BASIC THEORETICAL PROVISIONS ON ECONOMIC CRISIS

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Introduction. Currently the world economy is constantly evolving and declining. The world economy, which has not yet overcome the consequences of the economic crisis caused by the coronavirus, is in a new crisis situation, at least due to the political factor, in particular, the negative impact of the Russian-Ukrainian war. In addition, the national economies of different countries, in turn, are simultaneously affected by other factors. For example, along with the coronavirus, the Armenian economy was exposed to the effects of the 44-day Nagorno Karabakhakh's war and its consequences have not yet been overcome. As we can see, there are several reasons for the emergence of modern crises, and these factors affect at the same time, which makes policy makers face serious difficulties, as it is quite difficult to assess the impact of each factor and the level of nationality of several factors even more difficult. This, in turn, poses serious challenges to the effectiveness of anti-crisis policy.

Research methodology and literature review. The theoretical and methodological basis of the research is the studies of domestic and foreign authors on the economic crises and their causes and the works of representatives of various economic theories. The approaches put forward by economists at different times have different interpretations of the economic crisis. It is difficult to find another problem in economics on which economists have such a diversity of conflicting opinions. The question is what economic or non-economic factors cause cyclical fluctuations and crisis situation, what are the mechanisms of their propagation, are these processes determined or stochastic, and so on? To this date, exhaustive answers to these and many other similar questions have not been found. Data collection and grouping methods were used for the study, using information summarized in specific source differences.

Scientific novelty. Economic crisis theories show that there are many factors contributing to crises, and the presented view on the difficulties of assessing their impact can be the basis for new problems and opportunities in the study of economic theory.

Analysis. Theories on economic crises can be conventionally divided into:

1. *Endogenous theories*
2. *Exogenous theories*
3. *Eclectic (synthesized) theories.*

Proponents of endogenous theories try to explain the causes of economic crises through the internal factors inherent in the economic system, from which can be identified issues of consumption, savings, investment, money supply, supply and demand, depreciation of fixed capital and its renewal. The causes of economic crises by internal factors was made by the Swiss economist J. Sismondi in the first half of the 19th century. He was one of the first to reveal the contradictions between production and consumption, as a result of which, according to him, economic crises are inevitable. According to Sismondi, the cause of economic fluctuations and crises is the poverty of the population, low purchasing power, which leads to malnutrition.

A similar approach was suggested by the British economist T. Malthus. T. Malthus attributes the economic crisis to overpopulation. He notes that the growth of excessive savings can also be a cause of crisis, as the reproduction process is disrupted. Increasing savings in the market leads to a decrease in demand for the means of production. According to him, the main reason for the over-saving of the population is the unequal distribution of national income throughout the society. Most of the savings go to those with high incomes. The theory of modern over-savings was referred to by A. Hawks, M . Katching, J. Hosts and others who point out that the existence of over-savings is due to the fact that most of the income received by the society is saved and a small part is consumed. Proponents of these two approaches argue that if it were possible to raise wages and distribute national income more evenly at the same time, the economy would not face the issue of malnutrition or overspending. Proponents of these theories attach importance to the stability of consumer goods market, because, they think, if supply and demand in the consumer goods market are balanced, then the economy is not in crisis. In contrast to the theories of malnutrition and over-saving, the next proponents of the theory of over-accumulation (T. Baranowski, A. Spitgoff, A. Aftalyon, etc.) believe that economic crises have a greater impact on industries that produce goods of industrial significance. They believe this situation directly affects the emergence of disparities in the product market. The theory of over-accumulation has developed in 2 main directions.

1. Proponents of monetary economics believe that the cause of economic fluctuations and crises is money - the growth of lending. Demand for credit resources grows in productive industries during the crisis, as fixed capital is upgraded. The reduction of the loan interest rate contributes to the expansion of credit volumes. Increased production contributes to increased revenue and expenditure. In an attempt to save the economy from overheating by achieving full demand and stimulating business activity, banks usually raise interest rates so that the process of economic expansion can be inertial.

2. Proponents of non-monetary economics attribute the economic crises to the influence of non-monetary factors, in particular technology, innovation and discovery.

Proponents of exogenous theories try to explain the emergence of economic crises by the influence of external factors outside the economic system. Exogenous factors include human psychology, the discovery of new technologies, solar activity, climate change, epidemics, wars, political change, population growth and migration, class struggle, and more. Psychological theories occupy a special place among exogenous theories. According to this approach, fluctuations in business activity are mainly due to the optimistic and pessimistic expectations of the people.

