Understanding Economics and How It Affects Business

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what's new in this edition

additions to the 10th edition:

- Getting to Know John Maynard Keynes, Economist
- Discussion of state capitalism in section Understanding Free-Market Capitalism
- Reaching Beyond Our Borders: China's Changing Economy

revisions to the 10th edition:

- Text was revised to eliminate redundancy and tighten discussions.
- Statistical data and examples throughout the chapter were updated to reflect current information.
- Spotlight on Small Business: A Small Loan Can Make a Big Difference
- Thinking Green: Bringing in the Green with Green Products
- Making Ethical Decisions: Corruption's Effect on the Economy

deletions from the 9th edition:

- Getting to Know Muhammad Yunus, Founder of the Grameen Bank
- Discussion of chained consumer price index from section Key Economic Indicators
- Reaching Beyond Our Borders

brief chapter outline and learning goals

chapter 2

Understanding Economics and How It Affects Business

Getting To Know JOHN MAYNARD KEYNES, ECONOMIST

learning goal 1

Explain basic economics.

I. HOW ECONOMIC CONDITIONS AFFECT BUSINESSES

A. What Is Economics?

B. The Secret to Creating a Wealthy Economy

C. Adam Smith and the Creation of Wealth

D. How Businesses Benefit the Community

learning goal 2

Explain what capitalism is and how free markets work.

II. UNDERSTANDING FREE-MARKET CAPITALISM

A. The Foundations of Capitalism

B. How Free Markets Work

C. How Prices Are Determined

D. The Economic Concept of Supply

E. The Economic Concept of Demand

F. The Equilibrium Point, or Market Price

G. Competition within Free Markets

H. Benefits and Limitations of Free Markets

learning goal 3

Compare socialism and communism.

III. UNDERSTANDING SOCIALISM

A. The Benefits of Socialism

B. The Negative Consequences of Socialism

IV. UNDERSTANDING COMMUNISM

learning goal 4

Analyze the trend toward mixed economies.

V. THE TREND TOWARD MIXED ECONOMIES

learning goal 5

Discuss the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.

VI. UNDERSTANDING THE U.S. ECONOMIC SYSTEM

A. Key Economic Indicators

1. Gross Domestic Product
2. The Unemployment Rate
3. Inflation and Price Indexes

B. Productivity in the United States

C. Productivity in the Service Sector

D. The Business Cycle

learning goal 6

Contrast fiscal policy and monetary policy, and explain how each affects the economy.

E. Stabilizing the Economy through Fiscal Policy

F. Fiscal Policy in Action During the Recent Economic Crisis

G. Using Monetary Policy to Keep the Economy Growing

VII. SUMMARY

Getting to Know JOHN MAYNARD KEYNES, ECONOMIST

Keynes was one of the economists who had a great influence on U.S. economic policy. He believed if the economy was in a recession, the government should increase spending and cut taxes to stimulate the economy. Keynesian theory has been in and out of favor since the 1930s and what Presidents Bush and Obama had in mind when they attempted to stimulate the economy.

NAME THAT company

This organization lends small amounts of money to people in poor countries. For example, it loaned a woman in Uganda enough to buy a refrigerator. She was able to sell fresh food from the refrigerator and make enough money for her family to succeed. Name this organization.

Students should read the chapter before guessing the company's name: Foundation for International Community Assistance (FINCA)

learning goal 1

Explain basic economics.

I. HOW ECONOMIC CONDITIONS AFFECT BUSINESSES

A. An economic system either promotes or hinders business activity.

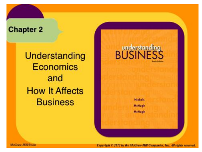
B. Much of America's business success is due to an economic and social climate that allows businesses to operate freely.

1. Any change in the U.S. economic system has a major influence on the business system.
2. Also, **GLOBAL ECONOMICS** and **WORLD POLITICS** have a major influence on U.S. business.

C. **WHAT IS ECONOMICS?**

1. ***ECONOMICS*** is the study of how society chooses to employ resources to produce goods and ser-

PPT 2-1
Chapter Title



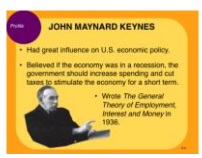
PPT 2-2
Learning Goals

(See complete PowerPoint slide notes on page 2.44.)

PPT 2-3
Learning Goals

(See complete PowerPoint slide notes on page 2.44.)

PPT 2-4
John Maynard Keynes



(See complete PowerPoint slide notes on page 2.45.)

PPT 2-5
Name That Company

(See complete PowerPoint slide notes on page 2.45.)

vices and distribute them for consumption among various competing groups and individuals.

2. ***MACROECONOMICS*** is the part of economic study that looks at the operation of a nation's economy as a whole.
3. ***MICROECONOMICS*** is the part of economic study that looks at the behavior of people and organizations in particular markets.
4. "Economics" is sometimes defined as the allocation of scarce resources.
5. ***RESOURCE DEVELOPMENT*** is the study of how to increase resources and to create the conditions that will make better use of those resources.
6. Businesses help economic systems by inventing products and services that expand available resources *(example: mariculture, raising fish in ocean pens.)*

D. **THE SECRET TO CREATING A WEALTHY ECONOMY**

1. The English economist Thomas Malthus believed that population growth would outstrip resources.
   a. In response, Thomas Carlyle called economics **"THE DISMAL SCIENCE."**
   b. Many still believe, like Malthus, that the solution to poverty is birth control.
   c. **WORLD POPULATION** is currently growing more slowly than expected.
   d. But population in the **DEVELOPING WORLD** will continue to climb quickly.

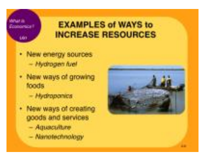
PPT 2-6
The Major Branches of Economics

(See complete PowerPoint slide notes on page 2.45.)

PPT 2-7
Resource Development

(See complete PowerPoint slide notes on page 2.46.)

PPT 2-8
Examples of Ways to Increase Resources



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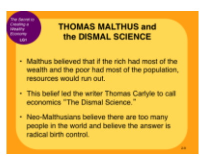
PPT 2-9
Thomas Malthus and the Dismal Science



(See complete PowerPoint slide notes on page 2.46.)

critical thinking exercise 2-1

KNOW YOUR HISTORY OF ECONOMICS

This Internet exercise is designed to help students gather information about economics from a historic perspective. (See complete exercise on page 2.72 of this manual.)

lecture link 2-1

INDIA'S UPCOMING ERA OF GROWTH

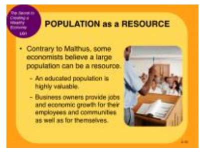
India is a burgeoning economic powerhouse with one of the fastest growing working-age populations. However, they must overcome some bumps in the road. (See the complete lecture link on page 2.65 in this manual.)

2. Others believe that a large population can be a valuable resource, especially if people are educated.
3. The **SECRET TO ECONOMIC DEVELOPMENT** can be summed up in the saying, *"give a man a fish and you feed him for a day, but teach a man to fish and you feed him for a lifetime."*
4. Business owners provide **JOBS AND ECONOMIC GROWTH** for their employees as well as for themselves.
5. Economists and governments examine what makes some countries relatively rich and other countries relatively poor, then develop policies that lead to **INCREASED PROSPERITY** for everyone.

E. **ADAM SMITH AND THE CREATION OF WEALTH**

1. **ADAM SMITH** believed wealth could be created through entrepreneurship.
   a. Rather than dividing *fixed* resources, Smith envisioned creating *more* resources so that everyone could be wealthier.
   b. In 1776, Smith wrote ***THE WEALTH OF NATIONS,*** in which he outlined steps for creating prosperity.
2. Smith believed that **FREEDOM** was vital to the survival of any economy.
3. Also, he believed that people will work hard if they have **INCENTIVES** for doing so.

PPT 2-10
Population as a Resource



(See complete PowerPoint slide notes on page 2.47.)

thinking green
(Text page 32

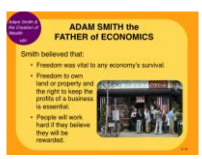
PPT 2-11
Bringing in the Green with Green Products

(See complete PowerPoint slide notes on page 2.47.)

lecture link 2-2
THE GRADUAL RETURN OF AMERICAN OPTIMISM

The U.S. is banking on the "give a man a fish" philosophy by extending the tax cuts from the 2009 stimulus package. (See the complete lecture link on page 2.66 in this manual.)

PPT 2-12
Adam Smith the Father of Economics



(See complete PowerPoint slide notes on page 2.47.)

critical thinking exercise 2-2
APPLYING ECONOMIC PRINCIPLES TO EDUCATION

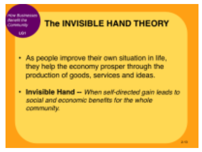
Principles such as competition and productivity apply to nonprofit organizations, such as schools, as well as businesses. (See complete exercise on page 2.73 of this manual.)

4. Smith is considered to be the **FATHER OF MODERN ECONOMICS.**

F. **HOW BUSINESSES BENEFIT THE COMMUNITY**

1. The ***INVISIBLE HAND*** is a phrase coined by Adam Smith to describe the process that turns self-directed gain into social and economic benefits for all.
2. Basically, this meant that a person working hard to make money for his or her own **PERSONAL INTEREST** would *(like an invisible hand)* also **BENEFIT OTHERS.**
   a. *For example, a farmer trying to make money would grow as many crops as possible.*
   b. This would provide jobs and needed food for others.
   c. If everyone worked hard in his or her own self interest, Smith said, society as a whole would prosper.
3. Smith assumed that as people become wealthier, they would reach out to help the less fortunate, but that hasn’t always happened.
   a. Many U.S. businesspeople are becoming concerned about social issues and their obligation to return to society some of what they’ve earned.
   b. It is important for businesses to be ethical as well as generous.

PPT 2-13
The Invisible Hand Theory



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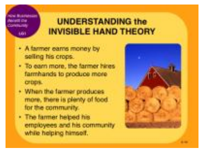
PPT 2-14
Understanding the Invisible Hand Theory



(See complete PowerPoint slide notes on page 2.48.)

lecture link 2-3
A NEW CROP OF CONSUMERS IN AFRICA

Africa has a growing middle class that rivals both China and India. Despite the persisting wealth disparities, more Africans have disposable incomes in which they can buy goods from others. (See the complete lecture link on page 2.66 in this manual.)

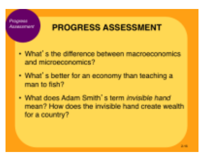
MAKING ethical decisions
(Text page 34)

PPT 2-15
Corruption's Effect on the Economy

(See complete PowerPoint slide notes on page 2.48.)

progress assessment
(Text page 34)

PPT 2-16
Progress Assessment



(See complete PowerPoint slide notes on page 2.49.)

learning goal 2

Explain what capitalism is and how free markets work.

II. UNDERSTANDING FREE-MARKET CAPITALISM

A. Following the ideas of Adam Smith, businesspeople created more wealth than every before.

1. But **GREAT DISPARITIES** in wealth remained or even increased.
2. Although it is not easy, opportunities to start one's own business have always been there, especially in a free market.
3. ***CAPITALISM*** is an economic system in which all or most of the factors of production and distribution are privately owned and operated for profit.
   a. In capitalist countries, businesspeople decide how to use their resources and how much to charge.
   b. No country is purely capitalist, but the foundation of the U.S. is capitalism.
   c. Capitalism is also the foundation for the economics of England, Canada, Australia, and most developed nations.
   d. Some countries are practicing **STATE CAPITALISM** where the state runs some businesses instead of private owners (i.e. China).

B. **THE FOUNDATIONS OF CAPITALISM**

1. People under free-market capitalism have **FOUR BASIC RIGHTS:**

bonus case 2-1
FOUNDATIONS OF THE CAPITALIST SYSTEM

What are the moral, ethical, and spiritual foundations of capitalism? (See the complete case, discussion questions, and suggested answers beginning on page 2.79 of this manual.)

