand for loans exacerbates the situation, contributing to the occurrence of business cycles. Governments also attempt to escape recessions by offering various loans through banks. This, combined with firms' tendency to hire cheap and flexible labor and wage fluctuations during economic cycles and crises, deepens the damage caused by these cycles. As a result, when the economy enters a boom period, its own performance pushes it towards a recession, and the cycle of boom and inflation is repeated. This continuous cycle in the economy has led to the belief that these cycles are inherent to the economy and cannot be eliminated.

Conclusion

This research aims to examine the role of principles and relations governing capitalism in intensifying and expanding economic fluctuations. The study first clarifies the concepts and theoretical foundations of the research, followed by a review of the literature. The discussion then focuses on how institutional values, rules, and relationships within the capitalist economy affect the intensification and spread of business cycles. The results of the studies and investigations indicate that the capitalist environment, for various reasons, is prone to economic turbulence and fluctuations, providing ample conditions for economic imbalances and disruptions. Consequently, economic fluctuations, regardless of their origin, can pave the way for deep and widespread economic crises. In fact, the existence of fundamental concepts and values in the capitalist system, such as economic liberalism, self-interest, profit maximization, and the prevailing economic rules like monopoly, reliance on unrealistic values, financialization, and inequality, has led to the capitalist economy being constantly exposed to fluctuations and periodic crises. Therefore, it can ultimately be concluded that the primary factors responsible for

intensifying and expanding economic fluctuations in capitalist economies—sometimes leading to severe and widespread economic crises—are the institutional values and the rules and relationships governing the economic environment. As long as these values and rules remain in place, the capitalist economy will continue to face significant fluctuations and economic crises.

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