



# Foundations of Business

In order to appreciate and make informed decisions in the world around them, students will need to establish a basic business/economic foundation.



## CH 3

# Economic Activity in a Changing World

How does economic activity affect the decisions that businesses make?

# Ch 3 Targets

- Define Gross Domestic Product (GDP) and explain what it measures.
- Describe what the Unemployment Rate is and who is really counted in the rate.
- Define Inflation and explain how it impacts our economy.
- Define Economic Fluctuations.
- Identify and Explain the Four Phases of the Business Cycle.

# Measuring Economic Activity

## ■ **Economic Indicators**

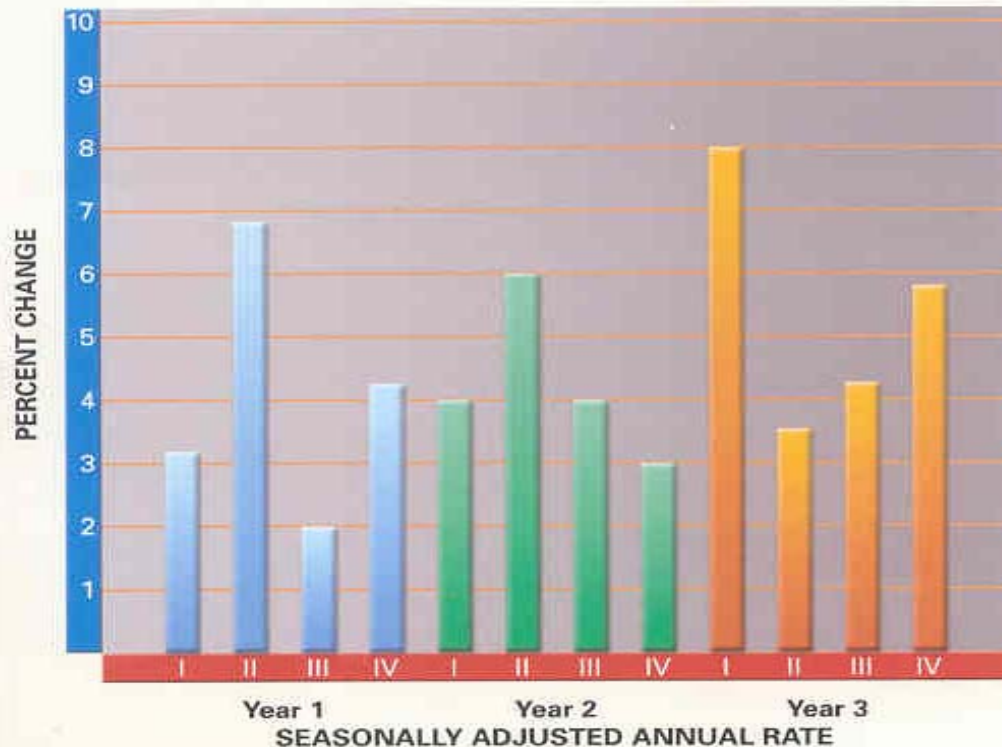
- Measure a society's economic performance
  - GDP
  - Unemployment Rate
  - Inflation/Deflation
  - National Debt

# Measuring Economic Activity

- **Gross Domestic Product: (GDP)**
  - Dollar value of all goods and services produced in the nation in a single year.
  - One way to measure how well people are living in a particular country.
    - Standard of Living – amount of goods and services the average citizen can buy