PPT 2-17
Capitalism

(See complete PowerPoint slide notes on page 2.49.)

PPT 2-18
State Capitalism

(See complete PowerPoint slide notes on page 2.49.)

SPOTLIGHT ON
small business
(Text page 38

PPT 2-19
A Small Loan Can Make a Big Difference

(See complete PowerPoint slide notes on page 2.50)

a. The right to **PRIVATE PROPERTY**
b. The right to **OWN A BUSINESS** and to keep all of that business's profits after taxes
c. The right to **FREEDOM OF COMPETITION**
d. The right to **FREEDOM OF CHOICE**

2. One benefit of such rights is that people are willing to take more **RISKS** than they would otherwise.
3. President Franklin Roosevelt believed **FOUR ADDITIONAL FREEDOMS** were essential:
   a. Freedom of **SPEECH AND EXPRESSION**
   b. Freedom to **WORSHIP IN YOUR OWN WAY**
   c. Freedom from **WANT**
   d. Freedom from **FEAR**

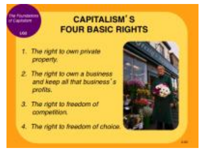
C. **HOW FREE MARKETS WORK**

1. In a free-market system, decisions about what to produce and in what quantities are made by **THE MARKET.**
2. **CONSUMERS** send signals to **PRODUCERS** about what to make, how many, and so on through the mechanism of **PRICE*.*** *(Text example: t-shirts supporting favorite baseball teams.)*
3. In a free market. the **PRICE** tells producers how much to produce, reducing the chances of a long-term shortage of goods.

D. **HOW PRICES ARE DETERMINED**

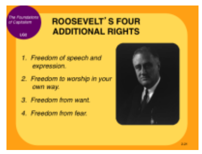
1. Prices in a free market are not determined by sellers; rather buyers and sellers negotiating in the marketplace determine them.

PPT 2-20
Capitalism's Four Basic Rights



(See complete PowerPoint slide notes on page 2.50.)

PPT 2-21
Roosevelt's Four Additional Rights



(See complete PowerPoint slide notes on page 2.50.)

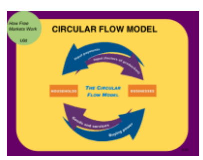
PPT 2-22
Free Markets

(See complete PowerPoint slide notes on page 2.51.)

lecture link 2-4
THE CIRCULAR FLOW MODEL

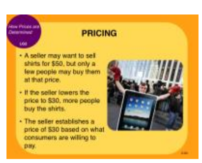
The Circular Flow Model is used to explain how businesses and individuals interact in a free market economy. (See the complete lecture link on page 2.67 of this manual.)

PPT 2-23
Circular Flow Model



(See complete PowerPoint slide notes on page 2.51.)

PPT 2-24
Pricing



(See complete PowerPoint slide notes on page 2.52.)

2. Price is determined through the economic concepts of supply and demand.

E. **THE ECONOMIC CONCEPT OF SUPPLY**

1. ***SUPPLY*** refers to the quantity of products that manufacturers or owners are willing to sell at different prices at a specific time.
2. The amount supplied will **INCREASE** as the price **INCREASES** (**DIRECT** relationship.)
3. The quantity producers are willing to **SUPPLY** at certain prices is illustrated on a **SUPPLY CURVE.**

F. **THE ECONOMIC CONCEPT OF DEMAND**

1. ***DEMAND*** refers to the quantity of products that people are willing to buy at different prices at a specific time.
2. The quantity demanded will **DECREASE** as the price **INCREASES** (**INVERSE** relationship.)
3. The quantities consumers are willing to buy at certain prices are illustrated on a **DEMAND CURVE.**

G**.** **THE EQUILIBRIUM PRICE, OR MARKET PRICE**

1. The key factor in determining the quantity supplied and the quantity demanded is **PRICE.**
   a. At the **EQUILIBRIUM POINT**, the supply and demand curves cross**,** and the quantity demanded equals the quantity supplied.
   b. ***MARKET PRICE*** is the price determined by supply and demand.
2. In free-market economies it is the **INTERACTION** between **SUPPLY** and **DEMAND** that determines

TEXT FIGURE 2.1
The Supply Curve at Various Prices
(Text page 38)

This text figure shows a simple supply curve for T-shirts. The curve rises from left to right. The higher the price, the more will be supplied.

PPT 2-25
Supply Curves

(See complete PowerPoint slide notes on page 2.52.)

TEXT FIGURE 2.2
Demand Curves
(Text page 38)

This is a simple demand curve showing the quantity of T-shirts demanded at different prices. The demand curve falls from left to right.

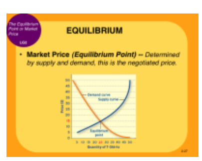
PPT 2-26
Demand Curves

(See complete PowerPoint slide notes on page 2.52.)

TEXT FIGURE 2.3
The Equilibrium Point
(Text page 38)

This text figure shows the equilibrium point, the point at which the supply and demand curves intersect—where quantity demanded equals quantity supplied.

PPT 2-27
Equilibrium



(See complete PowerPoint slide notes on page 2.53.)

critical thinking exercise 2-3
FINDING THE EQUILIBRIUM

How does the equilibrium price of a product change when forces in the economy change? (See complete exercise on page 2.74 of this manual.)

POINT

the market price in the long-run.

a. If **SURPLUSES** (too many products) develop, a signal is sent to sellers to **LOWER** the price.

b. If **SHORTAGES** (not enough products) develop, a signal is sent to sellers to **INCREASE** the price.

c. Eventually, supply will again equal demand.

3. *The text uses the example of gas prices after the recent Gulf oil spill.*

4. In countries without a free-market system, there is no such mechanism, so there are often **SHORTAGES OR SURPLUSES.**

5. When government interferes in free markets, surpluses and shortages may develop.

H. **COMPETITION WITHIN FREE MARKETS**

1. Competition exists in different degrees, ranging from perfect to nonexistent.

2. ***<u>PERFECT COMPETITION</u>*** is the degree of competition in which there are many sellers in a market and none is large enough to dictate the price of a product.

   a. Sellers produce products that appear to be **IDENTICAL**.

   b. *There are no true examples of perfect competition, but agricultural products are often used as an example.*

3. ***<u>MONOPOLISTIC COMPETITION</u>*** is the degree of competition in which a large number of sellers

lecture link 2-5

THE ECONOMIC IMPACT OF THE 2010 OIL SPILL

The 2010 oil leak from BP's Deepwater Horizon didn't just affect gas prices, property values and the fishing industry were also hit hard. (See complete lecture link on page 2.67 of this manual.)

PPT 2-28
Four Degrees of Competition

(See complete PowerPoint slide notes on page 2.53.)

produce very similar products that buyers nevertheless perceive as different.

a. **PRODUCT DIFFERENTIATION**, making buyers think similar products are different, is a key to success.

b. *The fast food industry is an example.*

4. An ***OLIGOPOLY*** is a degree of competition in which just a few sellers dominate a market.

a. The **INITIAL INVESTMENT** required to enter the market is usually high.

b. Prices among competing firms tend to be close to the same.

c. *Examples include breakfast cereal and soft drinks.*

5. A ***MONOPOLY*** is a degree of competition in which only one seller controls the total supply of a product or service, and sets the price.

a. U.S. laws prohibit the creation of monopolies, but do permit **APPROVED MONOPOLIES** in markets for public utilities.

b. New laws have ended the monopoly status of utilities in some areas, creating intense competition among utility companies.

c. **DEREGULATION** is meant to increase competition and lower prices for consumers.

I. **BENEFITS AND LIMITATIONS OF FREE MARKETS**

1. The free market allows open competition among companies.

2. Free-market capitalism provides opportunities for

critical thinking exercise 2-4

STANDARD OF LIVING COMPARISON

This exercise asks students to research key economic indicators for a capitalist country, a socialist country, and a communist country. (See complete exercise on page 2.76 of this manual.)

PPT 2-29

Free Market Benefits and Limitations

(See complete PowerPoint slide notes on page 2.53.)

poor people to work their way out of poverty.

3. Capitalism also creates **INEQUITIES** between those who have gained wealth and those who are not able to.
4. Not all businesspeople agree on how to deal with this **INEQUITY**.
5. Greed has led some businesspeople to engage in **UNETHICAL PRACTICES** and deceive the public.
6. Some government **REGULATIONS ARE NECESSARY** to protect stockholders and vulnerable citizens.

learning goal 3

Compare socialism and communism.

III. UNDERSTANDING SOCIALISM

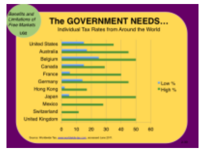
A. ***SOCIALISM*** is an economic system based on the premise that some, if not most, basic businesses should be owned by the government so that profits can be distributed among the people.

1. Entrepreneurs can own small businesses, but their profits are **STEEPLY TAXED** to pay for social programs.
2. Advocates of socialism acknowledge the major benefits of capitalism, but believe that **WEALTH SHOULD BE MORE EVENLY DISTRIBUTED.**

B. The **MAJOR BENEFIT** of socialism is **SOCIAL EQUALITY**.

1. Income is taken from the wealthier people and redistributed to the poorer members of the population.

PPT 2-30
The Government Needs



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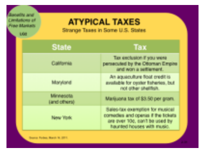
PPT 2-31
Atypical Taxes



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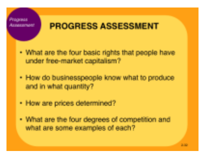
progress
assessment
(Text page 41)

PPT 2-32
Progress Assessment



(See complete PowerPoint slide notes on page 2.55.)

PPT 2-33
Socialism

(See complete PowerPoint slide notes on page 2.55.)

2. Workers in socialist countries are given free education, free health care, free child care, and more employee benefits.

C. **THE NEGATIVE CONSEQUENCES OF SOCIALISM**

1. Socialism may create **EQUALITY**, but it **TAKES AWAY SOME WORK INCENTIVES**.
2. Tax rates in some nations once reached 83%.
3. Because wealthy professionals have very high tax rates, many of them leave socialist countries for countries with lower taxes.
4. The loss of the best and brightest people to other countries is called ***BRAIN DRAIN*.**
5. Socialist systems can result in **FEWER INVENTIONS AND LESS INNOVATION.**

IV. UNDERSTANDING COMMUNISM

A. ***COMMUNISM*** is an economic and political system in which the government makes almost all economic decisions and owns almost all the major factors of production.

B. **PROBLEMS WITH COMMUNISM**

1. The government has no way of knowing what to produce because prices don't reflect **SUPPLY** and **DEMAND**.
2. **SHORTAGES** of many items may develop.
3. Communism doesn't inspire businesspeople to work hard, and is slowly disappearing as an alternative economic form.

PPT 2-34
Benefits of Socialism

(See complete PowerPoint slide notes on page 2.56.)

PPT 2-35
Negatives of Socialism

(See complete PowerPoint slide notes on page 2.56.)

PPT 2-36
Communism

(See complete PowerPoint slide notes on page 2.56.)

C. Most communist countries today are **SUFFERING SEVERE ECONOMIC DEPRESSION**, including North Korea and Cuba.

1. Some countries, such as Venezuela, are moving toward communism.
2. The former Soviet Union is moving toward free markets.
3. Russia now has a flat tax of 13%, a much lower tax rate than the U.S. has.
4. The trend toward free markets is growing.

learning goal 4

Analyze the trend toward mixed economies.

V. THE TREND TOWARD MIXED ECONOMIES

A. There are two dominant economic systems:

1. **FREE MARKET ECONOMIES**
   a. ***FREE MARKET ECONOMIES*** are economic systems in which the market largely determines what goods and services get produced, who gets them, and how the economy grows.
   b. This system is commonly known as **CAPITALISM.**
2. **COMMAND ECONOMIES**
   a. ***COMMAND ECONOMIES*** are economic systems in which the government largely decides what goods and services will be produced, who will get them, and how the economy will grow.

