

# Economics Unit 3

The Last Unit!!

Objective 3.01: Identify phases of the business cycle and the economic indicators used to measure economic activities and trends.

## Measuring the Economy

- GDP

- Gross Domestic Product is a measure of the size of the economy
  - It is the total value, in dollars, of all final goods and services produced in the country during a single year (Final goods are goods sold to their users (me and you)).
  - GDP does not count intermediate goods, which are components of final goods.
    - It also does not count the sale of used goods, which do not represent new production.



New MacBook  
Pro



Use Link  
Pad



Class  
Car

New  
SUV



Objective 3.01: Identify phases of the business cycle and the economic indicators used to measure economic activities and trends.

## Measuring the Economy

- GDP

- Expressed in terms of money. This enables us to compare the relative worth of goods and services, which is more meaningful than simply numbers of products.

- Economic Indicators

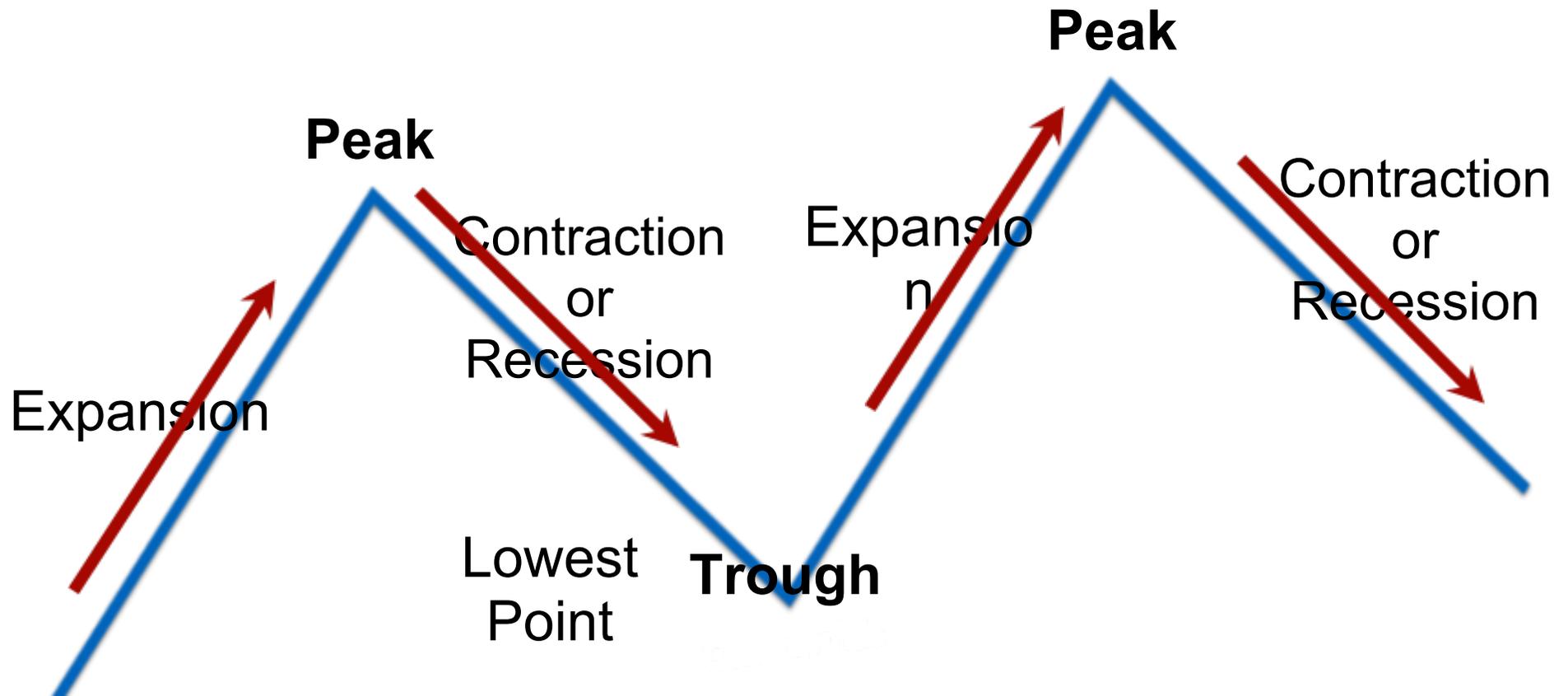
- If the new GDP is higher than the previous one, then the economy is expanding.
- If it is lower, the economy is declining.
  - 2 negative, consecutive quarters of GDP is a recession
  - 4 negative, consecutive quarters of GDP is a depression
- Economists study GDP figures regularly to analyze business cycle patterns.

