

Unit 2

Economics

Chapter 3 Political and
Economic Analysis

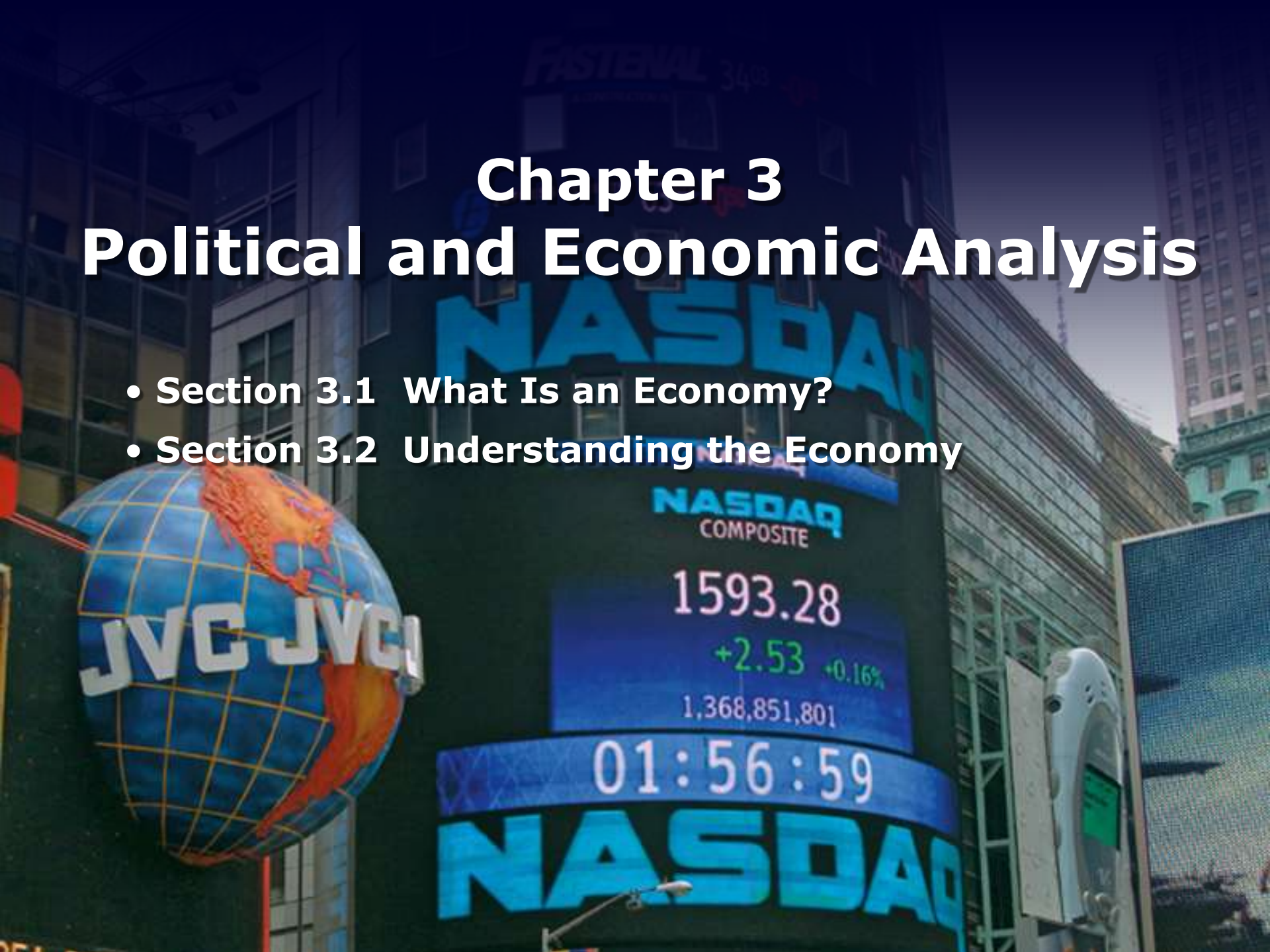
Chapter 4 Global Analysis



Chapter 3

Political and Economic Analysis

- Section 3.1 What Is an Economy?
- Section 3.2 Understanding the Economy



What Is an Economy?

Key Terms

economy

resources

factors of
production

infrastructure

scarcity

traditional
economy

market
economy

command
economy

Objectives

- Define the concept of an economy
- List the factors of production
- Explain the concept of scarcity

What Is an Economy?