PPT 2-37
Two Major Economic Systems

(See complete PowerPoint slide notes on page 2.57.)

   b. These economies are known as **SOCIALISM** and **COMMUNISM**.

B. No one economic system is perfect by itself.

   1. Free-market mechanisms haven't been responsive enough to a nation's social and economic needs and haven't adequately protected the environment.
   2. Socialism and communism haven't always created enough jobs or wealth to keep economies growing fast enough.
   3. Socialist and communist countries have moved toward **CAPITALISM**.
   4. So-called capitalist countries tend to move toward **SOCIALISM**.
   5. No country is purely capitalist or purely capitalist, rather some **MIX OF THE TWO SYSTEMS**.
   6. The result has been a **BLEND** of capitalism and communism.

C. ***MIXED ECONOMIES*** are economic systems in which some allocation of resources is made by the market and some by government.

D. **THE U.S. HAS A MIXED ECONOMY.**

   1. The role of government in many parts of the economy is a matter of some debate.
   2. For instance, the government has become the largest employer in the U.S.

PPT 2-38
Mixed Economies

(See complete PowerPoint slide notes on page 2.57.)

PPT 2-39
Trending Toward Mixed Economies

(See complete PowerPoint slide notes on page 2.57.)

REACHING BEYOND
our borders
(Text page 44

PPT 2-40
China's Changing Economy

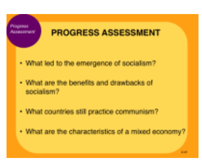
(See complete PowerPoint slide notes on page 2.58.)

TEXT FIGURE 2.4
Comparisons of Key Economic Systems
(Text page 45)

This text figure compares capitalism, socialism, communism, and mixed economies on five key elements.

progress assessment
(Text page 46)

PPT 2-41
Progress Assessment



(See complete PowerPoint slide notes on page 2.58.)

learning goal 5

Discuss the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.

VI. UNDERSTANDING THE U.S. ECONOMIC SYSTEM

A. KEY ECONOMIC INDICATORS

1. GROSS DOMESTIC PRODUCT (GDP)

a. ***GROSS DOMESTIC PRODUCT (GDP)*** is the total value of final goods and services produced in a country in a given year.

b. Both domestic and foreign-owned companies can produce goods and services included in GDP.

c. A major influence on the growth of GDP is how productive the work force is.

d. The total U.S. GDP is $14 trillion.

2. THE UNEMPLOYMENT RATE

a. The ***UNEMPLOYMENT RATE*** is the number of civilians at least 16 years old who are unemployed and tried to find a job within the prior four weeks.

b. There are four types of unemployment: frictional, structural, cyclical, and seasonal (as seen in **Text Figure 2.6.)**

c. The U.S. tries to protect those who are unemployed because of recessions, industry shifts, and other cyclical factors.

3. INFLATION AND PRICE INDEXES

a. **THE PRICE INDEXES** help measure the health of the economy.

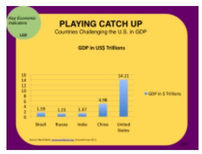
PPT 2-42
Gross Domestic Product

(See complete PowerPoint slide notes on page 2.58.)

PPT 2-43
The United States GDP

(See complete PowerPoint slide notes on page 2.59.)

PPT 2-44
Playing Catch Up



(See complete PowerPoint slide notes on page 2.59.)

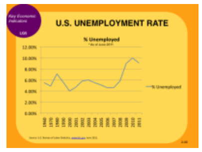
PPT 2-45
Unemployment

(See complete PowerPoint slide notes on page 2.59.)

TEXT FIGURE 2.5
U.S. Unemployment Rate 1989-2011
(Text page 47)

This text figure shows the unemployment rate for the years from 1989 to 2011.

PPT 2-46
Unemployment Rate of the U.S.



(See complete PowerPoint slide notes on page 2.60.)

TEXT FIGURE 2.6
Four Types of Unemployment
(Text page 49)

This figure describes the four types of unemployment: frictional, structural, cyclical, and seasonal.

PPT 2-47
Best and Worst Cities for a Job Search

(See complete PowerPoint slide notes on page 2.60.)

b. ***INFLATION*** is a general rise in the prices of goods and services over time.

c. ***DISINFLATION*** is a situation in which price increases are slowing *(the inflation rate is declining.)*

d. ***DEFLATION*** is a situation in which prices are declining, occurring when countries produce so many goods that people cannot afford to buy them all.

e. ***STAGFLATION*** is a situation when the economy is slowing, but prices keep going up anyhow.

f. **CONSUMER PRICE INDEX (CPI)**

   i. The ***CONSUMER PRICE INDEX (CPI)*** are monthly statistics that measure the pace of inflation or deflation.

   ii. Some wages, rents, government benefits, and interest rates are based on the CPI.

   iii. **CORE INFLATION** is the CPI minus food and energy costs.

g. The ***PRODUCER PRICE INDEX (PPI)*** is an index that measures prices at the wholesale level.

B. **PRODUCTIVITY IN THE UNITED STATES**

1. U.S. productivity has gone up in recent years because computers have made production faster.

2. The **HIGHER PRODUCTIVITY** is, the **LOWER COSTS** are in producing goods and services, and the lower prices can be.

PPT 2-48
Inflation

(See complete PowerPoint slide notes on page 2.60.)

lecture link 2-6
OTHER ECONOMIC INDICATORS

In addition to the GDP, CPI, and unemployment indicators, there are other economic indicators that can forecast changes in the economy. (See the complete lecture link on page 2.68 of this manual.)

lecture link 2-7
NEW ECONOMIC MEASURES

Michael Gelobter thinks that the GDP, unemployment levels, and price indices should be replaced with the "genuine progress indicator (GPI)." (See the complete lecture link on page 2.69 in this manual.)

PPT 2-49
Consumer Price Index

(See complete PowerPoint slide notes on page 2.61)

TEXT FIGURE 2.7
How the Consumer Price Index is Put Together
(Text page 48)

This text figure how the Consumer Price Index is figured out and released.

PPT 2-50
Producer Price Index

(See complete PowerPoint slide notes on page 2.61)

PPT 2-51
Productivity

(See complete PowerPoint slide notes on page 2.61)

3. The U.S. economy is a **SERVICE ECONOMY**–very labor intensive–creating productivity issues.

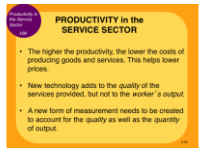
C. **PRODUCTIVITY IN THE SERVICE SECTOR**

1. Technologies may add to the quality of the services but not to the **OUTPUT PER WORKER** which is the definition of productivity.
2. New measures of productivity for the service economy are needed to measure **QUALITY** as well as **QUANTITY** of output.

D. **THE BUSINESS CYCLE**

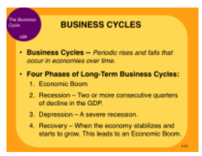
1. ***BUSINESS CYCLES*** are the periodic rises and falls that occur in economies over time.
2. Joseph Schumpter identified **FOUR PHASES OF BUSINESS CYCLES:**
   a. In an **ECONOMIC BOOM,** there is strong business activity.
   b. A ***RECESSION*** is two or more consecutive quarters of decline in the GDP.
   c. A ***DEPRESSION*** is a severe recession, usually accompanied by deflation.
   d. A **RECOVERY** occurs when the economy stabilizes.
3. The goal of economists is to predict these fluctuations, which can be very difficult.
4. Fluctuations in the economy are **INEVITABLE**.
5. The government uses **FISCAL** and **MONETARY** policy to minimize these disruptions.

PPT 2-52
Productivity in the Service Sector



(See complete PowerPoint slide notes on page 2.62.)

PPT 2-53
Business Cycles



(See complete PowerPoint slide notes on page 2.62.)

lecture link 2-8
CHINA'S POTENTIAL REAL ESTATE BUST

After years of growth, financial experts are afraid the Chinese real estate boom could turn into a bust. (See the complete lecture link on page 2.69 in this manual.)

lecture link 2-9
WHAT IS A DEPRESSION?

There is a well-established definition for a recession. A depression is, well, not so easy to define. (See the complete lecture link on page 2.70 in this manual.)

learning goal 6

Contrast *fiscal policy* and *monetary policy*, and explain how each affects the economy.

E. **STABILIZING THE ECONOMY THROUGH FISCAL POLICY**

1. ***FISCAL POLICY*** is the federal government's efforts to keep the economy stable by increasing or decreasing taxes or government spending.
2. The first half of fiscal policy involves **TAXATION.**
    a. **HIGH TAX RATES** may discourage small business ownership.
    b. **LOW TAX RATES** would tend to give the economy a boost.
    c. The **PERCENTAGE OF GDP** taken by all levels of government through taxes is about **28%.**
3. The second half of fiscal policy involves **GOVERNMENT SPENDING.**
    a. The **NATIONAL DEFICIT** is the amount of money that the federal government spends over and above the amount it gathers in taxes.
    b. The ***NATIONAL DEBT*** is the sum of government deficits over time.
    c. The national debt of the U.S. is over **$14 TRILLION**.
4. One way to lessen the annual deficits is to **CUT GOVERNMENT SPENDING**, but there is a continuing need for social programs and for military spending.

F. **FISCAL POLICY IN ACTION DURING THE ECONOMIC CRISIS OF 2008-2011**

PPT 2-54
Fiscal Policy

(See complete PowerPoint slide notes on page 2.62.)

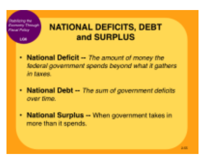
critical thinking exercise 2-5
BALANCING THE FEDERAL BUDGET

Can your students balance the federal budget? This exercise presents figures and asks them to make adjustments in spending and income to do just that. (See complete exercise on page 2.77 of this manual.)

TEXT FIGURE 2.8
The National Debt
(Text page 51)

This text figure shows the national debt—the sum of government deficits over time—for years 1980 to 2011.

PPT 2-55
National Deficits, Debt, and Surplus



(See complete PowerPoint slide notes on page 2.63.)

PPT 2-56
What's Our National Debt?

(See complete PowerPoint slide notes on page 2.63.)

1. President George Bush basically followed the basic economic principles of free markets.
   a. However, the economy plummeted and President Bush approved spending almost $1 trillion to revive the failing economy.
   b. President Barack Obama promised to spend additional funds.
2. ***KEYNESIAN ECONOMIC THEORY*** is the theory that a government policy of increasing spending and cutting taxes could stimulate the economy in a recession.

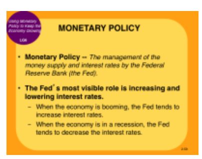
G. **USING MONETARY POLICY TO KEEP THE ECONOMY GROWING**

1. The **FEDERAL RESERVE SYSTEM (THE FED)** is a semiprivate organization that decides how much money to put into circulation.
2. ***MONETARY POLICY*** is the management of the monetary supply and interest rates; it is controlled by the Fed.
   a. When the economy is booming, the Fed tends to **RAISE INTEREST RATES.**
   b. **LOWERING INTEREST RATES** encourages more business borrowing.
   c. Raising and lowering interest rates helps control the rapid ups and downs of the economy.
   d. In 2010-2011, the Fed kept interest rates near zero, but the economy remained sluggish.
3. The Federal Reserve also controls the **MONEY SUPPLY**.

PPT 2-57
What Can a ____ Dollars Buy

(See complete PowerPoint slide notes on page 2.63.)

PPT 2-58
Monetary Policy



(See complete PowerPoint slide notes on page 2.64.)

lecture link 2-10
CONTROLLING YOUR PERSONAL MONEY SUPPLY

Controlling your personal money supply is harder than you may think. (See the complete lecture link on page 2.71 of this manual.)

a. The **MORE MONEY** the Fed makes available to businesspeople, the **FASTER THE ECONOMY GROWS.**

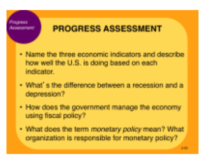
b. To **SLOW THE ECONOMY**, the Feds **LOWERS** the money supply.

