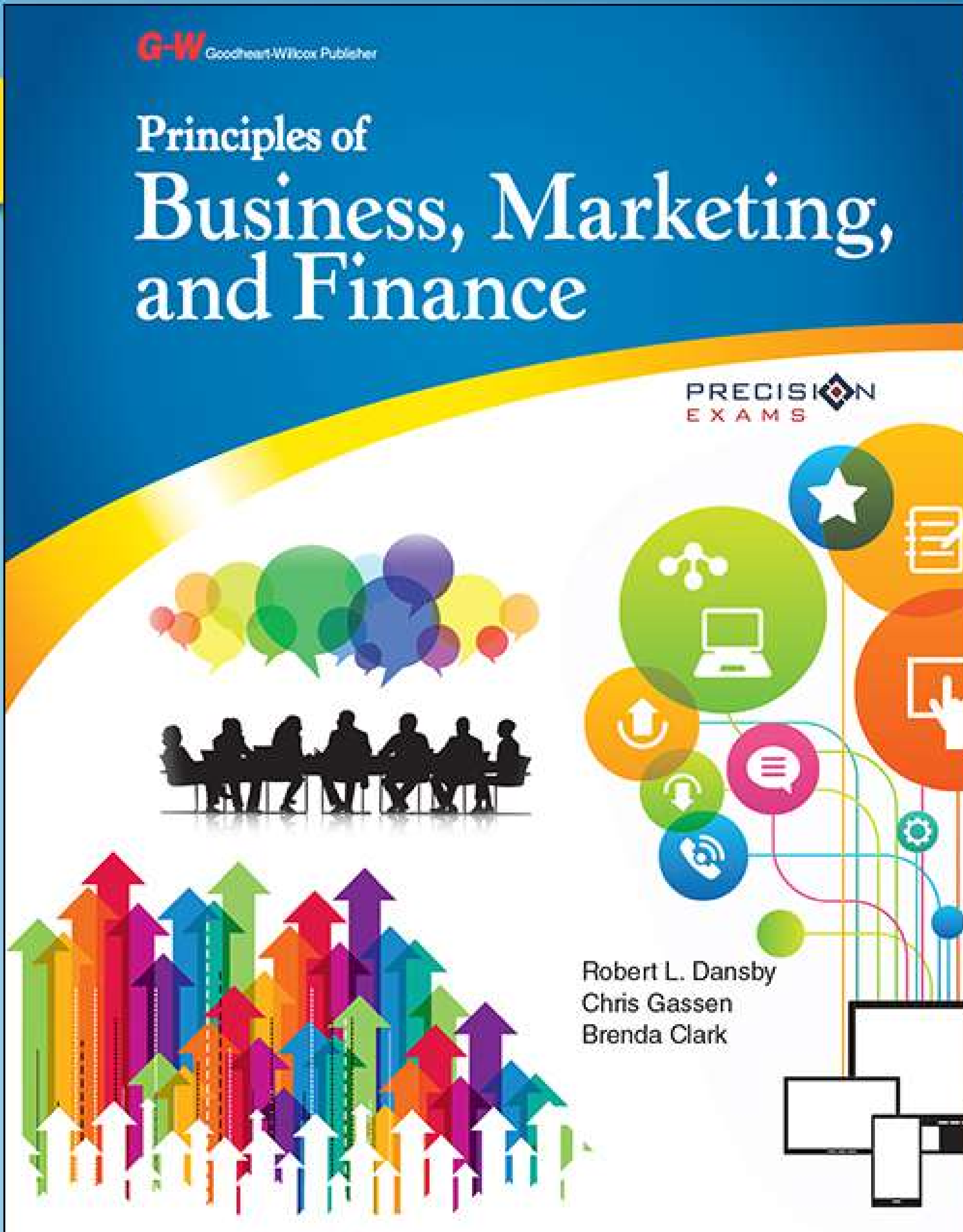


Presentations for PowerPoint

Principles of Business, Marketing, and Finance

G-W PUBLISHER

The Goodheart-Willcox Co., Inc.
Tinley Park, Illinois

2

Economic Activity

Section 2.1

Measuring Economic Activity

Objectives

- **Describe** common indicators used to measure the strength of an economy.
- **Explain** the four stages of a business cycle.