# Measuring Economic Activity

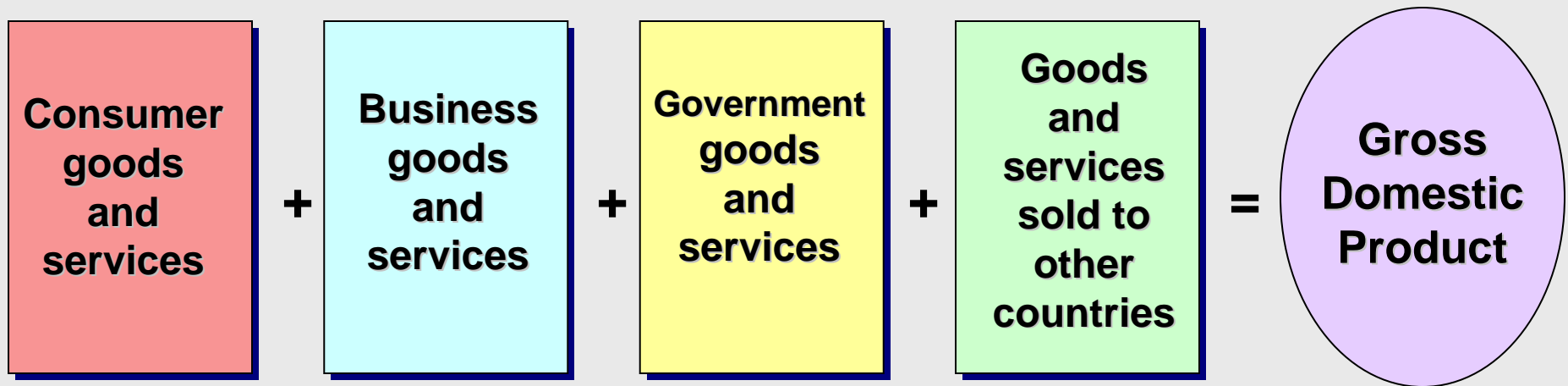
## GROSS DOMESTIC PRODUCT



The gross domestic product (GDP) is the output of goods and services produced in a country.

GDP is represented as a percentage that expresses the change (growth) from the previous quarter.

# Gross Domestic Product



# Measuring Economic Activity

## ■ Unemployment Rate:

- Percentage of the unemployed workforce **LOOKING** for jobs.
  - Is a stay at home Mom considered part of the unemployment rate?
- Always stated as a percentage.
- **EXTRA CREDIT! Due Monday!**
  - Find the Unemployment rate.
  - **MUST be documented. May NOT just write it down on a sheet of paper. Cut the clipping out of the newspaper or print the actual page to the internet site**

# Measuring Economic Activity

- Inflation:
  - Prolonged rise in level of prices for goods and services.
  - Your dollar is worth less.
- Inflation Rate
  - Always a percentage!
  - Percentage by which the average level of prices in an economy rise.
- **EXTRA CREDIT! Due Monday!**
  - Find the Inflation Rate.
  - **MUST be documented. May NOT just write it down on a sheet of paper. Cut the clipping out of the newspaper or print the actual page to the internet site.**



# Measuring Economic Activity

## ■ Deflation

- general decrease in the cost of goods and services

When an economy produces more goods than people want, it has to lower prices and cut production.