In general, the development of psychological theories can be divided into three periods. The first direction originated in the early 20th century, and proponents of this direction considered the speculative nature of transactions in commodity markets or stock exchanges as the cause of economic fluctuations (*V. Pareto*). That is, people's expectations for commodity prices and stock market fluctuations. In this case, the stimulus of business activity is the naturally optimistic moods formed among the population. This behavior is also spreading rapidly among entrepreneurs, which leads to the so-called "following the example of others". Such an artificial exaggeration of the total demand in the market is conditioned by the large-scale use of credit resources. As a result, production volumes increase unreasonably, leading to an imbalance between production and consumption. This approach explains the reason for the end of the rising phase of the economic period is the increase in interest rates and the decrease in the growth rate of market prices. Rising interest rates and falling prices create a pessimistic mood among entrepreneurs, so the production volumes are gradually reduced and the economy declines. This view explains the reduction of interest rates and the emergence of so-called new generation of entrepreneurs can be a precondition for overcoming the crisis.

The second direction of psychological theories, which arose in the 20s and 30s of the 20th century, is mainly connected with the approaches of *A. Pigou and J.M. Keynes***.** The authors of this approach attribute the economic fluctuations to the specificity of capital investments. They point out that in the face of imperfect market information, venture capitalists can not accurately predict the profitability of these investments, which could lead to an economic crisis.

The third concept of the psychological theory of economic crises was formed in the second half of the 20th century (*R. Lucas*). The basic idea of this approach is that as a result of the sudden increase in the money supply, entrepreneurs are unable to correctly determine whether the prices of their products have risen under the influence of real demand or inflation-driven demand. Therefore, each new rise in prices is followed by an increase in investment and employment. R. Lucas believed that the uneven fluctuations in inflation in the economy, associated with rising public spending, were leading to an economic downturn. However, this increase is temporary, as it is associated with an increase in unrealistic aggregate demand. The phase of economic growth stops and it enters a phase of decline when entrepreneurs understand the real reason for the rise in commodity prices and reduce production and employment. And as this process is accompanied by constant inflation, stagflation occurs. *The theory of political business cycles* considers the government monetary and fiscal policy to be the cause of crises and economic cycles. It is assumed that the government has full control over these levers of economic regulation. The rulling executives, seeking re-election, are pursuing a "soft" or "cheap" monetary and fiscal policy during the pre-election period, with the aim of gaining the trust of voters. In the post-election period, a "tough, restraining" monetary and fiscal policy is being pursued, which, of course, can lead to economic downturns.

Most modern economists explain the causes of economic crises by *combining exogenous and endogenous theories of crises* which are based on fluctuations in investment. This volatile nature of investments is explained by a number of external factors affecting them: technological innovations, population growth dynamics, exploitation of new mines. To these external factors can be added a number of internal factors that lead to increased investment. An increase in the income of workers in industries that produce goods leads to an increase in demand for consumer goods, as they spend part of the increased income in that sector. The expansion of such processes is a signal for firms to attract new loans to the manufacturing sector. This fact makes a positive shift in the behavior of entrepreneurs, leading to the emergence of optimism. Such positive changes contribute to the implementation of new investment programs.

One of the *eclectic* or synthesized theories of economic crisis is *the theory of real business cycles* considering macroeconomic fluctuations as a rsult of shock changes in productivity some sectors of the economy and in general by production technology.One of the modern theories of the real business cycle is American economists *Kydland and Prescott's* the of *"supply shocks"* theory. They showed that the "supply shocks" that appear from time to time in the economy due to technological innovations are the driving force of economic fluctuations. As an external factor, they contribute to the internal factors of the economy, and, in particular, to labor productivity. The economic period has the following appearance: with the development of technology, the productivity of labor in the economy increases causing it and the level of real wages increase, and people are ready to work more than to rest. However, the more people work today, the more they will value their free time tomorrow. So even if their wages stay the same, their productivity levels stabilize and even decline. As a result, the economic crises begins and lasts until the next technological shock. If the "supply shocks" are negative (i.e., sharp rise in oil prices in 1970s), this mechanism works in the opposite direction.