Key Terms

- gross domestic product (GDP)
- inflation
- inflation rate
- consumer price index (CPI)
- deflation
- interest
- interest rate
- labor force
- unemployment rate
- productivity
- specialization
- stock market
- bond
- business cycle
- expansion
- peak
- recession
- depression
- trough

Essential Question

How does the health of an economy affect businesses?

Economic Measurement

- Economic strength can be measured using economic indicators
  - Gross domestic product (GDP)
  - Inflation
  - Interest rates
  - Unemployment rate
  - Stock and bond markets

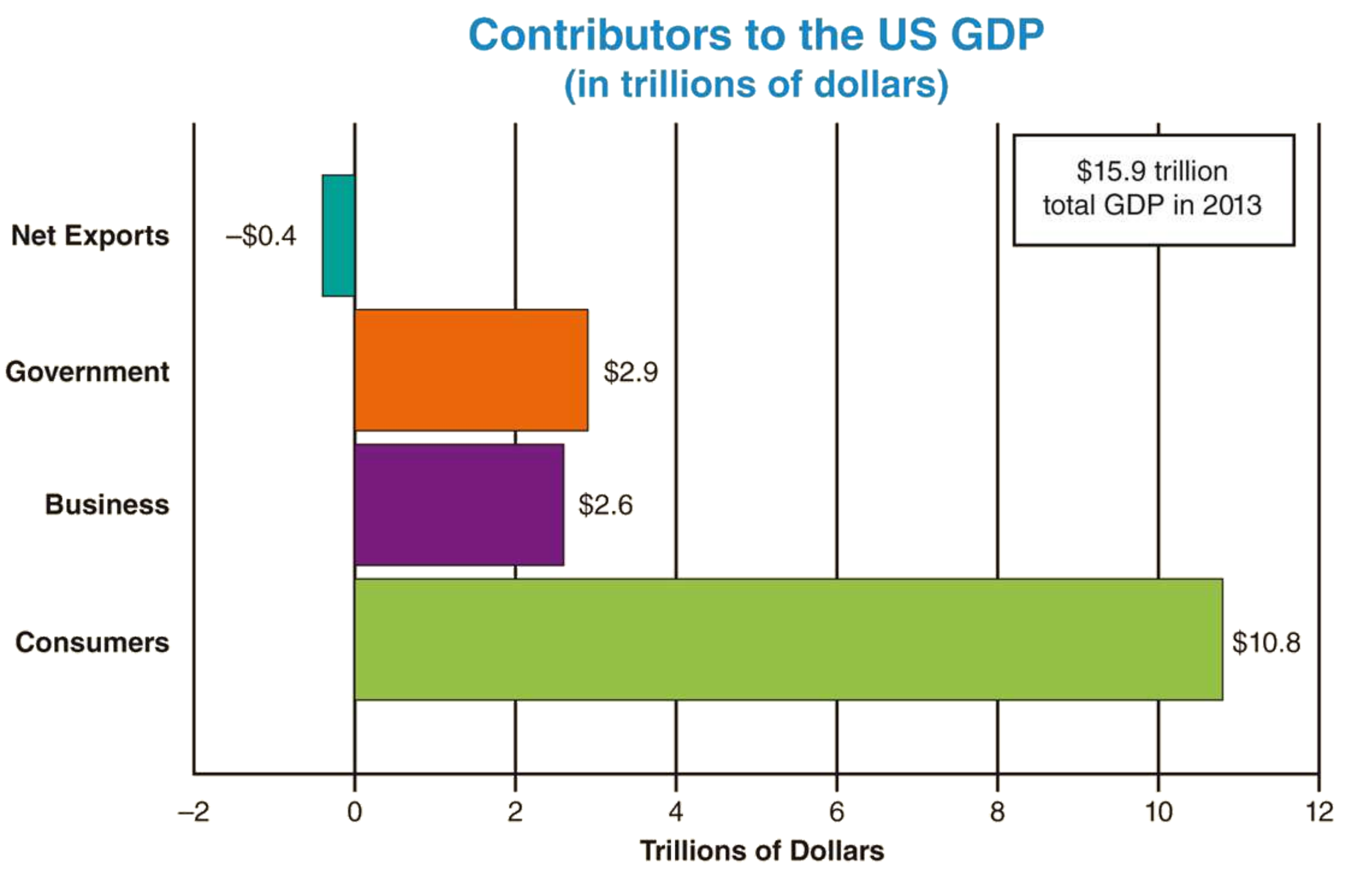
Economic Measurement