4. The economic goal is to keep the economy growing.

VII. SUMMARY

progress assessment
(Text page 52)

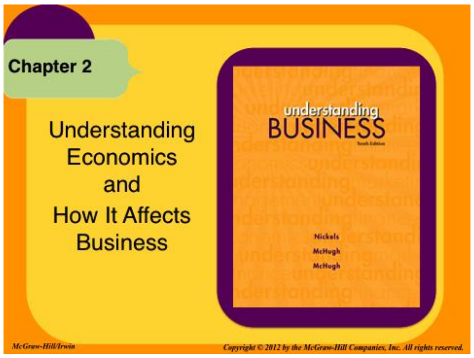
PPT 2-59
Progress Assessment



(See complete PowerPoint slide notes on page 2.64.)

PowerPoint slide notes

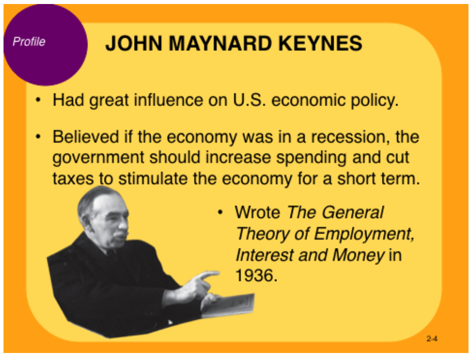
PPT 2-1
Chapter Title



PPT 2-2
Learning Goals

PPT 2-3
Learning Goals

PPT 2-4
John Maynard Keynes



PPT 2-5
Name That Company

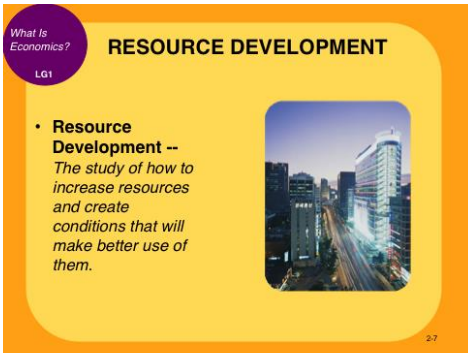
Organization: Foundation for International Community Assistance (FINCA)

PPT 2-6
The Major Branches of Economics

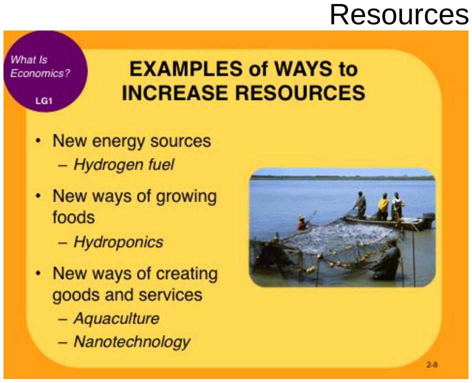
This slide gives students insight into the definition of economics. When going over this definition it often helps to further define the term resources. The term resources ties back into Chapter 1 and the factors of production: land, labor, capital, knowledge and entrepreneurship.

PPT 2-7
Resource Development

Businesses can contribute to an economic system by inventing new products that increase the availability of resources.

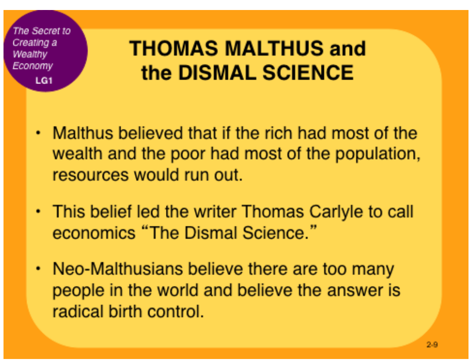


PPT 2-8
Examples of Ways to Increase Resources

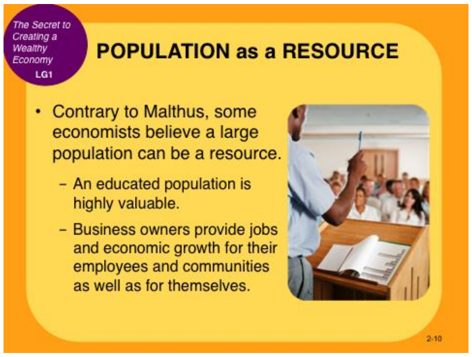


PPT 2-9
Thomas Malthus and the Dismal Science

Thomas Malthus believed that if people were left to their own devices there would be chaos; therefore the government needed to be heavily involved in controlling the economy. Malthus' ideas are still with us. Neo-Malthusian ideas of overpopulation are prevalent in books such as Paul Ehrlich's *The Population Bomb* which contains ideas similar to those presented by Thomas Malthus 200 years ago.



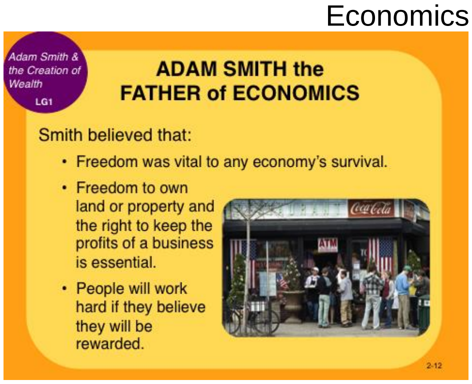
PPT 2-10
Population as a Resource



Malthus viewed a large population as a negative. However, many economists today see a highly educated population as a valuable, scarce resource. Countries like Japan and Germany are examples of nations that have become economically successful due to large well-educated populations producing sophisticated high-value products.

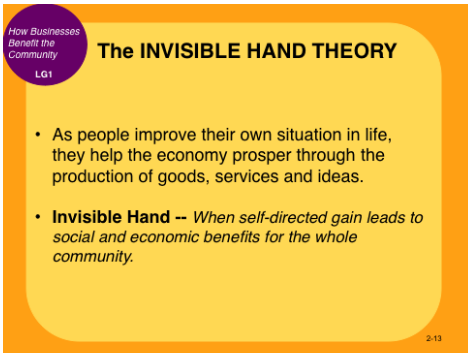
PPT 2-11
Bringing in the Green with Green Products

PPT 2-12
Adam Smith the Father of Economics



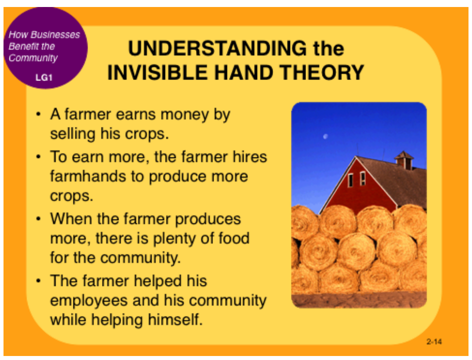
Adam Smith's ideas were laid out in his seminal book, An Inquiry into the Nature and Causes of the Wealth of Nations. Smith believed strongly in more "natural liberty" and less government intervention into the economy {an idea that was an anathema to Malthus}. Smith argued that allowing people the freedom to own land and the right to keep profit would not create chaos as Malthus had argued, but rather would create greater resources for all.

PPT 2-13
The Invisible Hand Theory



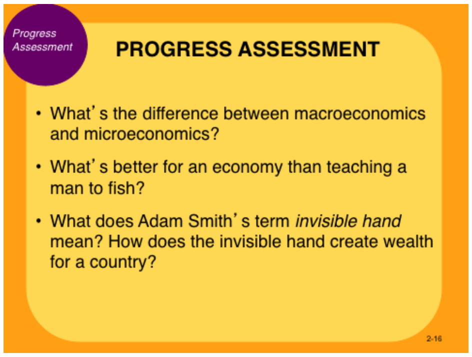
The invisible hand was at the heart of Adam Smith's theory describing the process of turning self-directed gain into social and economic benefits for all.

PPT 2-14
Understanding the Invisible Hand Theory



PPT 2-15
Corruption's Effect on the Economy

PPT 2-16
Progress Assessment



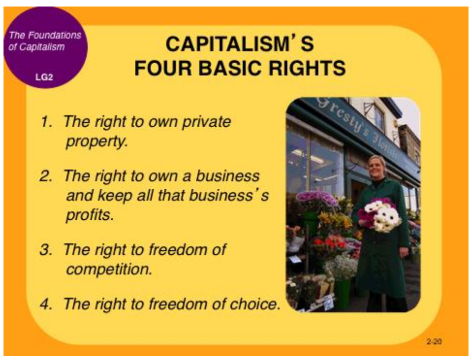
1. Macroeconomics looks at the operations of a nation's economy as a whole. Microeconomics looks at the behavior of people and organizations in markets for particular products or services.
2. To create wealth in an economy, it is better to teach a man to start a fish farm, whereby he will be able to feed a village for a lifetime.
3. The invisible hand is the term used by Adam Smith to describe the processes that turns self-directed gains into social and economic benefits for all. To become wealthy, people working in their own self-interest producing goods and services expand by hiring others that provides employment and increases the well-being of others. They also tend to reach out to help the less fortunate over time.

PPT 2-17
Capitalism

PPT 2-18
State Capitalism

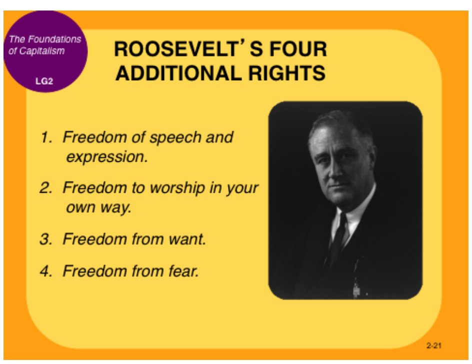
PPT 2-19
A Small Loan Can Make a Big Difference

PPT 2-20
Capitalism's Four Basic Rights



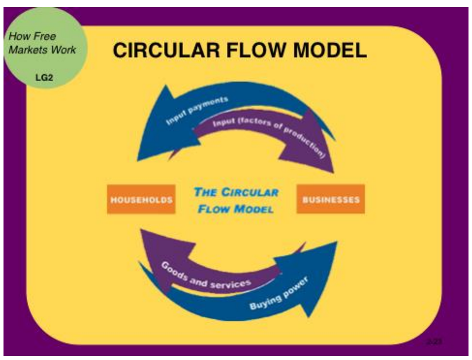
The four basic rights under a capitalist system are straightforward, but which of the four basic rights has been weakened in the United States over the past 30 years? When asked this question, rarely do students touch on the concept of eminent domain and the weakening of the right to own private property due to the Kelo vs. New London Supreme Court case from 2005. If time permits students can explore this case and the potential impact the case may have on America capitalism.

PPT 2-21
Roosevelt's Four Additional Rights



PPT 2-22
Free Markets

PPT 2-23
Circular Flow Model

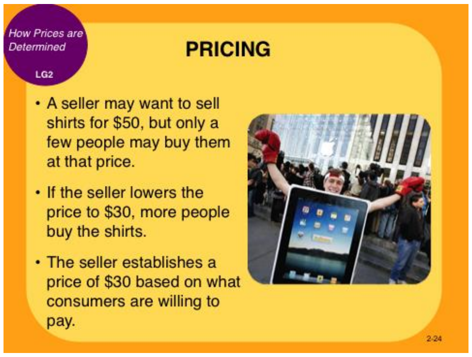


In a free market economy, business activity involves two major players: individuals (**households**) who own the resources that are the inputs into the productive process, and **businesses** who use these inputs (factors of production) to create goods and services.

