

CHAPTER 2

Economic Activity

2-1 Measuring Economic Activity

2-2 Economic Conditions Change

2-3 Other Measures of Business Activity



Planning a Career in...

ECONOMIC DEVELOPMENT



A career in the economic development field could involve a variety of employment opportunities. If you have the interest and obtain the required training, you could be a corporate executive, a government research director, or a field training consultant. Each of these jobs provides contributions to economic growth.

As you study various topics in this book, your awareness of economic development work will expand. Many positions in the economics profession are related to employment in government, technology, research, engineering, health care, nutrition, marketing, and financial planning. Every country in the world is in need of efforts to enhance its economic development and improve the quality of life for its citizens. Your decision for a career in economic development will have you participating in how a society allocates its scarce resources among its unlimited wants and needs.

Employment Outlook

- Job growth in the economic development field will continue over the next decade.
- Specialized technical skills (engineering, health care, computer technology, food processing) will be in demand, especially in the developing economies of the world.

Related Job Titles

- Economist
- Transportation Engineer
- Urban and Regional Planner
- Survey Researcher
- Statistician
- Statistical Assistant
- Budget Analyst
- Financial Analyst
- Operations Research Analyst

Needed Skills

- Requires a bachelor's degree. More advanced positions need a master's degree or even a doctorate.
- Sociology and cultural knowledge are needed for work in urban settings and in developing nations.
- Special training in statistics, research, health care, technology, nutrition, and other fields will be helpful.

What's it like to work in ...

Economic Development

As the sun rises over the mountains, hundreds of workers are already on the job. The people in this village know that they have to harvest enough crops to sell for their family income. The task is difficult, as working by hand has limits.

In a nearby village, an international organization has helped some of the people obtain oxen and used farm equipment. These items have allowed the workers to double and triple their daily harvests.

Many government and private agencies work to help people improve their labor productivity. The use of new growing methods, machinery, and other agricultural advances can provide families with more money for food, housing, clothing, and health care. Funding for these improvements is often uncertain. Money may come from private investors or government grants and loans.

What about you? What aspects of working in economic development interest you?



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2-1 Measuring Economic Activity



Goals

Define gross domestic product.

Describe economic measures of labor.

Identify economic indicators for consumer spending.

Key Terms

gross domestic product (GDP)

GDP per capita

unemployment rate

productivity

personal income

retail sales

Focus on Real Life

Measuring performance is common in many aspects of life. In a recent basketball game, Rosa Rivera of Middletown High School scored 19 points, pulled down 8 rebounds, and had 7 assists.

Later that day, the school's marching band was in competition and received a score of 88.3. By most standards, this was a good performance.

How about you? How much have you grown in the past 10 years? You can say, "I am 10 years older." Or, "I am 50 pounds heavier." Or, "I now wear shoe size 10C."

Several ways can be used to measure personal growth. In a similar manner, business and economic activity are measured to determine progress.

main idea

Define gross domestic product.

GROSS DOMESTIC PRODUCT (GDP)

Economic growth refers to a steady increase in the production of goods and services in an economic system. Just as you use different ways to measure your own growth, different methods can be used to measure the growth of an economy.

One way to find out how well an economy is doing is to compare output from year to year. Governments collect information from producers and estimate

national output. The most widely used measure is gross domestic product. **Gross domestic product** or **GDP** is the total dollar value of all final goods and services produced in a country during one year. Figure 2-1 reports the GDP of various countries in a recent year.

Components of GDP

Gross domestic product includes four major categories of economic activity:

1. Consumer spending for food, clothing, housing, and other aspects

FIGURE 2-1

Which country has the highest GDP per capita? The lowest?

COMPARISON OF GDP IN SELECTED COUNTRIES					
COUNTRY	TOTAL GDP (U.S. \$)	GDP PER CAPITA (\$)	COUNTRY	TOTAL GDP (U.S. \$)	GDP PER CAPITA (\$)
United States	13.0 trillion	43,500	Mexico	1.1 trillion	10,600
China	10.0 trillion	7,600	South Africa	576.4 billion	13,000
Japan	4.2 trillion	33,100	Poland	542.6 billion	14,100
India	4.0 trillion	3,700	Saudi Arabia	374.0 billion	13,800
Germany	2.6 trillion	31,400	Vietnam	258.6 billion	3,100
Brazil	1.6 trillion	8,600	Nigeria	188.5 billion	1,400
Canada	1.2 trillion	35,200	Bolivia	27.2 billion	3,000

Source: CIA World Factbook

2. Business spending for buildings, equipment, and inventory items
3. Government spending to pay employees and to buy supplies and other goods and services
4. The exports of a country less the imports into the country

Some goods and services are not included. For example, GDP does not include the value of the work you do for yourself, such as cutting your own lawn or building a picnic table for your yard. If you buy the lawn service or the picnic table from a business, they would be included.

Only final goods, such as cars, are counted when you measure GDP. Intermediate goods used in manufacturing, such as steel and fabrics, are not included. If intermediate goods were counted as well, the value of these intermediate goods would be counted twice.