- **Gross domestic product (GDP)** is the market value of all final products produced in a country during a specific time period
  - Also known as *economic output*
  - Measured in dollars
- *Per capita GDP* is GDP of a nation divided by its population

Economic Measurement

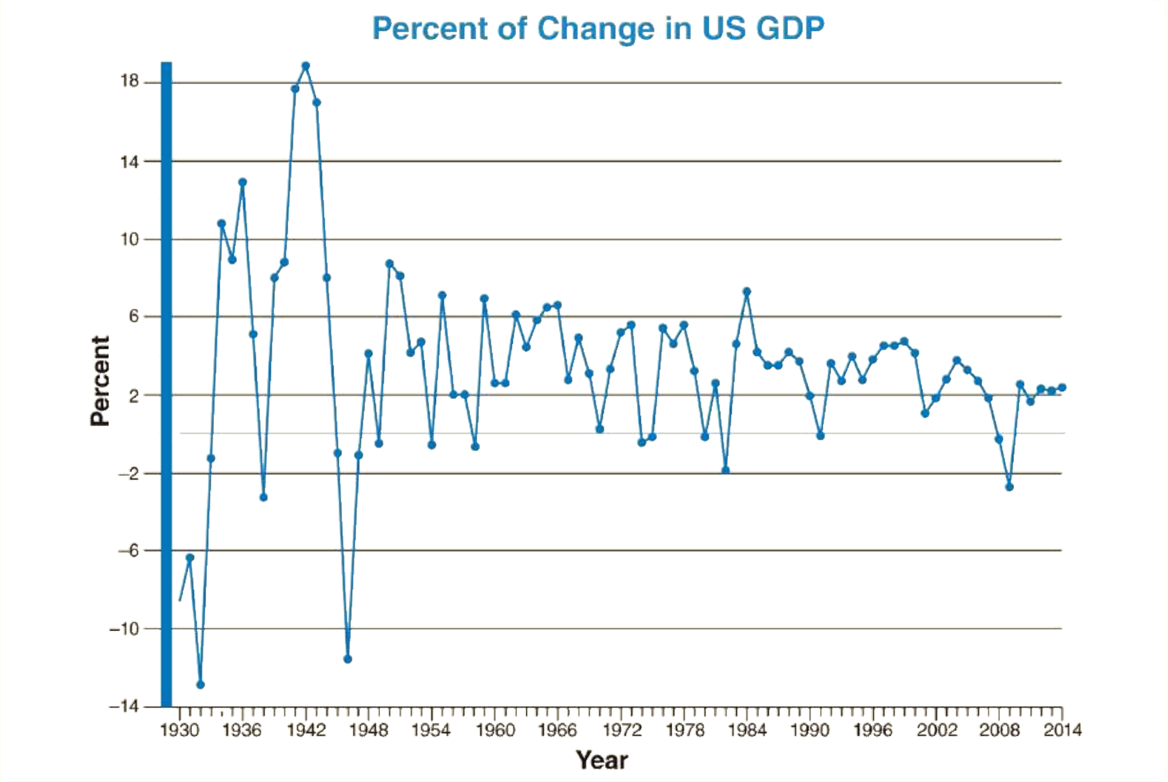
- To measure GDP, add total amount of money spent on goods and services
  - *Consumer spending*: Everything people buy for personal use
  - *Business spending*: All purchases made for capital goods and construction
  - *Government spending*: Spending by national, state, and local governments
  - *Next exports*: Country's exports minus imports