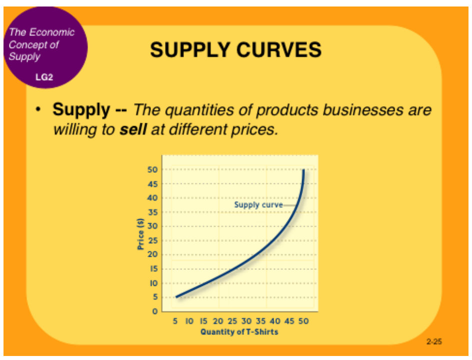
1. In the **Resource Market** (top part of the model)
   a. Businesses demand resources.
   b. Households own the resources (factors of production).
   c. Income from providing these resources flows back to the households.
   d. The price of these resources set by laws of supply and demand.
2. In the **Product Market** (lower part of the model)
   a. Businesses use these resources to create goods and services.
   b. Households (individuals) demand these goods and services.
   c. Individuals use their income to purchase goods and services.

PPT 2-24
Pricing

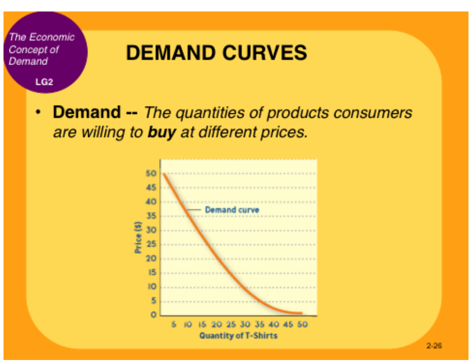
Prices are determined by consumers negotiating with the sellers.



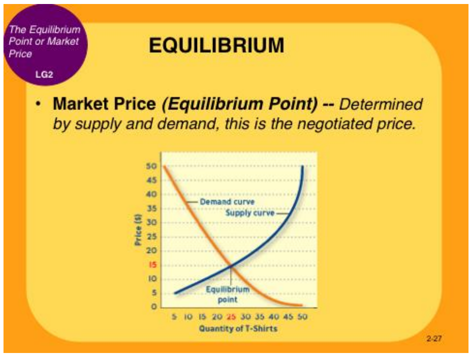
PPT 2-25
Supply Curves



PPT 2-26
Demand Curves



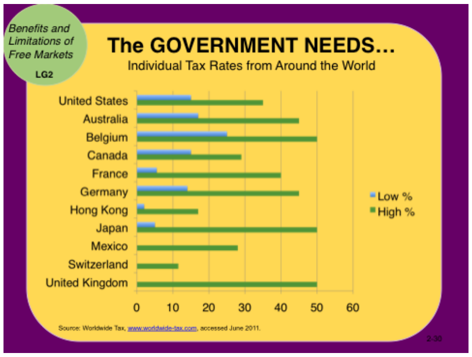
PPT 2-27
Equilibrium



PPT 2-28
Four Degrees of Competition

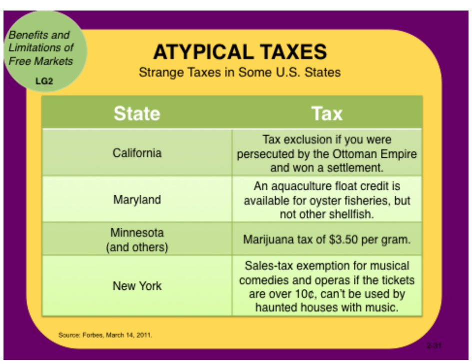
PPT 2-29
Free Market Benefits and Limitations

PPT 2-30
The Government Needs…



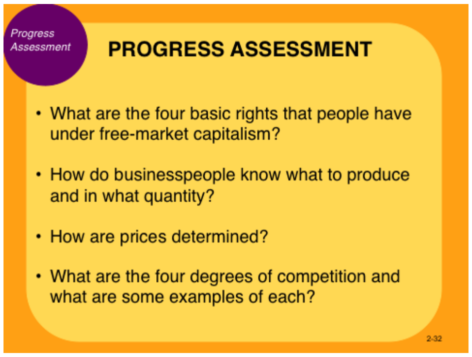
1. This slide compares some world's lowest and highest individual tax rates.
2. Students may be surprised at the difference between the rates in the U.S. and many other countries. For example the U.S. rate seems low compared to Belgium's rate which is 50%.
3. To help explain the difference between the U.S. rate and Belgium's higher rate, you can discuss some of the differences between capitalism and socialism. (*Socialism believes that the government should provide increased services for people by redistributing income from the richer people to the poor. Explain to the students that in socialist countries citizens are given free education, free health care, and more employee benefits (like longer vacations and family leave). Therefore they must pay higher taxes to support these benefits.*
4. Point out the major disadvantages of socialism:
    - Reduced incentives to work harder resulting in less innovation.
    - Marginal tax rates are higher and can sometimes approach 85% after a person reaches a certain amount of income (in other words, eight-five cents of each dollar earned is paid in taxes.
    - The term "brain drain" refers to the loss of professionally trained individuals due to higher taxes.

PPT 2-31
Atypical Taxes



A little bit about the lighter side of taxes.

PPT 2-32
Progress Assessment



1. The four rights are: the right to own private property, the right to own a business and keep all that business's profits, the right to freedom of choice, and the right to freedom of competition.
2. Decisions about what to produce and in what quantity are decided by the market, consumers sending signals about what to make, how many in what color, and so on.
3. Prices are determined by the economic concepts of supply and demand.
4. The four degrees of competition are:
    - Perfect competition – such as a farmer's market where good are indistinguishable. Today, however, there are no good examples of perfect competition.
    - Monopolistic competition – such as fast-food restaurants where products are similar but consumers perceive the products to be different. Product differentiation is a key here.
    - Oligopoly – a situation where just a few major producers dominate a market such as tobacco, gasoline, automobiles, etc. A few sellers dominate because the initial investment to enter such a market is significant.
    - Monopoly – a situation where only one producer exists in a market. U.S. law prohibits the creation of monopolies.

PPT 2-33
Socialism

PPT 2-34
Benefits of Socialism

PPT 2-35
The Negatives of Socialism

PPT 2-36
Communism

PPT 2-37
Two Major Economic Systems

PPT 2-38
Mixed Economies

PPT 2-39
Trending Toward Mixed Economies

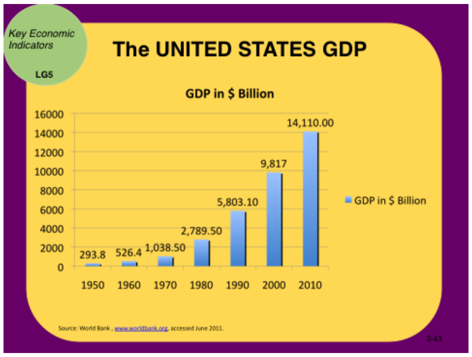
PPT 2-40
China's Changing Economy

PPT 2-41
Progress Assessment

1. Socialists believe that the distribution of wealth should be more evenly distributed than in free-market capitalism. Government should be empowered to carry out the distribution of wealth.
2. Free education through college, free health care, and free child-care are some of the benefits of socialism. The key drawback of socialism is high taxes often causing a "brain drain" in the economy. Socialism also tends to inspire less innovation.
3. Most nations have drifted away from communism but North Korea, Cuba still espouse communism. Russia, Vietnam, and China still have some communist ideals in place.
4. Mixed economies have systems where the allocation of resources is made by the market and some by the government. Like most nations of the world, the United States is a mixed economy.

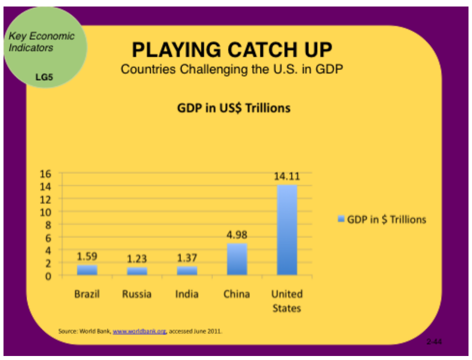
PPT 2-42
Gross Domestic Product

PPT 2-43
The United States GDP



1. In 2010, the U.S. gross domestic product was $14.1 trillion.
2. This compares to the GDP of $ 5.8 trillion in 1990 and $ 2.8 trillion in 1980. As can be seen on the slide, the U.S. GDP has grown over 400% since 1980.

PPT 2-44
Playing Catch Up



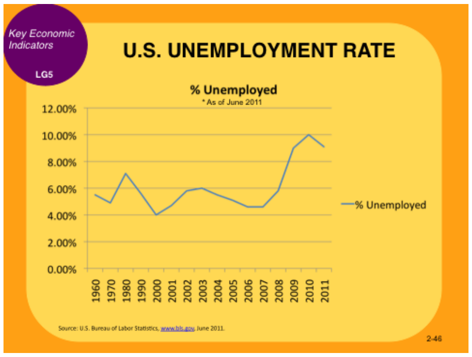
1. America is often referred to as "*the engine that runs the world's economy." It is easy to see the truth in this statement* with gross domestic product far exceeding the four countries listed on the slide.
2. While China has grown dramatically since 1975, their economy is still dwarfed by that of the United States.
3. Much is made of the economic growth of China, India, Russia and Brazil, but students must understand the sum of these four countries gross domestic products is approximately half that of the United States.

PPT 2-45
Unemployment

While the term unemployment seems simple enough, the Bureau of Labor Statistics (BLS) has a very specific definition. According to the BLS unemployment is the percentage of civilians at least 16-years-old who are unemployed and tried to find a job within the prior four weeks. The BLS figure does not include workers who had to take part-time jobs because they couldn't find full-time work, those who are underemployed (working at jobs far below their qualifications), or those workers who gave up looking for jobs altogether. If that was not confusing enough there are four types of unemployment which students are often surprised to discover.

The U.S. unemployment rate reached its lowest point in 30 years at 3.9% in 2000. By 2010, however, it had risen to over 10%. In 2011, it still hovered over 9%.

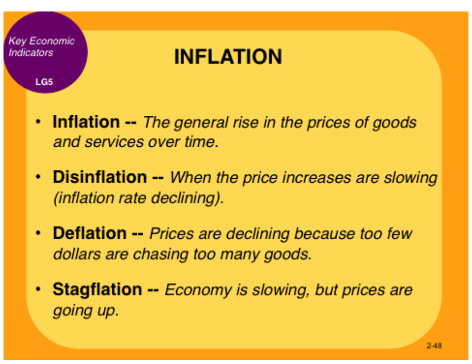
PPT 2-46
U.S. Unemployment Rate



The unemployment rate in the United States over the past 50 plus years has been as low as 3.9 percent, but more recently has climbed past 10 percent. Although the unemployment rate is climbing in the United States, it still has a long way to go to reach the unemployment rate in Zimbabwe (80 percent).

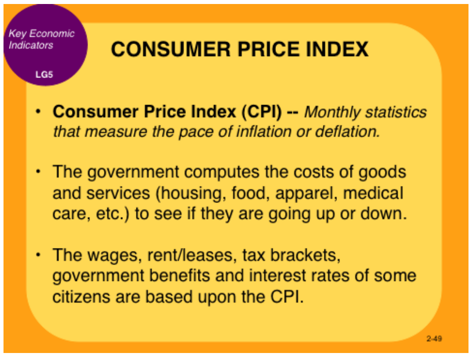
PPT 2-47
Best and Worst Cities for a Job Search

PPT 2-48
Inflation



When discussing inflation, disinflation, deflation and stagflation, introducing the term hyperinflation is particularly interesting to students. Historical examples of countries suffering from hyperinflation post-World War I and currently Zimbabwe bring this topic to life.