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## Measuring the Economy

- The Business Cycle

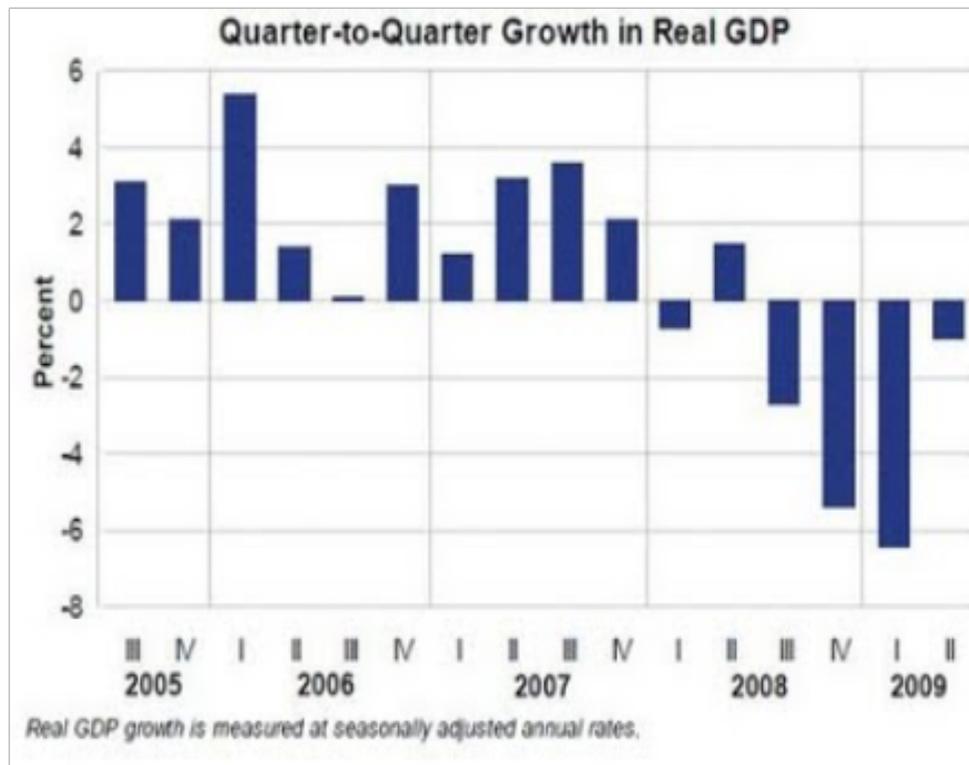
- The economy does grow over time but not at a constant rate



Objective 3.01: Identify phases of the business cycle and the economic indicators used to measure economic activities and trends.

## Measuring the Economy

- Real GDP: Shows an economy's production after the distortions of price increases have been removed
  - Elements the false impressions of growth