If the GDP increases from year to year, this usually signals that an economy is growing and is healthy.

Comparing GDP

The United States had an annual GDP of about \$12.4 trillion in recent years. The more the goods and services produced, the healthier an economy is considered to be.

Work as a Team

The GDP of a country presents information about the economic output of a country. Work as a team to prepare a list of drawbacks resulting from only looking at GDP when evaluating the economic progress of a nation. What aspects of economic growth may not be reflected in the GDP of a country?



Just referring to the dollar value of GDP as a measure of economic growth does not tell the whole story.

Another way to measure economic growth is **GDP per capita** or output per person. GDP per capita is calculated by dividing GDP by the total population (see Figures 2-1 and 2-2). For example, suppose that there is no change in GDP this year compared to last year. Suppose, also, that the population increases. The same output would have to be divided among more people.

An increase in GDP per capita means that an economy is growing. A decrease may mean that an economy is facing difficulties.

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What types of economic activities are not included in GDP?

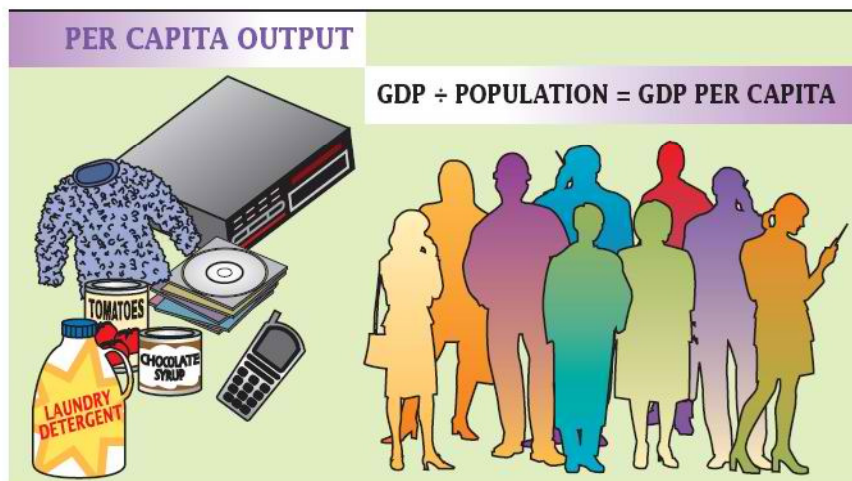


FIGURE 2-2

How does this figure help you see how per capita output is measured?

main idea

Describe economic measures of labor.

LABOR ACTIVITIES

The workers of a country contribute to the economy in several ways. First, their labor activities create needed goods and services. In addition, the wages they receive are spent to create demand for various items.

Employment

Today, more than 145 million people work in the United States. These members of the labor force are employed in thousands of different jobs. They produce thousands of different products and services. The labor force consists of all people above age 16 who are actively working or seeking work. Students, retired people, and others who cannot or do not wish to work are not part of the labor force.

One economic statistic of concern is the **unemployment rate**. The unemployment rate is the portion of people in the labor force who are not working. People are considered to be "unemployed" if they are looking for work and willing to work but unable to find a job.

Unemployment rates vary from year to year and in different areas of the country. The main cause of unemployment is reduced demand for the goods and services being provided by various workers. If fewer people travel by bus, for example, bus companies will need fewer workers.

Productivity

A vital source of economic growth is an increase in output per worker. **Productivity** is the production output in relation to a unit of input, such as a worker. Improvements in capital resources (equipment and technology), worker training, and management techniques can result in more output per worker.

Over time, the rate of growth in labor productivity has ups and downs. While increases in productivity occur in many years, the amount of the increase often becomes smaller. Sometimes, productivity may actually decrease.

If wages increase faster than gains in productivity, the cost of producing goods increases and prices rise. Even though workers earn more money, they are not able to improve their standard of living because of rising prices. For that reason, strong attention has been focused on ways of motivating workers to increase productivity. By doing so, workers will be contributing to a higher standard of living in the nation while also improving their own life situation.

An ability to produce more goods and services makes it possible to reduce the number of hours in a workweek. In the 1890s, the average worker in the United States put in about 60 hours a week.

Today, the average workweek for many factory and union-contracted jobs has decreased to less than 40 hours. At the same time, some people have decided to take positions that require working more than 40 hours a week.

In many industries, even though U.S. employees work fewer hours, more is produced and earned than ever before. More can be produced in less time



What motivates you to work harder and faster?

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because of technology and efficient work methods. The training and skill of workers also contribute to improved productivity.

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How can productivity be increased?

CONSUMER SPENDING

The money you earn and spend is one of the most important factors for economic growth.

Personal Income

Each day, people receive money from their participation in production. **Personal income** refers to salaries and wages as well as investment income and government payments to individuals.

These funds provide the foundation for buying needed goods and services.

Retail Sales

On a monthly basis, the U.S. Department of Commerce measures



The labor force in many countries around the world may not be well defined. Poor economic conditions may require family members of all ages to work on farms or in home factories to provide an income to cover basic living expenses.

retail sales, or the sales of durable and nondurable goods bought by consumers. These retail sales are an indicator of general consumer spending patterns in the economy. Increasing retail sales usually points toward economic growth.