Economic Measurement



Economic Measurement

- GDP changes over time
  - *Economic growth rate* shows amount and direction of change



Economic Measurement

- **Inflation** is the general rise in prices throughout an economy
- **Inflation rate** is the rate of change in prices calculated on a monthly or yearly basis
- **Consumer price index (CPI)** is a measure of average prices paid by consumers for consumer goods and services
- **Deflation** is a general decline in prices throughout an economy

Economic Measurement

Levels of Inflation

Inflation Level	Inflation Rate	Effect on Economy
Low	1% to 4%	Economy remains stable
Medium	5% to 9%	Prices start rising faster than wages
Severe	10% or higher	Purchasing power falls more quickly
Hyperinflation	Over 1,000%	Value of money and the economy is destroyed

Goodheart-Willcox Publisher

Economic Measurement

- **Interest** is the amount a borrower pays to a lender for a loan
- **Interest rate** represents the cost of a loan and is expressed as a percent of the amount borrowed
  - Determined by supply and demand

Economic Measurement

- **Labor force** is all the people in a nation who are capable of working and want to work
  - Two categories: *employed* and *unemployed*
- **Unemployment rate** is the percentage of the civilian labor force that is unemployed
- *Full employment* is when every person willing and able to work has a job

Economic Measurement

- **Productivity** is a measure of a worker's production in a specific amount of time, such as an hour, a day, or a week
  - Can lead to higher *standard of living*
- **Specialization** is focusing on the production of specific goods so that more products can be produced with the same amount of labor
  - Applies to production of both nations and individuals

