Student Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Introduction to Business

Ch. 3 - Economic Activity in a Changing World

“Those who cannot remember the past are condemned to repeat it.”

-*George Sentayna*, *An American Writer*

Measuring Economic Activity

**Things Measured:**

* How much country is producing.
* Whether economy is growing.
* How it compares to other countries.

Economic Indicators

* Gross Domestic Product (GDP)
* Unemployment Rate
* Rate of Inflation
* National Debt

Gross Domestic Product (GDP)

* GDP - Total value of the goods & services produced in a country in a given year.
* US has a very high GDP compared to other countries.

What is included in GDP

* Consumer goods & services
* Business goods & services
* Government goods & services
* Goods & services sold to other countries
* NOT INCLUDED: Goods & services not reported to the government.
  + Daycare, babysitting, mowing lawns, etc.

Standard of Living

* Amount of goods & services the average citizen can buy.
* US has a very high standard of living.
  + In the 1990’s the GDP of the US grew from about $5.5 trillion to almost $9 trillion.

[Unemployment Rate](http://data.bls.gov/timeseries/LNS14000000)

* Measures the number of people who are *able* to work but don’t have a job during a given period of time.
* Temporary & seasonal unemployment have little effect on the economy.
* Serious types of unemployment:
  + New technology replacing workers
  + Company mergers, restructuring or downsizing
  + When the entire economy slows down.

Unemployment Rates in the US & Japan

* In 1999 unemployment rates in both countries were almost the same (4.4%).
* Between 1990 – 1999 unemployment rates in US steadily decreased while in Japan it almost doubled.
  + Showing US economy was actually growing while Japanese economy was declining.

[Rate of Inflation](http://www.usinflationcalculator.com/inflation/current-inflation-rates/)

* **Inflation** – a general increase in the cost of goods & services.
* **Factors Leading to Inflation**
* Economy becomes too productive.
* Government is printing too much money.

[Hyperinflation](https://www.khanacademy.org/economics-finance-domain/macroeconomics/inflation-topic/deflation-inflation-scenarios-tutorial/v/hyperinflati)

* *Hyperinflation* can occur when an economy becomes too productive.

**The Pattern**

* The more people that are employed, the more money they will spend.
* As demand for goods go up, producers raise their prices.
* To pay higher prices, workers demand higher wages.
* Wages increasing creates higher prices of products to pay for higher wages, etc.

Deflation

* **Deflation** - Supply of goods is greater than the demand for those goods.
* Causes a general decrease in the costs of goods and services.
* In the 1990’s this happened in Asian Nations.
  + Manufacturing countries like Japan & Taiwan over-produced goods such as TVs and VCRs which led to an economic collapse.

The United States

* The US tries to maintain a slow but steady economic growth to avoid inflation & deflation.
* **How Done**:
  + Controlling productivity.
  + Keeping a certain number of people unemployed.
    - This lowers the risk of producers making too many goods or workers demanding too high of wages.

[National Debt](http://www.usdebtclock.org/)

* **Taxes** – main source of income for gov’t.
* Taxes are used for social programs:
  + Defense
  + Education
  + Social Security

**Budget Deficit** - When the government spends more on social programs than it collects in taxes.

* + To make up the difference, money must be borrowed from the public, banks or even other countries.

The US in the 1980’s

* The government ran up a huge deficit when it cut taxes while increasing spending on programs.

[National Debt](https://www.washingtonpost.com/news/the-fix/wp/2015/01/07/the-story-behind-obama-and-the-national-debt-in-7-charts/)

* **National Debt** - The total amount of money a government owes.
* National debt is usually very high in developing nations because they have been too dependent on other countries.

Budget Surplus

* Government revenues exceed its expenditures during a 1 year period.
* Government uses the surplus to
  + cut taxes
  + reduce national debt
  + increase spending for certain programs
* A surplus is a **rarity**!!!

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* What are some reasons for unemployment?
* What is the difference between inflation & deflation?

**The Business Cycle** – the rise & fall of economic activity over time.

* Economics go through up’s & down’s as a result of:
  + Wars
  + Foreign competition
  + Changes in technology
* Patterns are usually formed from these changes.
  + 1930’s, 1950’s, 1970’s the US Economy went through slumps that were followed by a new wave of productivity.

4 Phases of the Business Cycle

* Prosperity
* Recession
* Depression
* Recovery

What can changes in the economy do?

* Affect other industries in positive & negative ways.
* Economies going up & down in one country can also affect the economy of other countries.
* Changes in one economy are very likely to affect today’s global economy.
  + Today most countries are interdependent.

Prosperity – Peak of Economic Activity

* Unemployment is low.
* Production of goods & service is high.
* New businesses open.
* More people make major purchases (houses, etc.)

**1990 – United States**

* Record period of Prosperity.
* Due to
  + Low inflation rates
  + Internet creating new business opportunities

Recession – Economic activity slows down.

* Spending decreases.
* Demand decreases.
* Unemployment rates increase.
* GDP declines.
* Can effect one industry or many.

**Ripple effect** – effecting more than one industry.

* 1970’s – Oil Shortage in the US caused gas prices to go up.
  + Gas is used for everything, therefore prices went up and led to a Recession.

Depression – A deep Recession that affects the entire economy and lasts for several years.

* **Factors**
  + High unemployment rate.
  + Low productivity.
  + Can be limited to one country but usually spreads to affect others.
* Fortunately, Depressions are RARE!

The Great Depression

* **Black Tuesday** – October 29, 1929
  + The day that the US Stock Market crashed, marking the beginning of the Great Depression.
* Between 1929 – 1933 the GDP fell nearly 50% ($103 billion to $55 billion).
* The number of people out of work rose to nearly 800% (1.6 million to 12.8 million)
  + 1 out of every 4 workers were jobless!
* The average manufacturing wage fell from $.55/hour in 1929 to $.05/hour in 1933.

Banks during the Great Depression

* Banks across the country failed.
* FDIC didn’t exist yet, so everyone lost money that was deposited in a bank.
  + **F**ederal **D**eposit **I**nsurance **C**ompany
* March 1933 – A Bank Holiday was declared to prevent panic.
  + Every bank in the country closed for several days.
  + Many NEVER re-opened.

**Currency** during the Great Depression

* Money supply fell by 1/3.
* It was in such short supply that towns, counties, chambers of commerce, etc. resorted to printing their own money.
* The printed money was used to pay teachers, fire fighters, police officers and other municipal employees.

Recovery – Rise in business activity after a Recession or Depression.

* Production starts to rise.
* People go back to work.
* Spending increases.
* GDP grows.
* New businesses open.

In 1939 the US was only beginning to recover from the Great Depression when WWII began.

* War helped US to recover much faster because of the demand for war production.

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* What are the four phases of the business cycle?
* How does the ripple effect impact the economy?