The main items whose sales are measured for estimating retail sales include automobiles, building materials, furniture, gasoline, and clothing, as well as purchases from restaurants, department stores, food stores, and drug stores.

main idea

Identify economic indicators for consumer spending.

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What are the main sources of personal income?

2-1

Assessment

Xtra!
Study Tools
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Key Concepts

Determine the best answer.

- Which of the following would *not* be included in GDP?
 - exports to other countries
 - purchases of computers by government
 - automobiles purchased
 - dinner preparation for your family
- Productivity would likely increase as a result of
 - higher taxes
 - expanded production technology
 - decreased training programs
 - lower government spending

- Retail sales include
 - taxes collected
 - companies buying new equipment
 - borrowing by business
 - school supplies bought by students

Make Academic Connections

- Technology** Using the data in Figure 2-1, create a graph with a spreadsheet program to compare the total GDP and GDP per capita for five countries you select.
- Visual Art** Create a collage or photo essay to illustrate one or more of the ideas presented in the lesson.

2-2 Economic Conditions Change



Goals

Describe the four phases of the business cycle.

Explain causes of inflation and deflation.

Identify the importance of interest rates.

Key Terms

business cycle

prosperity

recession

depression

recovery

inflation

price index

deflation

Focus on Real Life

As you mature, your abilities increase. You depend less on your family and begin to plan for your future and look toward a career. You might be concerned about earning and saving money. You might also be concerned about how your grades will affect plans for continuing your education. Various elements of your life change—both up and down. Your grades are likely to vary based on study skills and class efforts. The size of your savings account changes based on earning, saving, and spending.

Change is also true for the economy. Ups and downs occur for business activities. As economic conditions improve, quality of life in a country is enhanced. In contrast, downward economic trends result in greater hardships for workers and consumers.

main idea

Describe the four phases of the business cycle.

THE BUSINESS CYCLE

Economists have observed that economic activity tends to move in cycles. All nations experience economic good times and bad times. Fortunately, over time, bad conditions disappear and good conditions return.

Looking at the economic changes during the history of the United States shows a pattern of good times to bad times and back to good times. This movement of the economy from one condition to another and back again is called a **business cycle**.

Business cycles are the recurring ups and downs of GDP. Business cycles have four phases: prosperity, recession, depression, and recovery.

Prosperity

At the peak of the business cycle is prosperity.

Prosperity is a period in which most people who want to work are working, businesses produce goods and services in record numbers, wages are good, and the rate of GDP growth increases.

The demand for goods and services is high. This period is usually the high point of the business cycle. Prosperity, though, does not go on forever. The economy eventually cools off and activity slows down.



Think of ways in which spending habits change during a dramatic economic shift. How might this affect the small business owner?

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Recession

When the economy slows down, a phase of the business cycle known as recession occurs. **Recession** is a period in which demand begins to decrease, businesses lower production, unemployment begins to rise, and GDP growth slows for two or more quarters of the calendar year.

This phase may not be too serious or last very long, but it often signals trouble for workers in related businesses. For example, if people buy fewer cars, a number of workers who make batteries, tires, and other parts may lose their jobs. This drop in related businesses is called the ripple effect.

Eventually, production weakens throughout the economy, and total output declines in the next quarter. Some recessions last for long periods as fewer factors of production are used and total demand falls.

Depression

If a recession deepens and spreads throughout the entire economy, the

NETBookmark

The Bureau of Labor Statistics provides data on a variety of economic activities such as wages, consumer spending, inflation, and productivity. Access the web site shown below and click on the link for Chapter 2. Select one of the data categories. What is the importance of this data? What recent trends have occurred for this data? How might these data trends affect future economic activity?

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nation may move into the third phase, depression. **Depression** is a phase marked by a prolonged period of high unemployment, weak consumer sales, and business failures.

GDP falls rapidly during a depression. Fortunately, our economy has not had a depression for more than 65 years. The period 1930–1940 in U.S. history is referred to as the Great Depression. Approximately 25 percent of the U.S.

A QUESTION OF ETHICS

Ethical Analysis Guidelines

Most business decisions are viewed in various ways. In some countries, people expect family members to be given jobs in a company before others. In other places, payments or gifts are expected before you are able to do business.

These and many other situations create ethical problems. Ethics are principles of right and wrong that guide personal and business decisions. When considering the ethics of business situations, consider using these three guidelines:

1. **Is the action legal?** Laws vary among states and in different countries. Most companies base international decisions on the laws in their home countries.

When a conflict occurs, managers usually consider other factors, such as professional standards and the effect of the action on society.

2. **Does the action violate professional or company standards?** Professional or company standards will frequently exceed those required by the law. This helps to ensure that decisions will be in the best interest of both the company and the society in which it operates.
3. **Who is affected by the action and how?** An action may be legal and within professional or company standards. Decision-makers should also consider

possible effects on employees, consumers, competitors, and the environment.