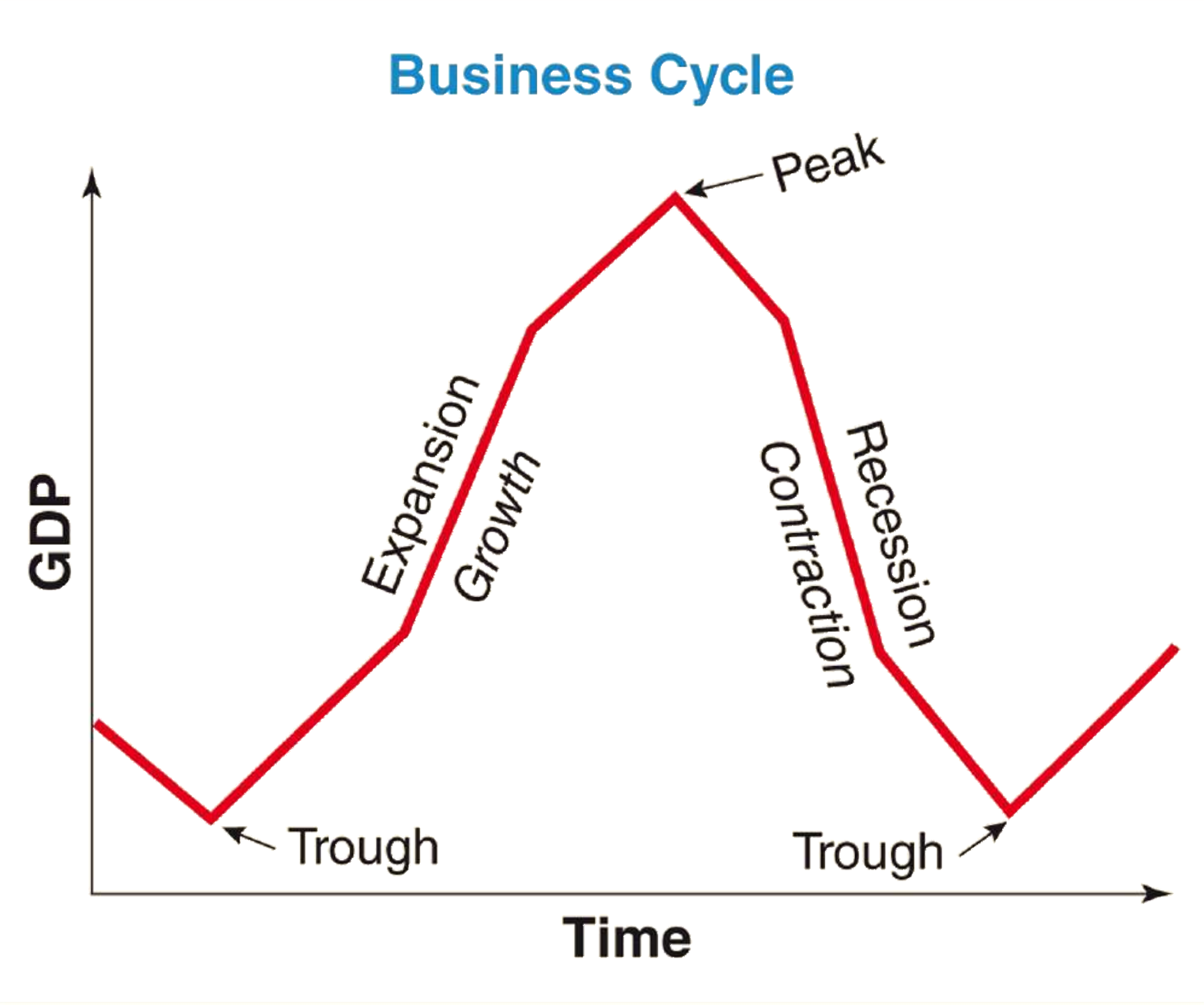
Economic Measurement

- **Stock market** is a system and marketplace for buying and selling stocks
  - Values in stock markets go up and down
- **Bond** is a certificate of debt issued by an organization or government
  - Can be traded among investors
  - Interest rates change every day

Business Cycle

- Alternating periods of expansion and contraction in the economy are called the **business cycle**
- Four stages of the business cycle:
  - **Expansion.** Economy is growing and the GDP is rising
  - **Peak.** End of expansion; highest point in business cycle
  - **Recession.** Significant decline in total output, income, employment, and trade in an economy. Period of severe and long-lasting economic contraction is a **depression**
  - **Trough.** Lowest stage of a business cycle; marks end of a recession

Business Cycle



Section 2.1 Review

1. List five of the most widely followed indicators of the economy.

   Five economic indicators of the economy are gross domestic product (GDP), inflation, interest rates, unemployment rate, and the stock and bond markets.

2. Identify four components that are used to measure the GDP.

   The four components of GDP are consumer spending, business investment, government spending, and net exports.

Section 2.1 Review

3. What are the four levels of inflation?

   Inflation can be divided into four levels: low, moderate, severe, and hyperinflation.

4. Name the four stages of the business cycle.

   The four stages are expansion, peak, recession, and trough.

5. What is the effect of economic expansion on employment and wages?

   Businesses react to expansion by increasing production and hiring more workers. During an expansion, wages also begin to increase.

Section 2.2

Government and the Economy

Objectives

- **Describe** the four basic market structures in a free enterprise system.
- **Explain** the government's role in the economy.