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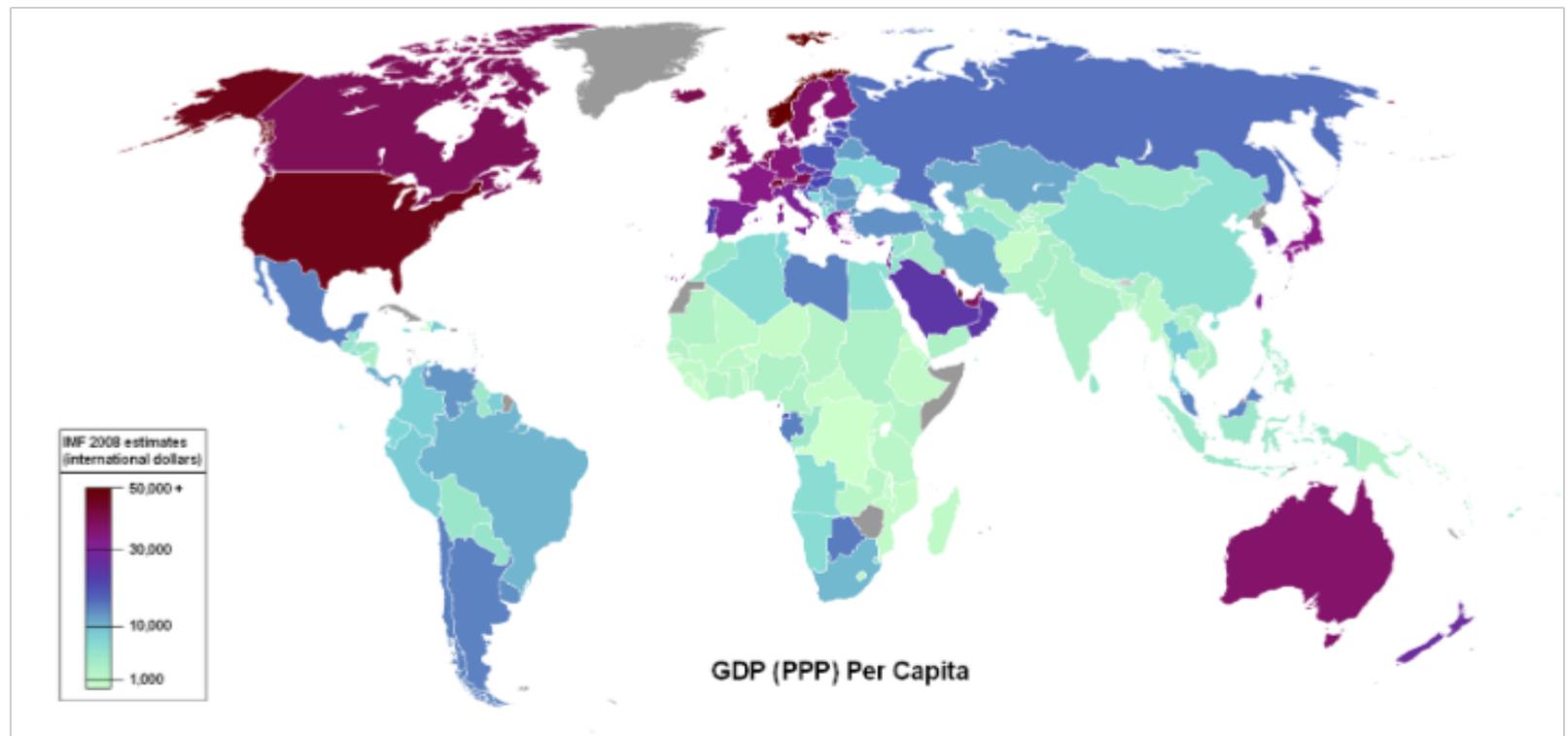
## Measuring the Economy

- Inflation: A sustained increase in the general level of prices.
  - Hurts the economy because it reduces purchasing power and may alter the decisions people make
  - Prices act as signals that help individuals and businesses make economic decisions. High inflation distorts this process.
- CPI: Consumer Price Index
  - The government samples prices from about 400 different items and tracks the change over time.
- National Debt: 12 trillion and counting

Objective 3.01: Identify phases of the business cycle and the economic indicators used to measure economic activities and trends.

## Measuring the Economy

- **Per Capita GDP:** the value of all final goods and services produced within a nation, in a given year divided by the average population for the same year.



Objective 3.01: Identify phases of the business cycle and the economic indicators used to measure economic activities and trends.