Think Critically

1. What are some examples of situations faced by workers and consumers that require ethical decisions?
2. Describe the effect on business activities if no ethical guidelines existed.
3. Research recent ethical situations that have been reported in the news. How have these situations affected workers, investors, and others?

FYI

During the 1980s and 1990s, some South American countries had an annual inflation rate as high as 300 to 400 percent. This is known as hyperinflation. To survive this situation, families may buy groceries for the month as soon as wages are received. If they do not buy right away, their money will buy fewer groceries later. In 1985, Bolivia had an annual inflation rate of more than 12,000 percent.

labor force was unemployed. Many people could not afford to satisfy even their basic needs.

main idea

Explain causes of inflation and deflation.

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Recovery

Economic downturns do not go on forever. A welcome phase of the business cycle, known as recovery, begins to appear. **Recovery** is the phase in which unemployment begins to decrease, demand for goods and services increases, and GDP begins to rise again.

People gain employment. Consumers regain confidence about their futures and begin buying again. Recovery may be slow or fast. As it continues, the nation moves back into prosperity.



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Name something you regularly buy that has increased in price while decreasing in size. How does this affect your decision to purchase the item?

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What are the four phases of the business cycle?

CONSUMER PRICES

Have you ever noticed that packages of some items get smaller while the price stays the same? Have you bought new technology products that are less expensive than earlier ones? These are examples of changes in the buying power of your money.

Inflation

A problem with which most nations have to cope is inflation. **Inflation** is an increase in the general level of prices. In times of inflation, the buying power of the dollar decreases. For example, if prices increased 5 percent during the last year, items that cost \$100 then would now cost \$105. This means it now takes more money to buy the same amount of goods and services.

Inflation is most harmful to people living on fixed incomes. Due to inflation, retired people and others whose incomes do not change are able to afford fewer goods and services.

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Causes of Inflation

One type of inflation occurs when the demand for goods and services is greater than the supply. When a large supply of money, earned or borrowed, is spent for goods that are in short supply, prices increase.

Even though wages (the price paid for labor) tend to increase during inflation, prices of goods and services usually rise so fast that the wage earner never seems to catch up.

Most people think inflation is harmful. Consumers have to pay higher prices for the things they buy. Therefore, as workers, they have to earn more money to maintain the same standard of living. Producers may

receive higher prices for the goods and services they sell. If wages go up faster than prices, businesses tend to hire fewer workers and so unemployment worsens.

Measuring Inflation

Inflation rates vary. During the late 1950s and early 1960s, the annual inflation rate in the United States was in the 1 to 3 percent range. During the late 1970s and early 1980s, the cost of living increased 10 to 12 percent annually.

Mild inflation (perhaps 2 or 3 percent a year) can actually stimulate economic growth. During a mildly inflationary period, wages often rise more slowly than the prices of products. The prices of the products sold are high in relation to the cost of labor. The producer makes higher profits and tends to expand production and hire more people. The newly employed workers increase spending, and the total demand in an economy increases.

In the United States, one of the most watched measures of inflation is called the Consumer Price Index (CPI). A **price index** is a number that compares prices in one year with prices in some earlier base year. There are different types of price indexes.

Inflation rates can be deceptive because the Consumer Price Index is based on a group of selected items. Many people face hidden inflation given that they may not buy the exact items used to calculate the index. The cost of necessities (food, gas, health care) may increase faster than that of nonessential items, which could be dropping. This results in a reported inflation rate much lower than the actual cost-of-living increase being experienced by consumers.

Deflation

The opposite of inflation is called deflation. **Deflation** means a decrease in the general level of prices. It usually occurs in periods of recession and depression. Prices

of products are lower, but people have less money to buy them.

Significant deflation occurred in the United States during the Great Depression of the 1930s. For example, between 1929 and 1933, prices declined about 25 percent. Deflation may occur for specific products. In recent years, the cost of computers and many other electronic products have declined mainly due to improved technology.

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What are the main causes of inflation?

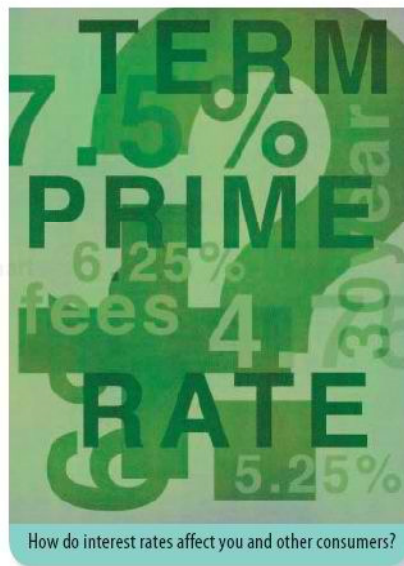
INTEREST RATES

In simple terms, interest rates represent the cost of money. Like everything else, money has a price. Interest rates have a strong influence on business activities. Companies and governments that borrow money are affected by interest rates. Higher interest rates mean higher business costs.