# National Debt

## ■ Budget Deficit

- Occurs when a nation spends more on programs than it collects in taxes

## ■ National Debt

- Total amount of money a government owes

## ■ Budget Surplus

- Occurs when a nation spends less than its income

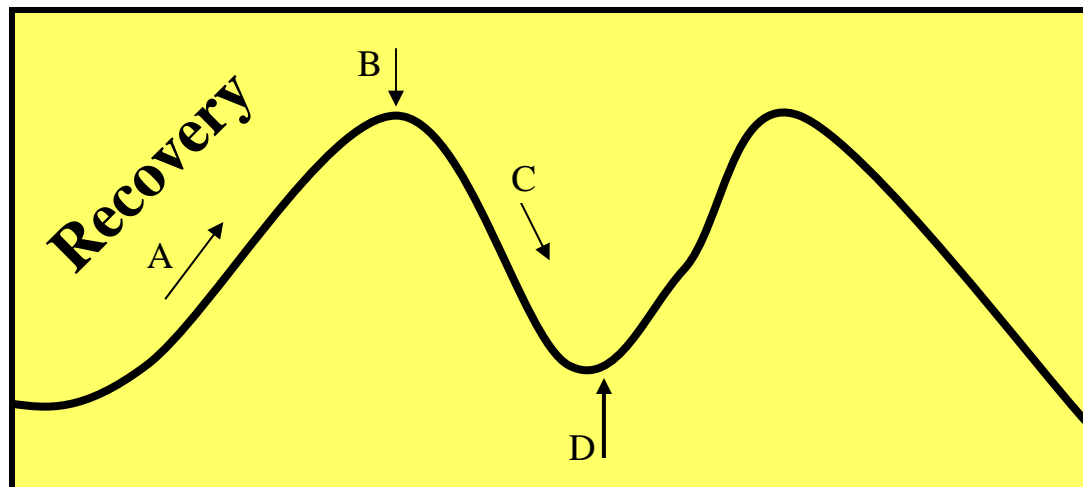
# The Business Cycle

- Economic Fluctuations:
  - The Ups and Downs in the economy.
- Business Cycle:
  - The fluctuation in the general level of economic activity as measured by such variables as the rate of unemployment and changes in GDP. **(SWINGS in economic activity)**
  - **4 Phases of Cycle**
    - Recovery
    - Prosperity
    - Recession
    - Depression