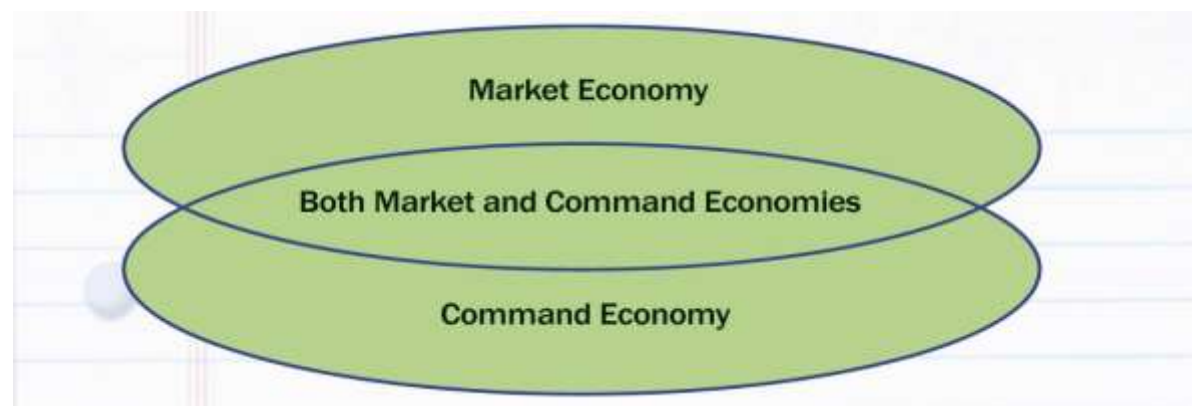
Objectives

- Discuss how the three basic economic questions are answered by these economies:
 - Traditional
 - Mixed
 - Command
 - Market
- Cite examples of various economic systems

What Is an Economy?

Graphic Organizer

Create a diagram like this one to record information about market economies and command economies.



What Is an Economy?

economy

The organized way a nation provides for the needs and wants of its people.

An **economy** ◀ is the organized way a nation provides for its people. A country's resources determine economic activities such as:

- Manufacturing and transporting
- Buying and selling
- Investing

Resources

resources

All the things used in producing goods and services.

factors of production

Economic term for the four categories of resources: land, labor, capital, and entrepreneurship.

Resources ◀ are all the things used in producing goods and services. Economists use the term **factors of production** ◀ when they talk about resources.

Resources

Factors of production cover four categories:

- Land
- Labor
- Capital
- Entrepreneurship

Resources

Land includes all the resources in the earth or found in the seas, for example:

- Coal
- Crude oil
- Trees
- Water

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These natural resources are used as:

- Raw materials for the creation of goods and services
- Attractions for tourism

Spain's land is an economic resource that makes the country an attractive tourist destination.

Resources

Labor refers to all the people who work. It includes:

- Full- and part-time workers
- Managers
- Professionals in the public and private sectors

What Is an Economy?

Capital includes money to start and operate a business, as well as the goods used in the production process like factories, office buildings, computers, tools.

What Is an Economy?

infrastructure

The physical development of a country, including its roads, ports, sanitation facilities, and utilities.

Capital also includes **infrastructure** , which is the physical development of a country, including:

- Roads and ports
- Sanitation facilities and utilities

What Is an Economy?

Entrepreneur are willing to invest their time and money to run a business. Entrepreneurs also:

- Organize factors of production to create goods and services
- Employ the population

Scarcity

scarcity



The difference between what consumers want and need and what the available resources are.

The difference between a country's unlimited wants and limited resources is called **scarcity** ⚡. It forces nations to make economic choices.

How Does an Economy Work?

Nations need to answer three basic questions regarding their economic system:

- Which goods and services should be produced?
- How will the goods and services be produced?
- For whom should the goods and services be produced?

How Does an Economy Work?

There are three broad categories into which economic systems are classified:

- Traditional
- Market
- Command

No economy is purely one type.

Traditional Economies

traditional economy

Traditions and rituals that answer basic questions of what, how, and for whom.

In a **traditional economy** , traditions and rituals answer the basic questions.

- What: People belonging to a farming community farm for generations. There is little choice what to produce.
- How: The practices of a family's ancestors carry on.
- For whom: Tradition regulates who buys and sells.

Market Economies

market economy



An economic system in which individuals and companies decide what will be produced, when, and how it will be distributed.

In a pure **market economy** ◀, there is no government involvement in economic decisions. The market is free to answer:

- What: should be produced.
- How: to be competitive and out-sell competitors.
- For whom: to sell their goods and services to.