As a consumer, you are affected by interest rates. The earnings you receive as a saver or an investor reflect current

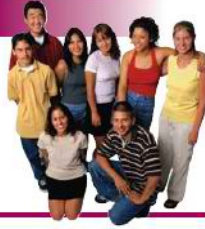
main idea

Identify the importance of interest rates.



Work as a Team

Interest rates influence many aspects of our economy. Working as a team look over the seven "Types of Interest Rates" discussed. Then, prepare a description of who in our economy would be most likely to be affected by each of these types of interest rates.



interest rates. Consumers also borrow. People with poor credit ratings pay a higher interest rate than people with good credit ratings.

Types of Interest Rates

Many types of interest rates exist in every economy. These rates represent the cost of money for different groups in different settings. Some of the types of interest rates include the following:

- The *prime rate* is the rate banks make available to their best business customers, such as large corporations.
- The *discount rate* is the rate financial institutions are charged to borrow funds from Federal Reserve banks.
- The *T-bill rate* is the yield on short-term (13-week) U.S. government debt obligations.

- The *treasury bond rate* is the yield on long-term (20-year) U.S. government debt obligations.
- The *mortgage rate* is the amount individuals pay to borrow for the purchase of a new home.
- The *corporate bond rate* is the cost of borrowing for large U.S. corporations.
- The *certificate of deposit rate* is the rate for time deposits at savings institutions.

Changing Interest Rates

Each day, the cost of money (interest) changes because of various factors. The supply and demand for money is the major influence on the level of interest rates. As amounts saved increase, interest rates tend to decline. This occurs because more funds are available. When borrowing by consumers, businesses, and government increases, interest rates are likely to rise.

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How do interest rates affect business activities in our economy?

2-2

Assessment



Key Concepts

Determine the best answer.

1. True or False. Deflation results in lower buying power of money.
2. True or False. When consumers increase their borrowing, interest rates tend to decline.
3. The phase of the business cycle in which unemployment is highest is
 - a. recession
 - b. recovery
 - c. prosperity
 - d. depression

Make Academic Connections

4. **Geography** Obtain information about business cycles in other countries. Do these other economies face similar changes in economic activities?
5. **History** Conduct research about *hyperinflation*. What caused high inflation in various countries? What actions were taken to solve this problem?

Doing Business in... Ecuador

Official name

Republic of Ecuador (Republica del Ecuador)

Capital

Quito

Population

13.8 million

Currency

U.S. dollar

Major exports

petroleum, bananas, cut flowers, shrimp

Major export partners

United States, Peru, Germany, Colombia

Major imports

vehicles, medicinal products, telecommunications equipment, electricity

Major import partners

United States, Colombia, Venezuela, Brazil, China

Source: CIA World Factbook



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Vendors and shopkeepers in Ecuador are happy to take your U.S. dollars for purchases, but your change might not include the familiar quarters, dimes, nickels, and pennies you see in the United States. Although Ecuador adopted the U.S. dollar in 2000, they minted their own coins. Both U.S. and Ecuadorian coins are in circulation.

In the late 1990s, Ecuador faced many economic difficulties, including high inflation, increased poverty, and a declining value of the sucre (its previous currency). Actions to address these concerns included adoption of the U.S. dollar. Dollarization generally helps control inflation and makes the country more attractive to investors.

When doing business in Ecuador, you will be expected to wear conservative clothing for business settings. You are likely to greet others with a handshake. As you get to know your business contacts, an embrace is likely; women may give "air" kisses on both cheeks.

Business meetings will likely start with an exchange of pleasantries. The importance of family in Ecuador is often reflected in these conversations. Avoid discussion of politics and the country's relations with Peru.

You will be expected to be on time for a business meeting, but don't expect it to start on time. For social gatherings, plan to arrive approximately 30 minutes after the appointed time. Lunch is usually taken between 1 p.m. and 2 p.m. For dinner invitations, prepare to eat as late as 11 p.m.

A local agent for selling goods and services is vital. This representative is necessary to do business with the Ecuadorian government. The use of a local attorney will ease the difficulty of maneuvering the country's complex legal system.

Think Critically

1. What are the benefits and possible disadvantages of a country using the U.S. dollar as its official currency?
2. How do business customs in Ecuador differ from others with which you are familiar?
3. Conduct library or Internet research to obtain additional information about business activities and economic conditions in Ecuador.

2-3

Other Measures of Business Activity



Goals

Discuss investment activities that promote economic growth.

Explain borrowing activities by government, business, and consumers.

Describe future concerns of economic growth.

Key Terms

capital project

stock

bond

budget surplus

budget deficit

national debt

Focus on Real Life

You can't expect to have enough money for a large purchase in the future if you always spend everything you receive. Today's savings makes tomorrow's economic growth possible. The concept is simple, but implementing it can prove difficult.

Governments, businesses, and consumers each must learn to save and invest for their futures. Government must have funds available for needed services desired by citizens. Companies must obtain equipment and other productive resources for a profitable future. Individuals must make choices that balance current spending with future financial security.

main idea

Discuss investment activities that promote economic growth.

INVESTMENT ACTIVITIES

Investing for the future can happen in several ways. Your time in school is an investment for your future. When companies buy buildings and equipment, they are also investing in their future.