Key Terms

- market structure
- monopoly
- oligopoly
- monopolistic
- competition
- perfect competition
- price competition
- nonprice competition
- commerce
- fiscal policy
- monetary policy
- Federal Reserve System
- money supply
- antitrust laws
- price fixing
- collusion

Essential Question

How does the government influence the US economy?

Market Structure

- **Market structure** is how a market is organized based on the number of businesses competing for sales in an industry

Market Structure

- **Monopoly** is a market structure with one business that has complete control of a market's entire supply of goods or services
- **Oligopoly** is a market structure with a small number of businesses selling the same or similar products
- **Monopolistic competition** is a large number of businesses selling similar, but not the same, products and at different prices
- **Perfect competition** is characterized by a large number of businesses selling the same product at the same prices

Market Structure

- Competition in monopolistic competition structure is price or nonprice
  - **Price competition** is when a lower price is the main reason for customers to buy from one business over another
  - **Nonprice competition** is a competitive advantage based on factors other than price

Role of Government in the Economy

- Foundation of free enterprise is freedom of choice
- US Constitution gives Congress power to regulate commerce
  - **Commerce** is the activities involved in buying and selling goods on a large scale
- Roles of the government in the economy:
  - Manages economy
  - Provides public goods and services
  - Provides legal framework
  - Promotes competition
  - Corrects for externalities

Role of Government in the Economy

- Manage the economy
- **Fiscal policy** is the tax and spending decisions made by the president and Congress
  - Can boost economy when weak
- **Monetary policy** regulates the supply of money and interest rates by a central bank in an economy
  - Control money supply to stabilize economy
- **Federal Reserve System** is the central bank of the United States
- **Money supply** is the total money circulating at any one time in a country

Role of Government in the Economy

- Provide public goods and services; available to everyone in the economy
  - Public education
  - Construction and maintenance of roads
  - Police and fire protection
  - Postal services
  - Public parks

Role of Government in the Economy

- Provide a legal framework
  - Necessary for a market economy to function
- All levels of government make and enforce laws
- Criminal laws
- Civil laws

Role of Government in the Economy

- Promote competition
- **Antitrust laws** promote fair trade and competition among businesses
- Laws to prevent monopolies and price fixing
  - **Price fixing.** When two or more businesses in an industry agree to sell the same good or service at a set price
  - **Collusion.** When two or more businesses work together to remove their competition, set prices, and control distribution

Role of Government in the Economy

Federal Antitrust Laws	
Sherman Antitrust Act (1890)	This act supports fair commerce and trade by making the formation of monopolies and agreements to practice price fixing illegal. Violations of this act are punishable as criminal felonies.
Clayton Antitrust Act (1914)	This act helps prevent the formation of monopolies that will reduce competition. Businesses planning a merger or acquisition must notify the Department of Justice Antitrust Division and the Federal Trade Commission.
Federal Trade Commission Act (1914)	This act prohibits unfair competition in interstate commerce. It also created the Federal Trade Commission to oversee related business activity.

Source: US Department of Justice; Goodheart-Willcox Publisher

Role of Government in the Economy

- Correct for externalities
- *Externalities* are not directly connected to economic activity, but affect people

Section 2.2 Review

1. What are the four basic market structures?

   Monopoly, oligopoly, monopolistic competition, and perfect competition.

2. How do businesses compete for customers?

   Each business competes for customers using price or nonprice competition.

Section 2.2 Review

3. List examples of specific roles that the US government plays in the operation of the economy.

   The government regulates the economy, provides public goods, services, and social welfare, provides a legal framework, promotes competition and prevents unfair business practices, and corrects for externalities.

Section 2.2 Review

4. How can the government use fiscal policies to manage the economy?

   The government often uses fiscal policies to boost the economy when it is weak. Fiscal policy may also be used to reduce the extreme highs and lows of the business cycle.

5. Why is a legal framework needed for a market economy to function?

   Laws establish boundaries and define acceptable behavior. They help protect individuals and businesses from dishonest business practices.