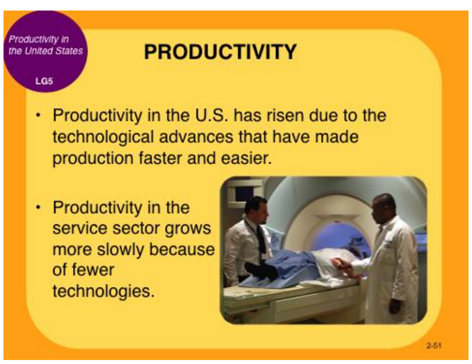
PPT 2-49
Consumer Price Index



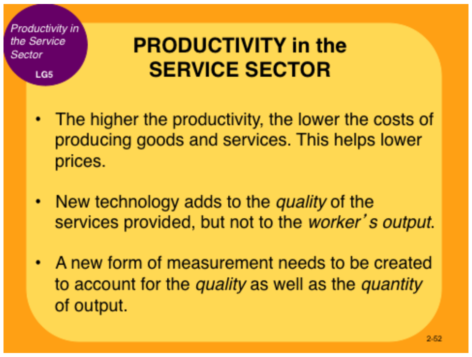
After discussing hyperinflation in the previous slide, students can appreciate the importance of monitoring a nation's inflation rate to prevent it from spiraling out of control. As inflation is increasing, it acts as a hidden tax increase eroding the purchasing power of the population.

PPT 2-50
Price Index

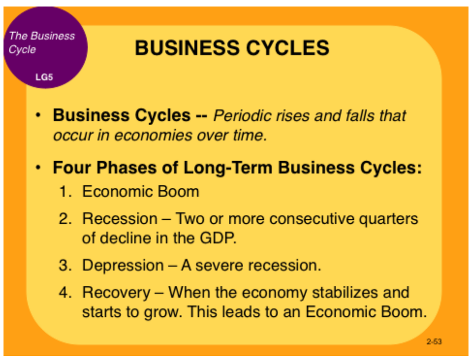
PPT 2-51
Productivity



PPT 2-52
Productivity in the Service Sector



PPT 2-53
Business Cycles

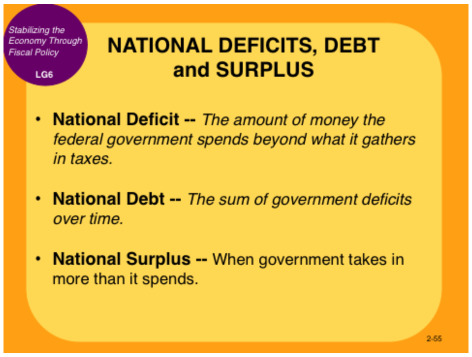


Yes, it is true that a recession is two or more consecutive quarters of contracting gross domestic product, but students will be interested in knowing that for a recession to be officially labeled a recession it must be declared by the National Bureau of Economic Research. Their website, www.nber.org, provides numerous resources to further explain this part of the business cycle.

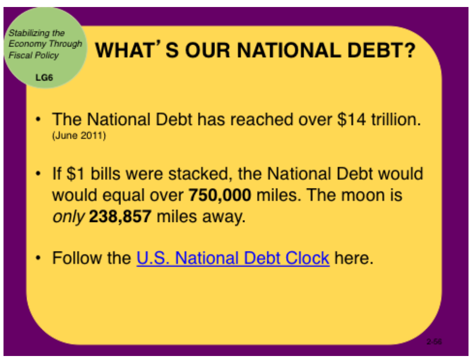
PPT 2-54
Fiscal Policy

In the U.S., the percentage of the GDP the government takes through taxes at all levels is about 28%. However, when you count all fees, taxes on the highest-earning citizens could exceed 50%.

PPT 2-55
National Deficits, Debt, and Surplus



PPT 2-56
What's Our National Debt?

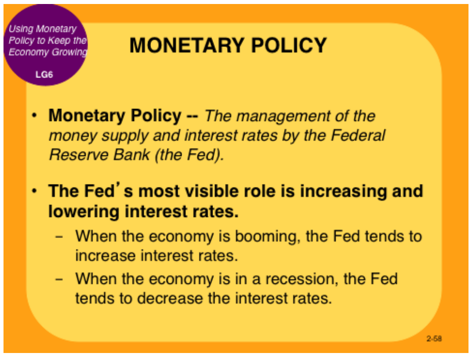


1. Discuss with the class the size of the national debt and what impact this has on the economy. (*Increased borrowing by the government takes money out of the consumer and business markets, impacting the cost of borrowing.)*
2. The national debt has continued to increase roughly $4 billion per day since September 28, 2007.
3. On a per person basis, each citizen's share of this debt is roughly $46,000.
4. A family of four shares the debt burden of about $184,000.

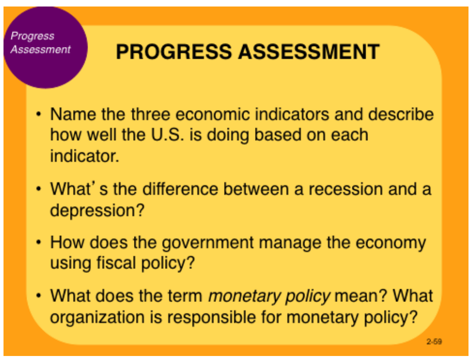
PPT 2-57
What Can a ___ Dollars Buy?

1. Before showing the slide, ask students, "If you were a rich, generous person who wanted to treat President Obama and his 2,000 Secret Services members to an Egg McMuffin every morning, how many days could you treat them if you decided to spend a million dollars? A billion dollars? A trillion dollars?"
2. Students are usually surprised to see how much a million, billion, or trillion dollars can buy.

PPT 2-58
Monetary Policy



PPT 2-59
Progress Assessment



1. The three key economic indicators are the Gross Domestic Product (GDP), the unemployment rate, and the price indexes. The U.S. GDP is approximately $14 trillion. Our high GDP allows citizens to enjoy a high standard of living. In 2000, the U.S. reached it lowest unemployment rate in over 30 years. However, the recent recession could lead unemployment to at least 10 percent. The consumer price index (CPI) has not risen to high levels keeping inflation in check. However the recession has caused fears of deflation.
2. A recession is two or more consecutive quarters of decline in the GDP. A depression is a severe recession, usually accompanied by deflation.
3. Fiscal policy refers to the government's efforts to keep the economy stable by increasing or decreasing taxes or government spending.
4. Monetary policy is the management of the nation's money supply and interest rates. The Federal Reserve controls the money supply in the United States.

lecture links

"It's a recession when your neighbor loses his job; it's a depression when you lose your own."
Harry S. Truman

"Three groups spend other people's money: children, thieves, politicians. All three need parental supervision."
Dick Army, politician

lecture link 2-1

INDIA'S UPCOMING ERA OF GROWTH

By all accounts, India is destined for massive growth over the next decade. Yet India is always measured in the shadow of its neighbor and fellow burgeoning economic superpower, China. After all, by 2030 the two nations are estimated to account for 34% of the globe's total economic output. Experts assert that China will be on top, however, and is on target to overtake the U.S. with 24% of world GDP by the same year.

But China's massive growth could ultimately be hindered by its one-child policy. With population escalation stunted, the pool of Chinese citizens eligible for work will shrink just as the nation surges towards GDP dominance. India, on the other hand, will experience one of the fastest growths of working-age populations in the world between 2010 and 2050. India's upcoming spike of work-eligible citizens could provide it with a much-needed advantage over not only China, but also the fully developed economies of the U.S. and Europe. Small countries with low birth rates like Sweden, Austria and Denmark could eventually drop off the list of the 30 biggest economies in the world. Instead, high population and expanding nations like India could take up the economic mantle in the next decade and beyond.

That is if India can suitably develop its crumbling infrastructure. Cracked roads and bridges present the biggest impediment towards India's growth. While India nearly matched China in total economic expansion last year at 9.7%, its dire infrastructure is ranked 91st out of 139 nations, behind Ethiopia and Indonesia. Even worse, despite its vast population India lacks the skilled labor to repair and rebuild. Though laborers abound, many Indians look down on the profession since those jobs were previously performed by lower classes. Therefore parents want their kids to upgrade to life as an engineer rather than a mason or a carpenter. In an effort to combat their skilled worker shortage, Indian companies are forming their own training schools that will hopefully convert standard laborers into capable contractors and foremen.[i]

lecture link 2-2

THE GRADUAL RETURN OF AMERICAN OPTIMISM

The debate over the Bush-era tax cuts raged in Congress for months, ending at last in December 2010 with a compromise between the Obama administration and Republicans. According to the new legislation, the tax laws instated by President Bush will continue for two more years along with a number of provisions from the 2009 stimulus package. Critics fear the extension of the cuts will deprive the government of the cash it so desperately needs to shrink the deficit. But for big business leaders, the tax breaks and stimulus expansion are cause for newfound optimism.

The new financial law comes hot on the heels of a string of surprisingly good news for the American economy. Stocks on the S&P 500 index were up an average of 12.8% at the end of 2010. Plus, after President Obama signed the new financial legislation into law, Goldman Sachs' notoriously bearish chief economist raised his 2011 forecast of American stocks' growth from 2% to 3.4%.

Most importantly, though, the U.S. is reemerging as a stable, dominant force on the global market. As Europe continues to struggle to untangle a knot of sovereign debt, the worst aspects of the American financial crisis seem to be over. And while the dollar has managed to find some steady footing, inflation woes loom large over developing countries like China and India. Still, the recent economic stimulus certainly won't stay exclusively within our nation's borders. American businesses will inevitably invest a good chunk of the bill's $858 billion into growing operations overseas. Additionally, the unencumbered growth of Chinese and Indian companies fueled by foreign cash will have global repercussions on the commodities and energy markets. As these nations' economies expand, their increased demand for resources will drive up prices around the world. So while America's economic outlook for 2011 looks relatively stable, there are several outside factors preventing it from becoming totally secure.[ii]

lecture link 2-3

A NEW CROP OF CONSUMERS IN AFRICA

While a great deal of focus has been given to burgeoning economic superpowers like India and China, Africa has a growing middle class that rivals both those countries. Thanks to open markets and greater political stability, economists estimate Africa's middle class (those who spend $2-20 a day) makes up 34% of the continent's population. A new study shows that this 313-million strong middle class, which has grown 60% over the last decade, is upwardly mobile and in the market for foreign goods.

However, this isn't to say that Africa is prosperous. Sixty-one percent of Africa's 1 billion people continue to live on less than $2 a day. Vast wealth disparities persist as well. The net worth of 100,000 of the continent's richest citizens accounts for 60% of its gross domestic product. A further 180 million people can only afford to spend $2 to $4 a day, making them vulnerable to economic shifts that could knock them out of the middle class. Even those firmly entrenched in the new consumer class are far from rich with daily spending budgets between $4 and $20.

To many, the fact that a significant portion of Africa's population has disposable income at all is cause for celebration. In fact, some analysts credit this new breed of consumer for buffering Africa against much of the global financial crisis. Also with jobs on the rise, rural Africans are flocking to cities. The U.S. ambassador to South Africa even claims that Africa is now nearly as urbanized as China. Again, all this newfound growth must be viewed alongside current stories of tragedies against citizens in Uganda and Nigeria as well as the violent repressions in Libya. Still, one can only hope that much of the violence and chaos that has defined Africa for decades is now in the past, leaving the future open for more political freedom and economic growth.[iii]

lecture link 2-4

THE CIRCULAR FLOW MODEL

(**PPT 2-23** presents this simplified Circular Flow Model.)

Economists often used “models” to explain economic principles. A model is like a map of a concept. A *road map* shows you the major highways and waterways, not every tree. An *economic model* presents an economic concept as a bare-bones “map,” containing only the major elements. Thus a model does not contain all the detail and complexity of the concept, just the simplified major elements.

One such economic model is the “Circular Flow Model,” a simplified presentation of the basic transactions in a free-market economy. The two major elements are **consumers** (presented in the model as “households,”) and the **businesses** that create goods and services.

Each of the factors of production mentioned in the text has a price. To use *land*, a business must make rent or mortgage payments (simplified as “*rent*.”) *Labor* must be paid salary or *wages*. The buildings, equipment, production lines, etc. (*capital*) are financed by paying *interest*. Finally, the entrepreneur expects to earn a *profit* from using his or her *entrepreneurship*. However, this resource payment is not guaranteed. If costs exceed income, the business may suffer a *loss*. (Some newer versions of this model include “knowledge” as a factor of production; older versions usually don’t.)

