Lesson 3 - Measuring Economic Performance

**Economic Activity:**
All of the actions that involve the production, distribution, and consumption of goods and services within a society.

**Economic Fluctuations:**
The ups and downs in economic activity.

Some changes affect only one group of people, while other changes affect people all over the world.
Business Cycle:
The repeated rise and fall of economic activity over time.

Economic activity does not remain at a steady rate. It changes going up and down. These ups and downs are what make up the 4 phases of the business cycle.

Like your moods, the economic mood or economic climate of a business, country, or even the world also changes according to what is happening a business at that time.
4 Phases of the Business Cycle:
1. Expansion/Recovery
2. Peak
3. Contraction
4. Trough
Phase 1:

- **Expansion:**
  Things are going well. The economy is doing well.

- **Recovery:**
  Things are getting better after they have been bad. The economy is improving but not necessarily booming. This is the time that follows after a Trough (Phase 4).

- In either case, there is a rise in economic activity.
- It is a period of economic growth.
Phase 2:

- **Peak:**
  - This phase indicates prosperity and is the highest level of economic activity.
  - New businesses open.
  - Production is high.
  - Many jobs are available.
  - Unemployment is low.
Phase 3:

- **Contraction:**
  
  This phase is characterized by a noticeable drop in economic activity.
  
  - It is also called a slowdown or downturn.
  - Consumer spending slows and confidence drops.
  - Businesses must work harder to compete and sell their goods and services.
Phase 4:

- **Trough:**
  - This is the lowest level of economic activity.
  - Businesses may close.
  - Production slows.
  - Jobs are scarce.
  - Unemployment is high.
Patterns of Cycles:

Recession:
Period of a severe economic decline.

Depression:
Very severe recession that lasts several years.

Recovery:
Period of Economic Growth following a recession or depression.
Great Depression:

October 24, 1929 – **Black Thursday**

- Stock Prices Collapsed
- Lasted from 1929-1939
- Factories Shut Down
- Businesses & Banks Failed
- By 1932, 15 million people were unemployed, around 25% to 30% of the workforce.
Measuring Economic Activity:

**Economic Indicators:**
Important data or statistics that measure economic activity and business cycles.
- Leading indicators will normally change before the rest of the economy does. (Stock Prices, Profits)
- The Department of Commerce publishes over 250 economic indicators.
3 Main Economic Indicators:

1. Gross Domestic Product (GDP):
   The monetary value of all the finished goods and services produced within a country's borders in a specific time period

2. Inflation:
   A persistent, substantial rise in the general level of prices

3. Unemployment:
   An economic condition marked by the fact that individuals actively seeking jobs remain un-hired.
GDP – Gross Domestic Product: The dollar value of all final goods and services produced in the nation in a single year.

- Tells how well an economy is performing by measuring the number of goods and services sold over a certain period of time.
- Changes from year to year indicate economic growth or slowdown.
- Measures how well people are living in a certain country.
- Similar to the Standard of Living
  Countries with high GDP’s will usually have high standards of living for their people.
To calculate GDP:

Compute the sum of:

1. Consumer Goods & Services
2. Business Goods & Services
3. Government Goods & Services
4. Goods & Services Sold To Foreign Countries
Computer Assignment:

How are we doing? You are now the analyst. Look on the internet to find the answers to the following questions:

1. What is the current GDP for the USA?
2. Is our GDP up, down, or basically the same as last year?
3. What does it mean if the GDP is up? What about down?
4. Why does it matter? Does this affect only us or does it have global impact?
**Inflation:**
A prolonged rise in the level of prices for most goods and services.
- Reduces purchasing power because your money buys less than it used to.
- Described as a time when “A dollar is not worth a dollar anymore”.
- Cost of living increases
  It takes more money to keep the same standard of living.
- Incomes do not keep pace with rising prices and the standard of living decreases.
Inflation Rate:
The percentage by which the average level of prices in an economy rises per year.

- Measured by looking at the prices of one group/type of goods or services. (Found in the Consumer Price Index)

- Rates of 10% or more are considered severe.
Effects of Inflation:

- Purchasing power is decreased since a dollar buys less than it used to.
- Consumers change their spending habits cutting back on non-essential items.
- Some consumers will venture into high-risk investments with the hope of greater payout.
- Unemployment results as businesses must cut production since fewer consumers are buying their goods and services.
Computer Assignment:
You get to play analyst again. Let’s look at the inflation rate. Use the internet to answer the following:

1. What is the current rate of inflation in the USA?
2. Is that up or down from last year?
3. What does this mean for you as a consumer?
4. What does it mean for us as a nation?
5. What impact does this have upon the global economic climate?
Unemployment Rate:
Percentage of the unemployed workforce looking for jobs.

- This number does not include those that have given up looking. As a result, the unemployment rate is always understated.
- 10% is considered high.
- The number of new jobs created indicates growth.
Computer Assignment:
You’re the analyst one more time. This time we’ll look at the unemployment rate. Use the internet to answer the following:

1. What is the current unemployment rate?
2. Is that up or down from last year?
3. How does this compare with the Great Depression?
4. Based on what you have found regarding GDP, inflation, and unemployment, what business cycle does this most closely fit? Explain why you believe this.
Federal Government & Economic Stability

Our government tries to manage the economy:
1. In recessions, it tries to prevent depressions and bring about recovery.
2. In prosperity, it tries to maintain well-being.
3. It also tries to keep the inflation rate down.

Methods of Management:
1. Fiscal Policy
2. Monetary Policy
Fiscal Policy:
Management through revenues, our taxes.

**Tax Cut:**
Spurs consumer spending and stimulates the economy. People have more money in their pockets and will spend more.

**Tax Increase:**
Removes money from circulation and decreases spending. People have less money and will cut back on buying things.
Monetary Policy:
Management through controlling the supply of money and borrowing.

An **Interest Rate Increase** decreases money supply.

An **Interest Rate Decrease** increases money supply.

Monetary Policy is handled through the **Federal Reserve**, also called “**The Fed.**”
Homework Assignment:

We have looked at the current state of our economy. Use what you have learned to answer the following questions:

1. If you were the Chairman of the Federal Reserve what would you do to help our economy?

2. Do you think the President plays any role in the economic status of our country? If so, what role? If not, why not?