# The Business Cycle

- Recovery (A) - Expansion
  - Rise in Business Activity

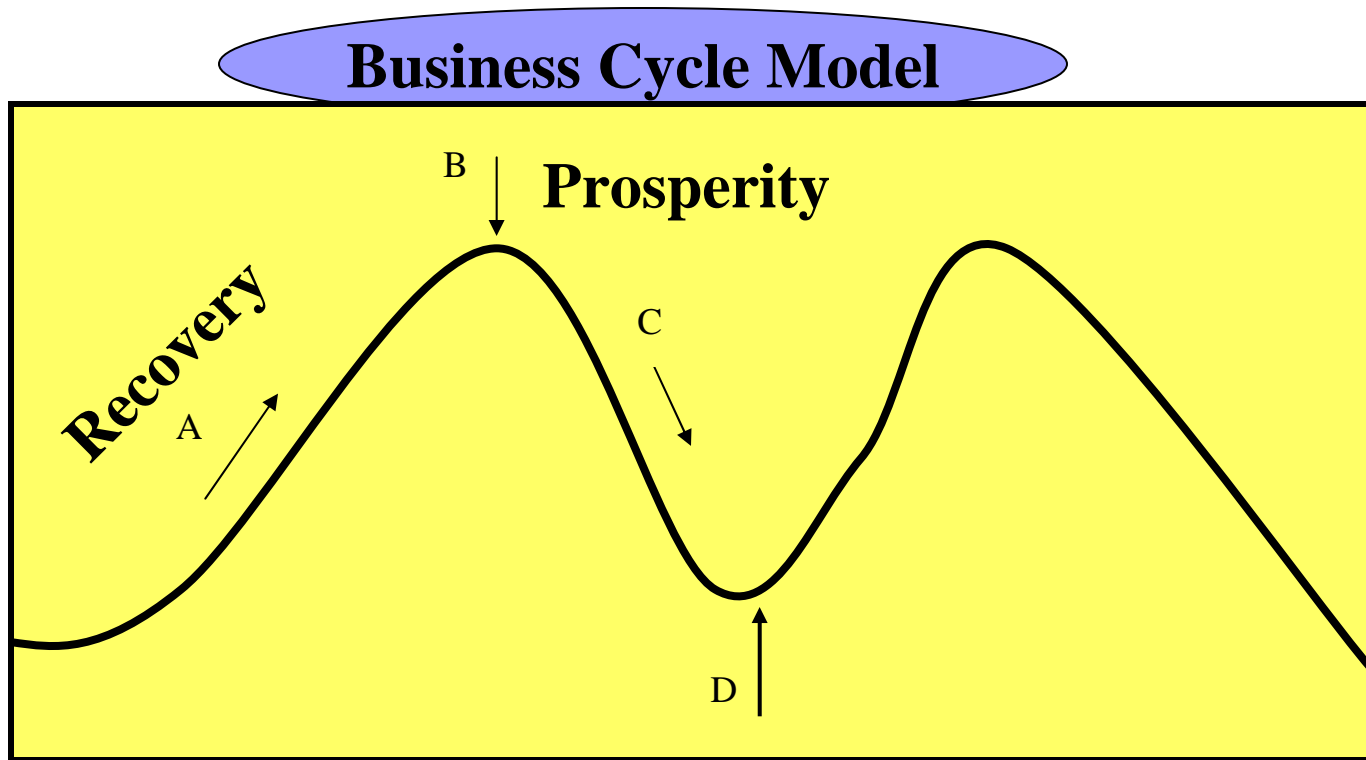
## Business Cycle Model



Revised Summer 2004

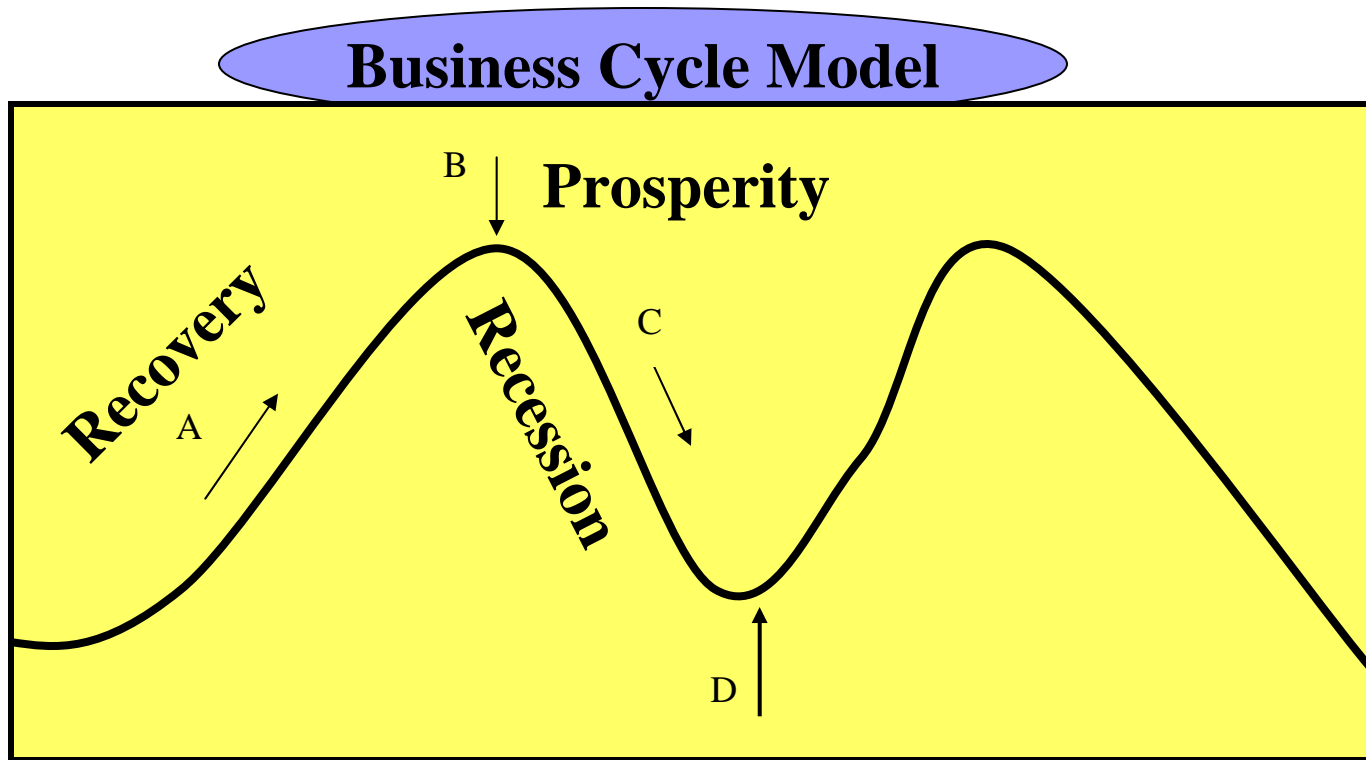
# The Business Cycle

- Prosperity (B) - Peak