Businesses demand resources in order to produce products and services. In a capitalist economy, the households own the factors of production and must be compensated. This income flows back into the households. The prices of resources are set by the interaction of supply and demand.

The goods and services which households demand are created by business. The consumers in these households use the income from their factors of production to purchase goods and services.

Thus, business activity flows in a circle, which is illustrated by the Circular Flow Model. The market for resources (top arrows) is known as the *resource market*. The bottom flow is referred to as the *product market.*

This is a simplified model of pure capitalism, and it ignores a major player—government. Purchases of goods and services by all levels of government amount to about 20% of the nation’s gross domestic product. More sophisticated models include the government’s role in diverting resource payments as taxes and spending on government programs, which creates a more realistic representation of a mixed economy.

lecture link 2-5

THE ECONOMIC IMPACT OF THE 2010 OIL SPILL

The crude oil that spilled from BP’s Deepwater Horizon rig is one of the most tragic environmental disasters in human history. The full effect of the spill on the region’s wildlife and coastlines is still speculative. The only givens at this point are that the repercussions to the region will be overwhelmingly negative and vast.

That sad fact may not be true for the nation’s economy as a whole, though. According to a study by Moody’s Economy, the spill isn’t expected to have a significant effect on the nation’s gross domestic product. The coastline of Louisiana, Florida, Alabama, and Mississippi accounts for just 1% of the GDP. The study also points out that jobs lost in the fishing industry could be made up for in oil recovery jobs.

But despite what the oil spill's effect on the national economy ultimately amounts to, the local impact of the spill on the Gulf region is nothing short of catastrophic. Approximately 33% of federal waters in the Gulf were closed off to commercial fishing, crippling the region's $2.4 billion commercial fishing industry.

On the shore, meanwhile, commercial property values are expected to tank 10% in the next three years. Property losses could total north of $4.3 billion on the coastline from Louisiana to Florida. Even before the spill, lot values on the 600-mile stretch were ailing as the recession leveled prices by almost 34% from the peak of U.S. residential sales. As for BP, experts estimate the spill may cost the company $37 billion in cleanup and restitution to local businesses. We can only hope that the nation's outrage and BP's insistence on maintaining a positive public image can take a backseat until a solution to the problem is devised by a mutual collaboration between corporate America, the federal government, and the public.[iv]

lecture link 2-6

OTHER ECONOMIC INDICATORS

In addition to the key economic indicators mentioned in the text—CPI, GDP, unemployment rate—there are other indicators measure different segments of the economy. Below are some of the more important ones.

KEY ECONOMIC INDICATORS

Producer Price Index	Monthly index that measures changes in wholesale prices
Prime Interest Rate	Lowest interest rate that banks charge preferred borrowers on short-term loans
Housing Starts	Tracks how many new single-family homes or buildings were constructed during the month and can detect trends in the economy looking forward
Durable-Goods Orders	New orders for goods that last more than three years
Balance of Trade	Total value of a country's exports minus the total value of its imports, over a specific period of time
Inflation Rate	Percentage increase in prices of goods or services over a period of time
Consumer Confidence Index	Measures the degree of consumer confidence in the economy, and can indicate an upcoming increase or decrease in economic activity

THE "BEIGE BOOK"

Many economists use the Federal Reserve Board "Beige Book" to detect trends in the economy. The correct name for the report is "Summary of Commentary on Current Economic Conditions by Federal Reserve District." Each Federal Reserve Bank gathers information on current economic conditions in its district. The Beige Book summarizes this information by district and sector and is a gauge on the strength of the economy.

TIMING OF THE INDICATORS

Economic indicators can further be classified by the timing of the indicator.

Some indicators are **lagging**, meaning that they don't change direction until a few quarters *after* the economy does. An example is the unemployment rate. Unemployment tends to increase for two or three quarters after the economy starts to improve.

Coincident indicators move *at the same time* as the economy does. The Gross Domestic Product measures the economy's output as it occurs.

Leading economic indicators are indicators which change *before* the economy changes. Stock market returns are a leading indicator, as the stock market usually begins to fall before the economy declines and they improve before the economy begins to pull out of a recession. Housing starts and the consumer confidence index are other leading economic indicators.[v]

lecture link 2-7

NEW ECONOMIC MEASURES

Michael Gelobter, the Executive Director of Redefining Progress, doesn't believe we are using the right measures of progress in the United States. He thinks that GDP, unemployment levels, and price indexes don't capture real economic progress or decline. He prefers what he calls the genuine progress indicator (GPI). To other economic measures, he would add the three E's: environment, economy, and equity. Gelobter would look at GDP, but he would also measure prison time, heart attacks, and clear-cut forests. Any increases would subtract from real progress, he believes. Furthermore, he would add to economic growth if there were more volunteerism and more time spent with families.

From GDP, he would like to subtract social costs such as crime, automobile accidents, commuting, family breakdown, lost leisure time, and underemployment. He would also subtract the depletion of nonrenewable resources, the cost of long-term environmental damage, and the cost of ozone depletion, lost farmlands, and lost wetlands. Housework and parenting would be added to the GDP, as would volunteer work.

You can see that there would be much controversy over such measures. Do you agree that such measures would help track social progress along with economic progress? Which measures do you agree with? Disagree with? Which measures do you think would be most difficult to gather?[vi]

lecture link 2-8

CHINA'S POTENTIAL REAL ESTATE BUST

Last year, Chinese banks lent a staggering $1.4 trillion, much of it going to the development of skyscrapers and other commercial property. At the time, government leaders championed the economic expansion. Now Chinese officials are trying to rein in commercial lending by raising the reserve requirements for the nation's banks. Why the sudden change of heart? After years of unprecedented growth, financial experts are afraid that the Chinese real estate boom could quickly turn into a bust. The office vacancy rate in Beijing clocks in at 22.4%, with over 60 office buildings sitting completely empty. Even worse, the current numbers don't include building projects that are already underway, such as the 74-story China World Tower 3 that will soon become Beijing's tallest building.

With a further 13 million square feet of office space entering the market in Beijing later this year, the Chinese economy could sustain considerable damage if the market bottoms out. Experts predict that a 10% drop in property values would triple the number of delinquent mortgages in Shanghai alone. So far, though, Chinese officials have only dissuaded banks from issuing further real estate loans rather than ordering them to halt any current or future construction projects. In fact, some Chinese officials balk that claims of market saturation are overblown. In some cases, local governments are even spurring the growth themselves. For instance, eastern Beijing government officials are hoping to add an additional 10 million square feet of office space this year, despite a 35% vacancy rate in the area.

If China does nothing to stave off runaway development, the country could suffer a fate similar to that of Dubai. From 2002 to mid-2008, Dubai residential real estate prices quadrupled thanks to a glut of foreign buyers. Developers carelessly flipped properties as banks kept them solvent with over $16 billion in residential mortgages. Once the recession hit, though, property values plunged 52%, emptying skyscrapers and sending much of the sheikdom’s burgeoning expatriate workforce back home. 12% of Dubai’s 27,000 residential mortgages are expected to default within the next year. In January, Barclays won Dubai’s first foreclosure case, opening the floodgates for further foreclosures that could send the sheikdoms already shaky real estate market spiraling even further down.[vii]

lecture link 2-9

WHAT IS A DEPRESSION?

In 2009 with the stock marketing falling, banks failing, and unemployment soaring, many people wondered if the U.S. economy was suffering not from a recession, but from a much worse condition, a depression. Economists say that a depression is, well, nobody really has a formal description for a depression. A depression is when things are really, really bad.

While recessions are easy to define, there are no firm rules for what makes a depression. Everyone at least seems to agree there hasn’t been one since the epic hardship of the 1930s. According to economist Peter Morici, a business professor at the University of Maryland, you’ll know you’ve been in a recession when you see it behind you. “It’s not going to be acknowledged until years go by. “

No one disputes the definition of a recession, and the economic downturn of 2008-2010 surely qualified. Recessions have two handy definitions—two straight quarters of economic contraction, or when the National Bureau of Economic Research makes the call.

Declaring a depression is much trickier.

- By one definition, it is a downturn of three years or more with a 10% drop in economic output and unemployment above 10%.
- Another definition says a depression is a sustained recession during which the populace has to dispose of tangible assets to pay for everyday living.
- Morici says a depression is a recession that “does not self-correct” because of fundamental structural problems in the economy, such as broken banks or a huge trade deficit.
- Or maybe a depression is whatever corporate America says it is.

The Great Depression still maintains top ranking. Unemployment peaked at more than 25%. From 1929 to 1933, the economy shrank 27%. The stock market lost 90% of its value from boom to bust. The 2008-2010 recession came no where near those figures. And government policy makers argue that safeguards in place today weren’t there in the 1930s: deposit insurance, unemployment insurance, and an ability by government to hurl trillions of dollars at the problem.

Before the 1930s, any serious economic downturn was called a depression or a "panic." The term "recession" didn't come into common use until "depression" became burdened by memories of the 1930s. When the economy collapsed again in 1937, people didn't want to call that a new depression, and that's when the term "recession" was first used. According to Millsaps College professor Robert McElvaine, "People also use 'downward blip.' Alan Greenspan once called it a 'sideways waffle'."[viii]

Government officials are extremely cautious in using the D-word. Alfred Kahn, a top economic advisor to President Carter, learned that lesson in 1978 when he warned that rampaging inflation might lead to a recession or even "deep depression." When presidential aides asked him to use another term, Kahn promised he'd come up with something completely different.

"We're in danger," he said, "of having the worst banana in 45 years."

lecture link 2-10

CONTROLLING YOUR PERSONAL MONEY SUPPLY

Controlling your personal money supply is harder than you may think. In a recent study, nearly half of those asked said they lose track of how they spend their pocket cash, on average more than $2,000 a year. The study was commissioned by the Visa credit card group, part of their campaign to get Americans to use debit cards to manage money.

A dollar here, a dollar there, everyone loses track of some cash. What surprised the survey's authors was how much cash goes unaccounted for at the end of a week. The survey asked over 2,000 respondents to estimate their "mystery spending," or money they couldn't keep track of. Of those, 48% said they couldn't account for an average of $2,340 a year. At the extreme end of the spectrum were 7% who said they lost track of more than $100 per week, or $5,000 per year.

People 34 and under are the biggest offenders. Men lost track of an average of $50 a week, or $3,078 a year. Over half of them said they blew the cash during a night out. Young women spent $42 in mystery cash a week, or $2,709 a year. Two-thirds of the women blamed shopping trips.[ix]

critical thinking exercises

Name: ____________________________

Date: ____________________________

critical thinking exercise 2-1

KNOW YOUR HISTORY OF ECONOMICS

Go to the Internet and look up the following economists: Adam Smith, Jeremy Bentham, David Ricardo and T.R. Malthus. Choose one of these economists and answer the following questions that describe their contributions to the field of economics.

1. Describe the personality of your chosen economist.

2. What major contributions did this chosen economist contribute to the field of economics regarding:

   a. Micro economics

   b. Macro economics

3. How does the works of your chosen economist have any relevance to our economy today?

4. How did your chosen economist further the field of economic study?

Name: ____________________________

Date: ____________________________

critical thinking exercise 2-2

APPLYING ECONOMIC PRINCIPLES TO EDUCATION

Recently, the U.S. Supreme Court ruled that cities could have voucher programs that give money directly to parents, and the parents can then choose between competing schools: public and private. The idea for promoting such a ruling was to create competition among schools. As with businesses, schools were expected to improve their products (how effectively they teach) to win students from competitors. Supposedly, that would mean an improvement in all schools, private and public, and would benefit many students.

1. Do you believe that such economic principles apply in both private and public organizations? Be prepared to defend your answer.

2. Are there other public functions that might benefit from more competition, including competition from private firms?

Name: ____________________________

Date: ____________________________

critical thinking exercise 2-3

FINDING THE EQUILIBRIUM POINT

In 2011, Knight Electronics sold 350,000 digital video recorders (DVRs.) Based on the company's analysis of the DVR market, the company believed that $160 was the equilibrium price based on the following supply and demand schedules.