Real business cycle theory was the basis for another synthesized *influence-spatial theory*. The founders of this theory (Russian E. Slutsky, Norwegian Nobel Prize winner R. Frisch) suggest that the economic growth encounters many signals that cause fluctuations. These external impulses (wars, scientific discoveries, sharp changes in commodity prices, "shocking" reduction or expansion of the money supply, coups), impact on internal mechanism of the market by the action of the multiplier and accelerator, lead to periodic fluctuations in the economy. And since there are so many external influences on the development of the economy, the economy is constantly in periodic fluctuations. The economic depression in 1929-1933 has shown that the market mechanism is unable to solve the issues the market faces from time to time. We may note that the economic theory was in crisis with the economy at that time, because the existing theories that substantiated the self-regulatory nature of the market economy were simply unable to identify the causes of the economic phenomena. 1929-1933's economic crisis gave rise to new approaches to economics. The founder of such a new evolutionary development is *J.M. Keynes* with the view that the market from time to time loses the ability of internal self-regulation. That is why the economy does not return to the previous level of production and employment when full demand is reduced leading to a long and deep economic crisis. Following Keynes's publication, the development of Keynesian theories of economic periods and crises began in economics. His followers considered demand markets to be the reason for the development of economic cycles. In particular, Keynes considered the growth of investments to be the main source of economic fluctuations, and the decision to invest is mainly influenced by the level of profitability expected from it. However, those expectations as such are not stable. Referring to such changes in expectations, he noted that the decisions regarding the volume of investments are directly influenced by the optimistic and pessimistic expectations of entrepreneurs. From this angle, he believed that the volume of investments that causes the economic crisis is determined by entrepreneurs with a living instinct. Changes in the volume of investments in the economy lead to structural changes in aggregate demand. He blamed economic fluctuations on the inflexible nature of supply, and structural fluctuations in aggregate demand lead to fluctuations in aggregate supply rather than price changes. Keynes proved the economic cycle as the result of the interaction of three components: national income, consumption and capital accumulation and economic cycles – based on the dynamics of aggregate demand, which in turn was driven by the incomes of households and firms. He found the marginal efficiency of capital as a cause of economic crises. During the crisis of economic cycles, the marginal efficiency of capital decreases sharply. According to Keynes, the duration of the economic period is connected with the restoration of the marginal efficiency of capital. One of the main explanations for the monetary theory of economic crises was that changes in real income, employment, and price levels were greatly influenced by the amount of money in circulation. Monetarists argued that there was a direct correlation between money supply growth and nominal income growth rates. *M. Friedman* tried to explain the periodic development of the economy and the phenomena of crisis from the point of view of the stability of the money supply in circulation. According to him, the growth phase of the money supply corresponds to the rise of economic periods, and the decrease of the money supply corresponds to the crisis phase. As the demand for money is usually stable, and changes in the economic situation do not directly affect the demand for money, according to Friedman, the reason for the economic fluctuations is mainly the anti-cycle policy pursued by the state, which can happen unpredictable changes in money supply. Friedman concluded that changes in the money supply, as a rule, always precede the corresponding changes in the economic situation by an average of about 12-18 months. According to the monetary rule, the money supply in circulation should be increased by 3-5% each year, which will help to avoid some crisis situations.

Conclusion. The causes of economic crises are diverse and can be interrelated. These factors affect economic systems to varying degrees and over different periods of time, individually or simultaneously. Their nature can be unpredictable. Therefore, there are some difficulties in assessing the causes of economic crises in terms of applying mathematical methods. In this context, the effectiveness of anti-crisis policy can also be unpredictable.

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Basic theoretical provisions on economic crisis

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Some economists (K. Wicksell, A. Spitgoff, J. Schumpeter) explain the economic crises with *technological innovations:* by developing new mines and involving new resources in exploitation. According to them, in the stage of economic development, the technical re-equipment of production leads to changes in economic living conditions, which in turn leads to an unequal crisis situation. One of the exogenous theories is the theory of solar activity. The founders of this theory are W. Jevons and K. Moore. According to them, the appearance of spots on the sun affects yields, grain prices and the trading period. At the same time, W. Jevons and his descendants explained the level of employment by solar activity. A. Chizhevsky also studied the connection between economic crises and solar activity in his works. As a result of these studies, he concluded that the periodic activation of the sun also affects people's psychology. In particular, during the period of the highest activity of the sun, people are aggressive and irritable.