## Measuring the Economy

- Unemployment (Rate)

- Civilian Labor Force

- Includes all civilians 16 years or older who are either working or looking for work.
- employed: people who are actively working or are temporarily on leave
- unemployed: includes only those persons who do not have a job and who are actively seeking work.
- not in labor force: persons without jobs who are not actively seeking work are considered neither employed or not employed. (Examples: housewife, students)

Objective 3.02: Describe the impact of government regulation on specific economic activities

## Role of the Government

- Providing Public Goods

- Businesses produce mostly private goods.
  - Consumption of private goods and services is determined by the exclusion principle (must pay for).
- Public goods are goods that can be consumed by one person without preventing consumption by another
  - Determined by the non-exclusion principle (must just be available.)
- Because of the difficulty of charging for public goods, the private sector would not provide them, so the government does and pays for them with taxes.

## Objective 3.02: Describe the impact of government regulation on specific economic activities

### Role of the Government

- Dealing with Externalities

- An externality is the unintended side effect of an action that affects someone not involved in the action.
  - Many government activities encourage positive externalities and try to prevent negative ones.
    - How government spends its money
    - Public goods and services
    - Federal government services:
      1. Interstate Highways
      2. Federal Courts
      3. military
      4. Social Security/ Medicare
      5. National Park & Forests

## Objective 3.02: Describe the impact of government regulation on specific economic activities

### Role of the Government

- How the Government collects its money
  - The American Tax System
    - Federal and State individual income taxes
    - security taxes
    - Corporate income taxes
    - State sales taxes
    - Local property taxes
    - Excise taxes
    - Inheritance tax



Objective 3.02: Describe the impact of government regulation on specific economic activities

## Role of the Government

- Taxes
- proportional: a tax that takes a constant percentage of income as income rises
- progressive: a tax that takes an increasing percentage of income as income rises.
  - Example: Federal income tax
- regressive: a tax that takes a decreasing percentage of income as income rises
  - Example: Sales tax

## Role of the Government

### ● Measurement Goals

- Price Stability – inflation at 3% or less
- Full employment- A condition in which anyone who wishes to work can. Usually set at 94 – 96% of the labor force, or 4 – 6% unemployment rate
- Economic Growth – GDP rising at 3% per year. An increase in the economy's capacity to produce goods and services

# Objective 3.02: Describe the impact of government regulation on specific economic activities

## Role of the Government

- Protecting Citizens

- Work Place Safety:

- OSHA: Occupational Safety and Health Administration

- National to local regulations (building standards to job safety)

- Consumer Protection:

- Advertising and Product labels

- FDA

- Truth in advertising

- Product and/or food safety

- Meat Inspection Act

- Recall

### COUNTERTHINK



Objective 3.02: Describe the impact of government regulation on specific economic activities

## Role of the Government

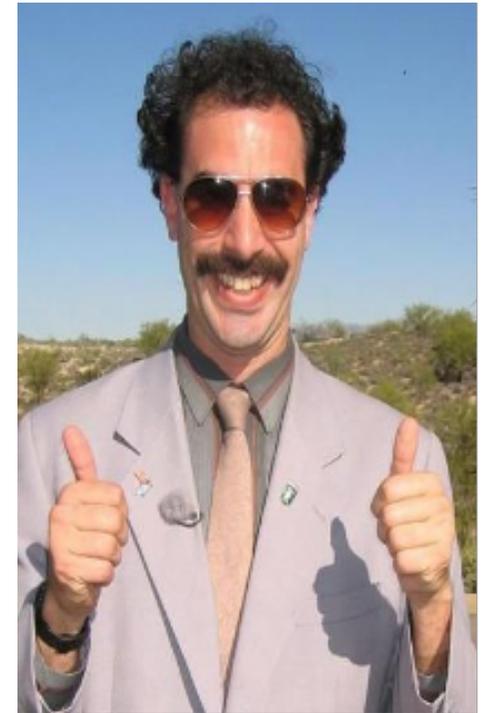
- Job Competition

- Affirmative Action: The policies that take race, ethnicity, physical disabilities, military career, or sex into consideration in an attempt to promote equal opportunity or increase ethnic or other forms of diversity.