Capital spending refers to money spent by a business for an item that will be used over a long period.

Capital projects involve spending by businesses for items such as land, buildings, equipment, and new products. The money for capital projects comes from three main sources: personal savings, stock investments, and bonds.

Personal Savings

A major source of investment funds is personal savings. Companies use money you deposit in a bank or other financial institution. These funds provide the money necessary for buying expensive equipment or creating new products. In return,

savers are paid interest on the money they deposit.

The savings rate of a country is an important factor for economic growth. In recent years, the personal savings rate of the United States has been quite low,



Name some long-term goals you might set for your savings account.

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often below one percent. This situation can cause economic concerns in the future.

The Stock Market

Corporations are a major type of business organization. Many people invest by becoming part owners of a corporation.

Stock represents ownership in a corporation. Stock ownership is commonly called *equity*. This term means "ownership."

The value of shares of stock is affected by many factors. Once again, supply and demand are the major influences. If a company has higher earnings, more people will want to buy its stock. This causes the value to increase.

The Bond Market

Another investment activity involves the sale of bonds. A **bond** represents *debt* for an organization.

If you purchase a corporate or government bond, you are a *creditor*. This means

you have lent money to the organization. In return, bondholders are paid interest for the use of their money.

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Name some examples of capital projects.

BORROWING

"Buy now, pay later" commonly occurs in most economies of the world. Borrowing by governments, businesses, and consumers can have an important economic influence.

Government Debt

People expect services from federal, state, and local governments. Those services cost money. Often, government uses borrowing to finance various projects. New schools, public buildings, highways, and parks are often financed by borrowing.

main idea

Explain borrowing activities by governments, businesses, and consumers.

CORPORATE SOCIAL RESPONSIBILITY

Cleantech: Energy Alternatives and Environmentally Friendly Products

The phrase *cleantech* refers to various goods and services that are environmentally friendly. It is also part of the name of an organization that promotes clean technology among investors, entrepreneurs, and service providers.

The Cleantech Venture Network provides a network of information, online services, and educational events to promote innovations that do not harm the environment. The emphasis of the group's efforts is to balance profit-making and environment-friendly business activities. Cleantech is not just interested in being socially responsible. It also recognizes the need for financial success.

Cleantech attempts to encourage and publicize investment and development for various *clean*, or environment-friendly, technologies. The companies in the Cleantech network are involved in a wide range of products, services, and processes designed to provide superior performance at lower costs. At the same time,

these business activities must reduce or eliminate environmental concerns in an effort to improve the quality of life.

A concern for both companies and investors is that the "cleantech" label is often used for products and services that do not meet the standards of the Cleantech Venture Network.

Many organizations attempt to attract investors by calling their enterprise "cleantech" even though their business activities are not improving the environment.

Think Critically

1. How do consumers, businesses, and the economy benefit by cleantech activities?
2. What concerns might be associated with cleantech companies?
3. Conduct library or Internet research to obtain examples of various environment-friendly products and services.

Work as a Team

Getting involved in economic and social issues is a vital role for citizens. Working as a team, select a current topic that needs attention. Prepare a list of actions that governments, businesses, and consumers might take to address this concern.



A government may spend less than it takes in. When this occurs, a **budget surplus** is the result. If a surplus exists, government may reduce taxes or increase spending on various programs.

In contrast, a government may spend more than it takes in. This situation is called a **budget deficit**. Over time, deficits build up. The total amount owed by the federal government is called the **national debt**.

Business Debt

Loans, bonds, and mortgages are common borrowing methods used by businesses. Most companies, large and small, use debt at some time.

Efficient use of borrowing can be helpful to companies. Using the funds of others can help expand sales and profits. Sometimes, when poor decisions are

made, debt creates problems. Poor debt management can result in a company going out of business.

Consumer Debt

People commonly use credit cards, auto loans, and home mortgages to finance their purchases. The use of credit can be convenient. Often, overuse of credit results in financial difficulties for individuals and families.

Careful use of credit can be important for economic growth. In contrast, unwise borrowing can result in legal action and other trouble.

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What is the cause of a budget deficit?

main idea

Describe future concerns of economic growth.

FUTURE ECONOMIC CHALLENGES

The ability of an economy to produce output determines its growth. The private enterprise system in the United States has worked quite well. Government leaders and citizens know that it can be made to



What are some of the risks involved in a small business using credit?

work even better as they strive to develop new technologies and find solutions for economic problems.

Various economic problems exist that need to be solved. Many people do not have access to adequate health care. Some people do not have proper housing, especially in large cities. Traffic and crime are also matters of concern for many. Too many workers are unemployed or do not have appropriate employment.

No one knows for sure what the future economic situation will be. In order to maintain or increase a country's standard of living and to prevent unemployment from rising, economic growth is needed. Economic growth is important because it provides jobs and allows people an opportunity to better meet their needs and wants.

checkpoint >>

What economic challenges will countries face in the future?



Which economic problem concerns you the most? Why?