Command Economies

command economy



An economic system in which the government decides what, when, and how much will be produced and distributed.

In a **command economy** ◀ a country's government makes economic decisions and decides:

- What products are needed.
- How the government makes the decisions.
- For whom wealth is regulated by the government to equalize everyone.

Mixed Economies

Because all economies in the world today are mixed, a meaningful classification depends on how much a government interferes with the free market.



Mixed Economies

Economic freedom to the right of the center encourages competition while systems to the left are more regulated by their governments.



Capitalism

Capitalism is a political and economic philosophy characterized by marketplace competition and private ownership of business.

The political system most frequently associated with capitalism is democracy. Capitalist countries include the United States and Japan.

Communism

Communism is a social, political, and economic philosophy in which the government controls the factors of production. There is no financial incentive for people to increase their productivity.

Communism

The government regulates and assigns:

- Employment
- Medical care
- Education
- Housing
- Food

Communism

Examples of modern communist countries are:

- Cuba
- North Korea
- China

Socialism

Socialist countries have an increased amount of government involvement, but the market is not completely controlled. The state generally controls noncompetitive companies in areas like:

- Telecommunications and natural resources
- Transportation and banking

Socialism

Modern countries with socialist elements in their economy include:

- Canada
- Germany
- Sweden

Socialism

Today, many socialist countries are selling some of their state-run businesses to help balance the increasing costs of:

- National health care
- Unemployment
- Retirement programs

Developing Economics

Developing economies are mostly poor countries with little industrialization that are improving their infrastructure to become more prosperous. These countries need to improve:

- Education and technology
- Exports and means of production

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SECTION 3.1 REVIEW

SECTION 3.1 REVIEW

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Understanding the Economy

Key Terms

productivity

gross
domestic
product (GDP)

gross national
product (GNP)

inflation

consumer
price index
(CPI)

producer price
index (PPI)

business cycle

expansion

recession

depression

recovery

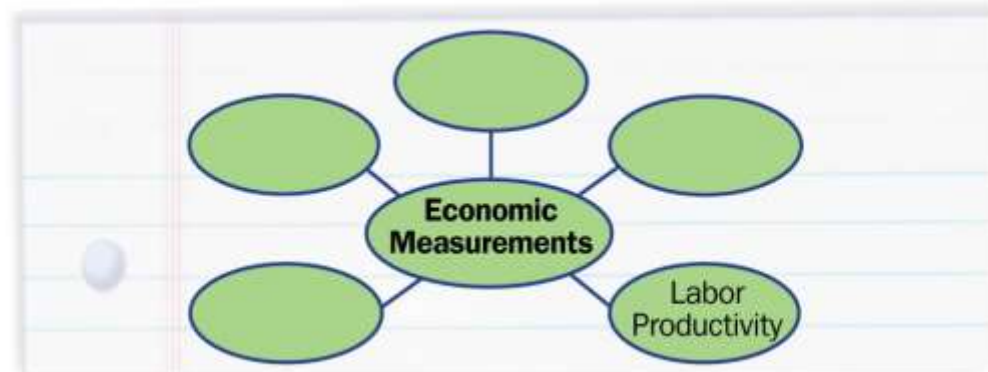
Objectives

- List the goals of a healthy economy
- Explain how an economy is measured
- Analyze the four key phases of the business cycle

Understanding the Economy

Graphic Organizer

Draw a chart like this one and use it to take notes about economic measurements.



The Economy and Marketing

If you are a marketer and you want to perform a useful SWOT analysis, you need to consider the economic factors such as:

- Economy and consumers
- Businesses and government

When Is an Economy Successful?

A healthy economy has three goals:

- Increase productivity
- Decrease unemployment
- Maintain stable prices



When Is an Economy Successful?

By analyzing their economies, nations keep track of how well they are doing. The key economic measurements used to determine economic strength are:

- Labor productivity
- Gross domestic product (GDP)

When Is an Economy Successful?

- Gross national product (GNP)
- Standard of living
- Inflation rate
- Unemployment rate

Understanding the Economy

productivity

The output per worker hour that is measured over a defined period of time, such as a week, month, or year.

Productivity ◀ is output per worker hour that is measured over a defined period of time, such as a week, month, or a year.

Understanding the Economy

Businesses can increase productivity by:

- Investing in new equipment or facilities
- Providing additional training or financial incentives
- Reducing work force and increase responsibilities

Understanding the Economy

Two key concepts related to increasing productivity are:

- Specialization
- Division of labor

Understanding the Economy

gross domestic product (GDP)

The output of goods and services produced by labor and property located within a nation.