- Minimum Wage

- Protecting the Environment

- EPA: Clean Air and Water Acts, pollution control, and regulating large factories



Objective 3.02: Describe the impact of government regulation on specific economic activities

## Role of the Government

- Protecting the Elderly and the Poor
  - Social Security Act – Social Security Administration (1935)
    - Provides a monthly payment to workers or their families to replace income lost when a person retires, becomes injured, or dies
    - Also provides unemployment insurance for workers who lose their jobs
  - Public assistance
    - Medicare/ Medicaid
    - Welfare/ food stamp programs: Aid to families with dependent children

Objective 3.07: Analyze the short- and long-term effects of fiscal and monetary policy on the United States economy.

## Role of the Government

- Fiscal Policy

- To try to reduce high unemployment, the government uses fiscal policy.

- Fiscal policy options: Expansionary

- Cut taxes- gives people more money to spend and thus increase purchases, hopefully prompting businesses to hire more workers and increase production.

- Increase government spending- buy more goods and services, increasing employment/ incomes and hopefully convincing businesses to hire more workers and boost production.

Objective 3.07: Analyze the short- and long-term effects of fiscal and monetary policy on the United States economy.

## Role of the Government

- **Fiscal Policy Options: Contractionary**

- Raise taxes- gives people less money to spend and thus decreases purchases, hopefully prompting businesses to reduce prices.
- Decrease government spending- buy less goods and services, decreasing employment/ incomes and hopefully convincing businesses to decrease prices.

## Objective 3.02: Describe the impact of government regulation on specific economic activities

### Money

- Functions of Money
  - Medium of exchange
  - Measure of value
  - Store of value
- Characteristics of money
  - Durability
  - Portability
  - Acceptability
  - Divisibility
  - Stability in value



## Objective 3.02: Describe the impact of government regulation on specific economic activities

### Banking

- Development of banks and banking
  - Commercial banks
  - Savings and loans
  - Credit unions
  - Bank services
    - checking
    - savings
    - safety deposit boxes
    - loans
    - overdraft checking
    - automatic deposit
    - automatic payment

**Bank of America.**



**BB&T**

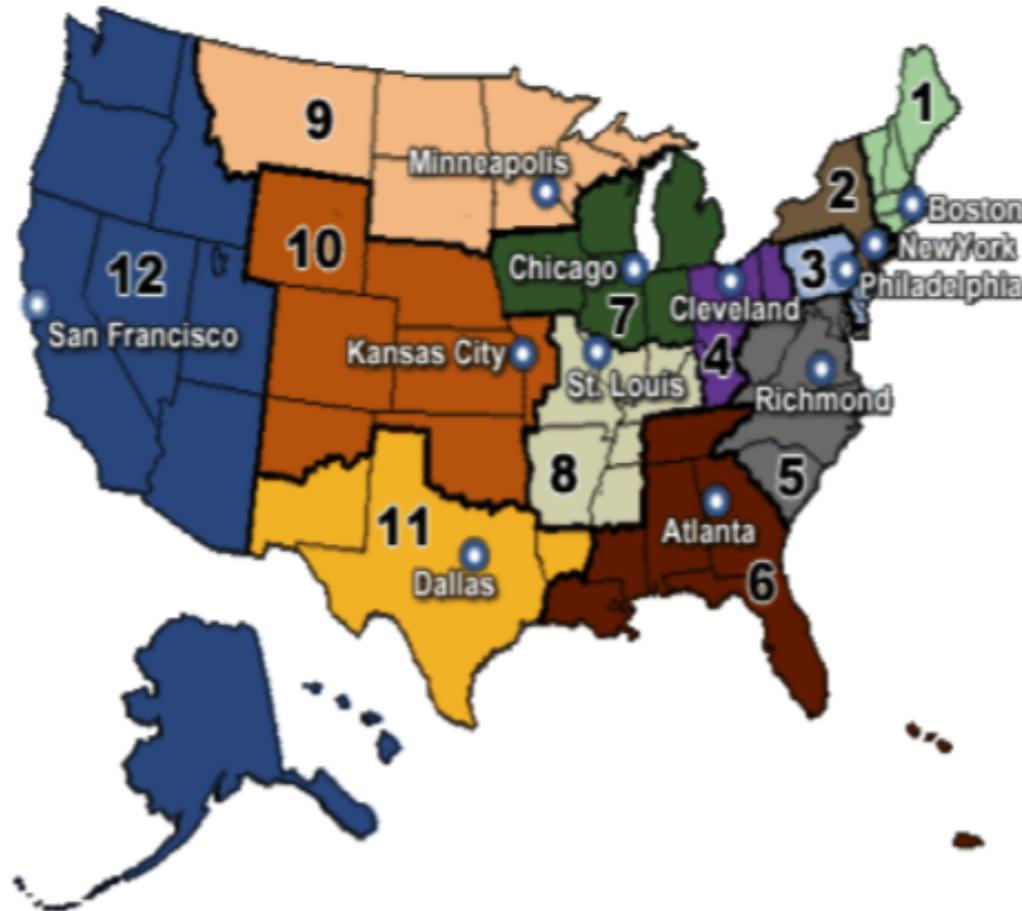
Objective 3.02: Describe the impact of government regulation on specific economic activities