2-3

Assessment

Xtra!
Study Tools
school.cengage.com/business/introtobiz

Key Concepts

Determine the best answer.

- Equity refers to
 - reduced spending by government
 - ownership in a company or other asset
 - borrowing to finance a capital project
 - increased government taxes
- Which of the following would most likely cause a budget surplus for government?
 - higher spending
 - lower spending
 - higher borrowing
 - lower taxes

Make Academic Connections

- Economics** Taxes are a necessity. They provide necessary money for government services. What types of taxes do you believe would be best for a society?
- Social Issues** How might the future economic concerns of other countries differ from those of the United States?

CHAPTER 2 Assessment



Business Notes

2-1 MEASURING ECONOMIC ACTIVITY

1. Gross domestic product (GDP) is the total dollar value of all final goods and services produced in a country during one year. GDP per capita is calculated by dividing GDP by the total population.
2. There are several economic measures of labor. The labor force of an economy consists of all people above age 16 who are actively working or seeking work. The unemployment rate is the portion of people in the labor force who are not working. People are considered to be unemployed if they are looking for work and willing to work but unable to find a job. Productivity is the production output in relation to a unit of input, such as a worker.
3. There are several economic indicators for consumer spending. Personal income refers to salaries and wages, as well as investment income and government payments to individuals. Retail sales measure the sales of durable and nondurable goods bought by consumers.
4. Inflation is a general rise in the level of prices. Inflation can occur when the demand for goods and services is greater than the supply. Deflation is a decrease in the general price level. Deflation can occur when prices of products are lower, but people have less money to buy them.
5. Interest rates represent the cost of money. The level of interest rates in an economy is affected by the supply and demand for money. Interest rates affect both consumer and business activities.

2-3 OTHER MEASURES OF BUSINESS ACTIVITY

7. Investment activities that promote economic growth involve personal savings, buying stock as ownership in a corporation, and purchasing bonds from businesses and government.
8. Governments, businesses, and consumers commonly use borrowing to finance various purchases. Careful borrowing can be important for economic growth. In contrast, unwise borrowing can result in legal action and other problems.
9. Economic growth in the future will require consideration of various issues related to unemployment, housing, traffic, and crime. Economic growth is important because it provides jobs and allows people an opportunity to better meet their needs and wants.

2-2 ECONOMIC CONDITIONS CHANGE

4. The movement of the economy from good times to bad and back again is called a business cycle. A business cycle has four phases: prosperity, recession, depression, and recovery.

Communicate Business Concepts

1. "GDP is the best measurement of a country's economy." Explain why you agree or disagree with this statement.
2. The GDP of Country A is \$400,000. The GDP of Country B is \$800,000. Does this mean that the per capita output of Country B is about twice that of Country A? Explain.
3. Name three factors that can contribute to increased output of goods and services in a country. Explain how these factors can improve productivity.
4. What is the effect of increased productivity on a country's leisure time? How might increased productivity affect career opportunities?
5. Suppose that many auto and steel plants close in a country. Thousands of workers lose their jobs in a short period. If the country has been enjoying prosperous times, it may now be headed into what phase of the business cycle? Describe other conditions that might begin to occur.

6. Retail sales is a measure of durable and nondurable goods bought by consumers. What are some examples of durable and nondurable goods?
7. What actions might be taken by businesses and government in each phase of the business cycle?
8. Why is a high rate of inflation generally considered harmful to an economy?
9. Other than the economic indicators discussed in this chapter, what are some other data items that might be used to measure business and economic activities?
10. What are some economic concerns that may need to be addressed in the future?

Develop your Business Language

Match the terms listed with the definitions.

11. A decrease in the general price level.
12. The movement of an economy from one condition to another and back again.
13. Spending by businesses for items such as land, buildings, and equipment.
14. The total value of all final goods and services produced in a country in one year.
15. Government spends less than it takes in.
16. A phase marked by a long period of high unemployment, weak consumer sales, and business failures.
17. Represents debt for an organization.
18. Salaries and wages as well as investment income and government payments to individuals.
19. The GDP divided by the total population of a country.
20. Production output in relation to a unit of input, such as a worker.
21. The phase in which unemployment decreases, demand for goods and services increases, and GDP begins to rise.
22. An increase in the general price level.
23. Represents ownership in a corporation.
24. Government spends more than it takes in.
25. The portion of people in the labor force who are not working.
26. The sales of durable and nondurable goods bought by consumers.
27. A period in which unemployment is low, businesses produce many goods and services, and wages are good.
28. A number that compares prices in one year with prices in some earlier base year.
29. A period in which demand, production, and GDP growth decrease and unemployment begins to rise.
30. The total amount owed by the federal government.