  - Highest Level of Economic Activity



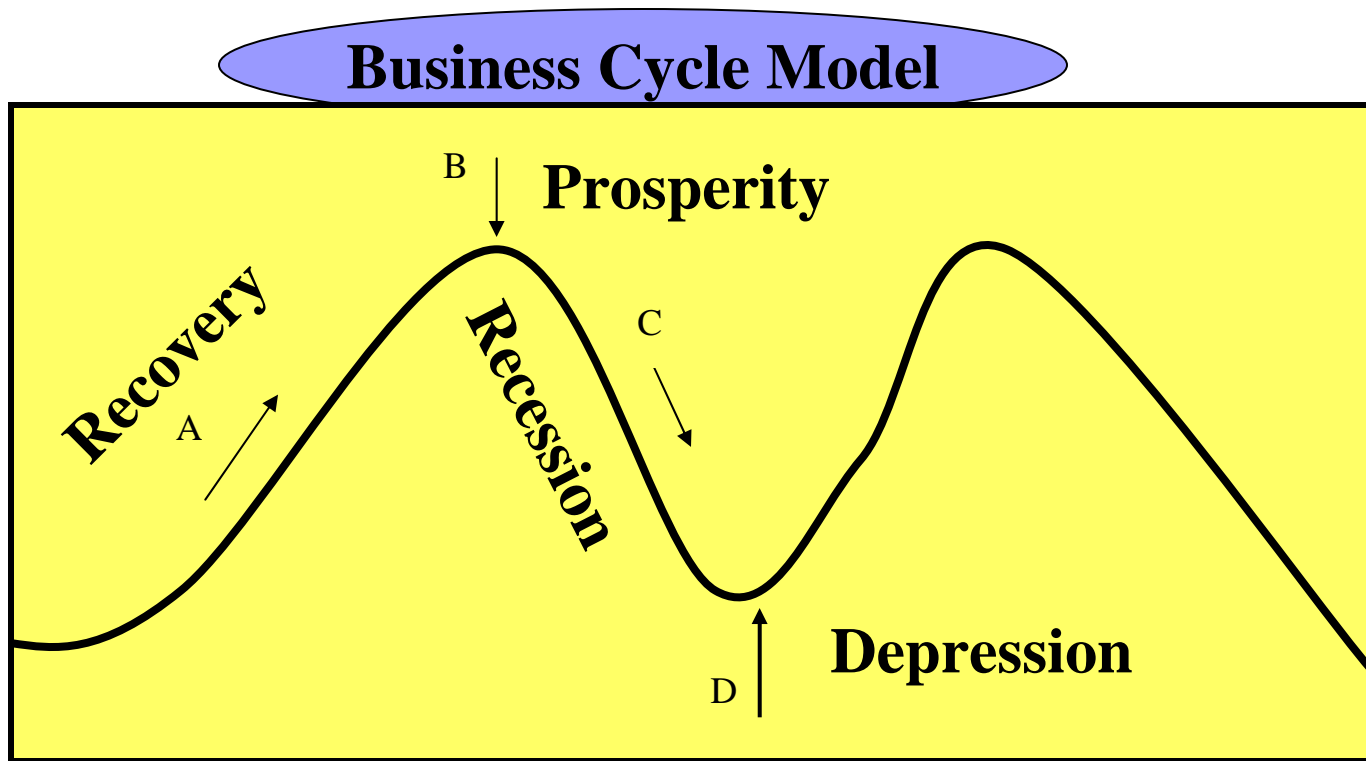
# The Business Cycle

- **Recession (C) - Contraction**
  - Noticeable drop in the level of Business Activity
  - Economic Slow Down