Gross domestic product (GDP) ◀ is the output of goods and services produced by labor and property located within a country.

Understanding the Economy

The GDP is made up of:

- Private investment
- Government spending
- Personal spending
- Net exports of goods and services
- Change in business inventories

Understanding the Economy

Here is the calculation for GDP

1. Add private investment, government spending, and personal spending
2. Add a trade surplus or subtract a trade deficit
3. Add expanding inventories or subtract shrinking inventories

Understanding the Economy

gross national product (GNP)

The total dollar value of goods and services produced by a nation.

Gross national product (GNP) ◀ is the total dollar value of goods and services produced by a nation, including the goods and services produced abroad by U.S. citizens and companies.

The U.S. used to measure its economy by the GNP, but switched to using the GDP in 1991.

Understanding the Economy

A country's standard of living is a measurement of the amount and quality of goods and services that a nation's people have. To calculate the standard of living:

- Divide the a country's GDP or GNP by its population to get the per capita GDP or GNP

Understanding the Economy

inflation



A period of rising prices.

Inflation ◀ refers to rising prices. The higher the inflation rate, the less that country's money is worth.

To combat inflation, governments raise interest rates to discourage borrowing money and slow economic growth.

Understanding the Economy

consumer price index (CPI)



Measurement of changes in retail price over a period of time.

The U.S. measure inflation by the consumer price index and the producer price index.

The **consumer price index (CPI)** measures the change in price over a period of time of some 400 specific retail goods and services used by the average urban household.

Understanding the Economy

producer price index (PPI)



Measurement of wholesale price levels in the economy.

The **producer price index (PPI)** measures wholesale price levels in the economy. It is often a trendsetter, as producer prices generally get passed along to the consumer.

Other Economic Indicators and Trends

The Conference Board is made up of businesses that work together to assess the economy. They use three indicators:

- Consumer confidence index
- Consumer expectations index
- Jobs index

Other Economic Indicators and Trends

Other indicators are:

- Wages
- New payroll jobs

The Business Cycle

business cycle



Recurring changes in economic activity, such as the expansion and contraction of an economy.

The cycle of economic growth and decline is called the business cycle. The **business cycle** consists of four phases:

- Expansion
- Recession
- Trough
- Recovery

The Business Cycle

expansion



A time when the economy is flourishing; also called prosperity.

Expansion ◀ is a time when the economy is flourishing, characterized by:

- Low unemployment
- High output of goods and services
- High consumer spending

The Business Cycle

recession



A period of economic slowdown that lasts for two quarters, or six months.

Recession ◀ is a period of economic slowdown that lasts for at least six months. This time is characterized by:

- Reduced workforces and higher unemployment
- Lower consumer spending
- Low production of goods and services

The Business Cycle

A trough occurs is when the economy reaches its lowest point, then begins to rise.

The Business Cycle

depression

A period of prolonged recession.

A **depression** ◀ is a period of prolonged recession.

- Businesses shut down
- Consumer spending is very low
- Production of goods and services is down significantly

The Business Cycle

recovery

A period of renewed economic growth following a recession or depression.

Recovery ◀ signifies a period of renewed economic growth following a recession or depression. It is characterized by:

- Increasing GDP
- Increasing sales
- Decreasing unemployment
- Increased consumer spending

The Business Cycle

The business cycle can be affected by the actions of:

- Businesses
- Consumers
- Governments

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SECTION 3.2 REVIEW

SECTION 3.2 REVIEW

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FOCUS on KEY POINTS

Section 3.1

- An economy is how a nation chooses to use its resources to produce and distribute goods and services to provide for the needs and wants of its people.
- The four factors of production are land, labor, capital, and entrepreneurship.

continued

FOCUS on KEY POINTS

Section 3.1

- Economic/political philosophies of capitalism, socialism, and communism tend to encourage different types of economic systems.

continued

FOCUS on KEY POINTS

Section 3.2

- The characteristics of a healthy economy are high productivity, stable prices, and low unemployment.
- The key phases of the business cycle are expansion, peak, recession, trough, and recovery.



This chapter prepared you to meet the following DECA performance indicators:

- Explain the types of economic systems.
- Determine the relationship between government and business.
- Explain the concept of competition.
- Explain the concept of economic resources.
- Prepare simple written reports.



CHAPTER 3 REVIEW

CHAPTER 3 REVIEW

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