2011 PRICE	AMOUNT SUPPLIED	AMOUNT DEMANDED
$120	290,000	390,000
$140	320,000	370,000
$160	350,000	350,000
$180	380,000	330,000
$200	410,000	310,000
$220	440,000	290,000

As the price of gasoline rose and the economy hit the skids, consumers began driving less and going out less frequently for entertainment. With more people staying at home, DVR usages increased. In 2012 Knight revised its estimate of the amount of product demanded. At each of the above price points, they estimate that consumers will purchase (demand) 50,000 more DVRs. For instance, at $140, now 420,000 DVRs will be sold. The price/amount supplied relationship remains the same.

1. Describe what has happened to the supply and demand curves for Knight DVRs in 2011.

2. What is the new equilibrium price?

3. How many DVRs will be produced at the new equilibrium price?

4. Knight revised its estimate of the amount of product demanded for 2012 as described above. In 2013 a new technology become available enabling DVRs to communicate over cell phones and the Internet. Knight's competitors are selling this new DVR, called SuperDVR, for $150. What will happen to the supply and demand curves for Knight DVRs now?

notes on critical thinking exercise 2-3

1. Describe what has happened to the supply and demand curves for Knight DVRs in 2011.

Supply remained unchanged. Demand shifted right, showing the increased quantity demanded at every price.

2. What is the new equilibrium price?

The quantity demanded and quantity supplied are now identical at $180, a higher price. At that price the quantity supplied remains stable at 380,000. However, the quantity demanded at that price is increased by 50,000 to 380,000. The equilibrium price will now be $180.

2012 PRICE	AMOUNT SUPPLIED	AMOUNT DEMANDED
$120	290,000	440,000
$140	320,000	420,000
$160	350,000	400,000
$180	***380,000***	***380,000***
$200	410,000	360,000
$220	440,000	350,000

3. How many DVRs will be produced at the new equilibrium price?

At $180, 380,000 DVRs will be produced.

4. Knight revised its estimate of the amount of product demanded for 2012 as described above. In 2013 a new technology become available enabling DVRs to communicate over cell phones and the Internet. Knight's competition are selling this new DVR, called SuperDVR, for $150. What will happen to the supply and demand curves for Knight DVRs now?

With a more advanced DVR available from competitors, demand for Knight DVRs will decrease at the same price. The demand curve shifts to the left, and the equilibrium price falls.

Name: ____________________________

Date: ____________________________

critical thinking exercise 2-4

STANDARD OF LIVING COMPARISON

Is the standard of living different in capitalist, socialist, and communist economies? Which economic system provides the highest standard of living? One way of answering these questions is by comparing economic data you might find in the library or on the Internet. (Hint: try the CIA Web site.) Choose one capitalist country, one socialist country, and one communist country. Use the following chart to record your findings.

	CAPITALIST COUNTRY	SOCIALIST COUNTRY	COMMUNIST COUNTRY
Country Chosen			
Gross Domestic Product			
Consumer Prices			
Unemployment Rate			
Average Income			
Average Education			

Name: ____________________________

Date: ____________________________

critical thinking exercise 2-5

BALANCING THE FEDERAL BUDGET

The Federal government's historical budget deficit is discussed and debated endlessly. Everyone has an opinion on how to balance the budget. Figures are presented on the next page. Rearrange the figures to eliminate the $2,079,500,000,000 ($2.079 trillion) deficit and balance the budget. You can either cut money going out or increase money coming in, but *interest payments on the national debt cannot be adjusted*. Good luck.

critical thinking exercise 2-5 (continued)

FEDERAL GOVERNMENT REVENUE AND SPENDING, 2010

MONEY COMING IN (RECEIPTS) (all figures in $millions)	**2010**	**Proposed Value**
Individual income taxes	1,732,600	________
Corporation income taxes	179,600	________
Unemployment taxes	45,200	________
Excise taxes	71,600	________
Estate and other taxes	187,500	________
TOTAL, FEDERAL RECEIPTS	**2,216,500**	________

MONEY GOING OUT (OUTLAYS) (all figures in $millions)		
Defense	830,400	________
Health and Human Service	857,600	________
Social Security	753,900	________
Treasury	372,900	________
Veterans Affairs	336,900	________
Labor	179,000	________
Agriculture	130,600	________
Education	89,500	________
Transportation	79,800	________
Homeland Security	55,700	________

Foreign Aid and Development	10,500	
Justice and State	53,800	
Science and Energy	44,200	
Housing, Interior, and Commerce	87,900	
All other outlays	198,500	
Interest on National Debt (CANNOT BE CHANGED)	**214,800**	**214,800**
TOTAL, FEDERAL OUTLAYS	**4,296,000**	
SURPLUS (DEFICIT)	**(2,079,500)**	**0.0**

notes on critical thinking exercise 2-5

There is no "right" or "wrong" answer to this exercise. Each student will modify the budget figures based on their individual beliefs and attitudes. It is interesting to assign this exercise as a group project and have the groups negotiate an equitable balance.

You can also update the figures with the current year's data by visiting Websites such as www.fms.treas.gov/ , www.whitehouse.gov/omb/budget/, or www.gpoaccess.gov/usbudget. [x] You may have a hard time finding reliable totals, as different sources use different categorization methods.

bonus case

bonus case 2-1

FOUNDATIONS OF THE CAPITALIST SYSTEM

Throughout history of capitalism, there has been one persistent criticism. The whole system seems to be based on selfishness—the more one works, the more one prospers. If one is unable to work, the system seems to have no answer to his or her problems. Furthermore, there does not seem to be any moral or spiritual foundation to the system. Where do businesses get their values? What about concepts such as sharing, helping neighbors, and protecting the environment?

It is important to make a distinction between plain capitalism and democratic capitalism. Democratic capitalism is a system based on three components: (1) free enterprise; that is, freedom to own your own businesses and farms and freedom to keep the profits, (2) a freely elected government that has internal checks and balances, and (3) moral, ethical, and spiritual values that are part of the very fabric of the country and the business system. Plain capitalism is a system where there is free enterprise, but no freely elected government and no foundation of moral, ethical, and spiritual values. There are several "capitalist" countries headed by right-wing dictators that do not have democratic capitalism and do not have the relative prosperity and social justice that we have in the United States.

Let's explore democratic capitalism in more detail so that you can understand how the system works. One of the most important elements of democratic capitalism is its moral and spiritual base. When the U.S. was being settled, there was so much religious debate and rivalry among religions that people were tortured and killed for their beliefs. When it came time to establish a free and separate U. S., however, the founding fathers were adamant about freedom of religion. They were very religious people themselves.

Thomas Jefferson was proud of his religious heritage and his fight for religious freedom in the U.S. He asked that his epitaph should read: "Author of the Declaration of Independence, of the Statute of Virginia for Religious Freedom, and Father of the University of Virginia." Jefferson felt that freedom of religion was one of his most important contributions. He felt it was as important as being President of the United States.

Democratic capitalism cannot work effectively and fairly without all three components. With all three, the democratic capitalist system can become the most fair and equitable economic system in the world. Not everyone agrees on the role of government in the democratic system and on how much of the total gross national product the government should control. (Recent history indicates that somewhere between 20% and 25% of GDP gives the government the funds it needs to create more social justice and more equitable distribution of wealth.) A freely elected government is important to democratic capitalism because if the people feel that the system is not fair, they can elect new politicians to change the rules.

discussion questions for bonus case 2-1

1. Do you see any evidence that the moral, ethical, and spiritual foundation of the American democratic capitalist system is eroding? How does that affect the ability of capitalist proponents to promote capitalism in other countries such as China and India?

2. Why is it so necessary to have a freely elected government for democratic capitalism to create a prosperous and fair economy?

3. Go through the three components of democratic capitalism and picture an economy without each one. What happens to freedom, fairness, and moral and ethical behavior? Which part of the system seems weakest today? What can be done about it?

notes on discussion questions for bonus case 2-1

1. *Do you see any evidence that the moral, ethical, and spiritual foundation of the American democratic capitalist system is eroding? How does that affect the ability of capitalist proponents to promote capitalism in other countries such as China and India?*

When one of the authors was in elementary school, the codes of what was moral forbid him to see "The Moon Is Blue" because the movie used the word "virgin" in it. Now movies include more adult language and more violence and sexual content. In fact, many such movies are now available in prime time on TV. There does seem to be an erosion of moral and ethical behavior in business, witness the Merck, Enron, WorldCom, Tyco, and Martha Stewart scandals. It could be a function of more media reporting of such behavior, but the impression is clear—moral decay is spreading.

When other countries see moral decay in capitalist countries, they are hesitant to adopt capitalism. They do not want the immorality, the crime, and the music that they see as corrupting of the spiritual values of their countries.

2. *Why is it so necessary to have a freely elected government for democratic capitalism to create a prosperous and fair economy?*

Because any kind of dictatorship hinders the operation of free markets, or at least tends to do so. Free choice in the market is based on a value system that includes free choice in it, including free choice of leaders.

3. *Go through the three components of democratic capitalism and picture an economy without each one. What happens to freedom, fairness, and moral and ethical behavior? Which part of the system seems weakest today? What can be done about it?*

Without free enterprise, shortages develop and the whole economy tends to slow. Poverty, hunger and starvation often result. Without a freely-elected government, the arbitrary allocation of resources can lead to the same problems as an absence of free markets. But what is needed in any economy is a moral and ethical base. Without that base, the market mechanism falters.

endnotes

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[i] *Sources:* Peter Coy, "If Demography is Destiny, Then India has the Edge," *Bloomberg BusinessWeek*, January 13, 2011; Madelene Pearson and Malavika Sharma, "Where Are India's Skilled Laborers?" *Bloomberg BusinessWeek*, January 6, 2011.

[ii] *Source*: Rich Miller and Simon Kennedy, "For the U.S., the Future Suddenly Seems Brighter," *Bloomberg BusinessWeek*, December 29, 2010.

[iii] *Source:* Peter Wonacott, "A New Class of Consumers Grows in Africa," *The Wall Street Journal*, May 2, 2011.

[iv] *Sources:* John Gittleshon, "Oil Spill May Cost $4.3 Billion in Property Values," *Bloomberg Businessweek*, June 11, 2010; Alice Gomstyn and Daniel Arnall, "Oil Spill Won't Hurt National Economy," *ABC News*, May 20, 2010; "Oil Spill Closes More Gulf Waters to Fishing," The Associated Press, June 5, 2010; Elizabeth Campbell and Yi Tian, "Shrimp Prices to Rise After BP Oil Spill Forces Fishing Curbs," *Bloomberg Businessweek*, May 3, 2010.

[v] *Sources*: Mike Moffatt, "A Beginner's Guide to Economic Indicators," *About.com*, May 16, 2006; "Economic Indicators," *Investopedia.com*; "Leading Indicators Index Shows Economy Braking," *The Clarion-Ledger*, May 19, 2006, p. 3C; and "Economic Indicators," *GPOAccess*, Council of Economic Advisors, www.gpoaccess.gov.

[vi] *Source:* Scott Burns, "New Measurement of Economy Urged," *The Washington Times*, October 23, 2002, p. C9.

[vii] *Sources:* Michael Forsythe and Kevin Hamlin, "The Building Bubble in China," *Bloomberg BusinessWeek*, March 1, 2010; Zainab Fattah, "Dubai: The First Foreclosure," *Bloomberg BusinessWeek*, January 25, 2010.

[viii] *Sources:* Tom Raym "The D-Word: Will Recession Become Something Worse?" *ABC News*, March 2, 2009; and "Fed's Yellen: Economy Similar to Great Depression," *CNNMoney.com*, February 7, 2009.

[ix] *Source*: "Half of Americans 'Lose' $2,000 in Cash a Year," *CNNMoney.com*, September 13, 2007.

[x] The Internet is a dynamic, changing information source. Web links noted in this manual were checked at the time of publication, but content may change over time. Please review the website before recommending it to your students.