KEY TERMS

- a. bond
- b. budget deficit
- c. budget surplus
- d. business cycle
- e. capital project
- f. deflation
- g. depression
- h. gross domestic product (GDP)
- i. GDP per capita
- j. inflation
- k. national debt
- l. personal income
- m. price index
- n. productivity
- o. prosperity
- p. recession
- q. recovery
- r. retail sales
- s. stock
- t. unemployment rate

Make Academic Connections

31. **TECHNOLOGY** Describe ways in which computers and other technology might affect a country's GDP.
32. **RESEARCH** Conduct research on the "Index of Leading Economic Indicators." Prepare a short written or oral summary to explain what this index involves.
33. **GEOGRAPHY** Select five countries. Create a map showing various economic statistics for each country. Explain reasons for differences among the countries.
34. **SCIENCE** Technology is often the basis for increased productivity. Prepare a poster or other visual presentation to demonstrate how the use of computers or other technology might make workers more productive.
35. **CULTURE** How might culture affect opportunities to increase productivity in different countries? Describe cultural and political factors that may enhance or limit actions to increase productivity.
36. **MATH** Productivity for a small country was 25 units per worker hour in 1997. Productivity increased 20 percent between 1997 and 2002. What was the productivity figure for 2002? If the rate of increase is maintained, what will the figure be in 2007? In 2012?
37. **MATH** Workers are paid a rate of \$0.30 per unit. Using productivity figures from the previous question, determine how much workers earned per hour in 2002. If their rate increases to \$0.35 in 2007 and to \$0.40 in 2012, how much would they earn per hour in those years?
38. **HISTORY** Research various phases of the business cycle in the United States during the past 200 years. Create a graph showing the ups and downs of the economy. What conclusions could be drawn from this research?
39. **COMMUNICATION** Prepare a visual presentation to report (a) reasons government, businesses, and consumers borrow, and (b) potential problems that could occur for each group if credit is not used properly.
40. **LAW** What are some of the legal concerns that can result from unwise use of credit by businesses and consumers?
41. **ECONOMICS** Compare the use of stocks and bonds by companies to raise funds. Describe situations in which each would be most effective.
42. **COMMUNICATION** Select two interest rates from the list in the chapter. Create a chart showing these rates for the past four or five years. Explain possible reasons for changes in these rates.

Linking School and Community

Locate two or three people in your community who work in various jobs. Ask them about changes that have occurred in their work situation over the years. Did any of these changes occur in an attempt to increase

productivity? Are there other changes that might be made to increase productivity? Prepare a short report to summarize your findings.

Web Workout

Web logs, called *blogs*, provide comments, news, and observations. These online journals communicate experiences along with other thoughts and information. Blogs are available on every business topic. The sources of blog postings can range from an economist at the Tax Foundation to a dissatisfied consumer. You should be cautious before believing or acting on information from a blog. Always confirm the information with other sources.

Think Critically

1. Locate a blog that relates to current economic conditions. Describe some recent postings.
2. What actions might you take to make sure the information on this blog is accurate?
3. Without actually posting it, write a comment that you would like to post on this blog.

Decision-Making Strategies

In determining GDP, only final goods and services are included. This avoids having some items counted more than once. For example, a mining company sells iron ore to a steel-producing firm. That firm sells the steel to an auto manufacturer who uses it to produce a car. The iron ore, converted to steel, is counted once—in the price paid for the car, the final product. Read carefully the following list of goods and services produced in our economy and then answer the questions.

- Electric toaster oven bought as a gift
 - Telephone service installed in a government office
 - Fiberglass sold to a company for use in making boats
 - Grooming services for your pet
 - Paper sold to a newspaper publishing company
 - Computer paid for by a city government
 - Computer bought for your family's use
 - Broccoli bought by a food-processing firm
- Which of these items should be listed as a good and counted in GDP? Give reasons for your answer.
 - Which of these items should be listed as a service and counted in GDP? Give reasons for your answer.

Emerging Business Issues Event

This team event (two or three members) challenges FBLA members to develop and demonstrate research and presentation skills for an emerging business issue. Your team must research one of the following emerging business issues. Your research should find affirmative and negative arguments for each topic.

- Changing the federal income tax to a federal sales tax
- Strengthening the economy with tax refunds
- Alternative plans for Social Security
- Changing careers in a highly productive economy
- Providing more people with health insurance

Fifteen minutes before your presentation, you will draw to determine whether you will present an affirmative or negative argument for your emerging business issue. Any presentation that lasts more than five minutes will receive a five-point deduction. Following each oral presentation, the judges have five minutes to ask questions.

PERFORMANCE INDICATORS EVALUATED

- Understand the given emerging business issue.
- Present a relevant affirmative or negative argument for the topic.

- Conduct research to support your argument with relevant quality evidence.
- Demonstrate persuasive speaking and oral presentation skills.
- Involve all team members in the research and presentation.

For more detailed information about performance indicators, go to the FBLA web site.

Think Critically

- Why must entrepreneurs pay attention to emerging business issues?
- List two advantages and two disadvantages of changing federal income tax to federal sales tax.
- Why is health care such a hot topic during an election year?
- How has a productive economy influenced the types of jobs available to Americans?
- How can young people successfully prepare for future careers when considering outsourcing of manufacturing and production jobs?



<http://www.fbla-pbl.org/>

Portfolio Activity

school.cengage.com/business/introtobiz

Access the web site shown here to find portfolio activities for this chapter. Use the activities to provide tangible evidence of your learning.