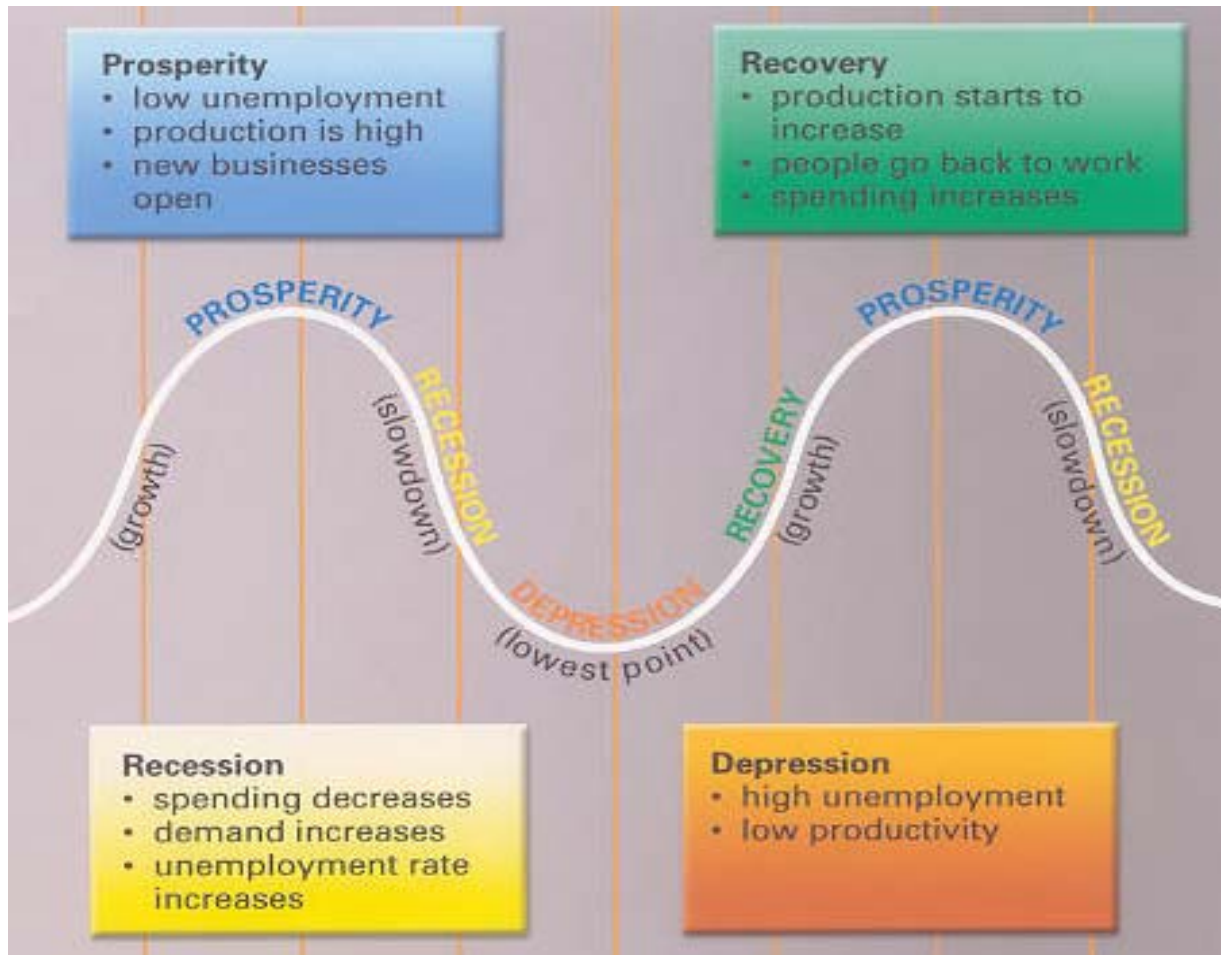
# The Business Cycle

- **Depression (D) - Trough**
  - **Lowest Level of Business Activity**



# The Business Cycle

## BUSINESS CYCLE MODEL



The repeated rise and fall of economic activity over time is called a business cycle.

[History of the Business Cycle](#)

# Ch 3 Target Review

- Define Gross Domestic Product and explain what it measures.
  - Dollar value of goods and services produced in a country in one year
  - Standard of Living
- Describe what the Unemployment Rate is and who is really counted in the rate.
  - Percentage of the unemployed workforce LOOKING for jobs
- Define Inflation and explain how it impacts our economy.
  - Prolonged rise in the level of prices for goods and services
  - Dollar is worth less

# Ch 3 Target Review

- Define Economic Fluctuations.
  - Ups and downs in in the economy
- Identify and Explain the four (4) Phases of the Business Cycle.
  - Recovery – rise in business activity
  - Prosperity – highest level of activity
  - Recession – drop in business activity
  - Depression – lowest level of activity