## Banking

- **Deposit Insurance**

- F.D.I.C. – Federal Deposit Insurance Corporation: A government agency established by congress in 1933 to insure bank deposits against bank failures
- Savings Association Insurance Fund – protects savings and loan associations
- National Credit Union Share Insurance Fund – protects credit unions

Objective 3.02: Describe the impact of government regulation on specific economic activities



## The Fed

- Organization of the Federal Reserve System
  - Board of Governors / Chairman
  - Federal Reserve banks
  - Member banks
  - FOMC

Objective 3.07: Analyze the short- and long-term effects of fiscal and monetary policy on the United States economy.

## The Fed & Monetary Policy

- Functions of the Federal Reserve System
  - Check clearing
  - Sets and holds reserve requirements
  - Federal government's bank
  - Regulates money supply
  - Supervises member banks
  - Supplies paper currency

Objective 3.07: Analyze the short- and long-term effects of fiscal and monetary policy on the United States economy.

## The Fed & Monetary Policy

- How banks create money
- Expansion of money supply: Process by which the granting of credit (loans) by banks results in an increase in the money supply. Loans are made from excess reserves.
- Fractional reserve banking: A banking system based on the provision that only a fraction of a bank's deposits must be held as reserves.

Objective 3.07: Analyze the short- and long-term effects of fiscal and monetary policy on the United States economy.

## The Fed & Monetary Policy

- **Monetary Policy:** the actions taken by the federal reserve system to control the nation's money supply and interest rates in order to achieve desired economic objectives
  - **Instruments of Monetary Policy**
    - **Reserve requirements:** A rule that stipulates the percentage of deposits that must be kept as reserves to back up those deposits.
    - **Discount rate:** The rate of interest that federal reserve banks charge banks and other financial institutions for loans.
    - **Open-market operations:** The buying and selling by the FED of government securities in the open market in order to control the money supply.

Objective 3.07: Analyze the short- and long-term effects of fiscal and monetary policy on the United States economy.

## The Fed & Monetary Policy

- **Tight-money policy - A policy restricting the availability of credit and forcing interest rates up**
  - FED increases discount rate on loans to member banks
  - FED increases reserve requirements for member banks so they have less excess reserves to loan
  - FED sells government securities to banks

Objective 3.07: Analyze the short- and long-term effects of fiscal and monetary policy on the United States economy.

## The Fed & Monetary Policy

- **Easy-money policy - A policy of expanding the money supply and reducing interest rates**
  - FED decreases discount rate on loans to member banks
  - FED decreases reserve requirements for member banks so they have more money to loan
  - FED purchases government securities from banks