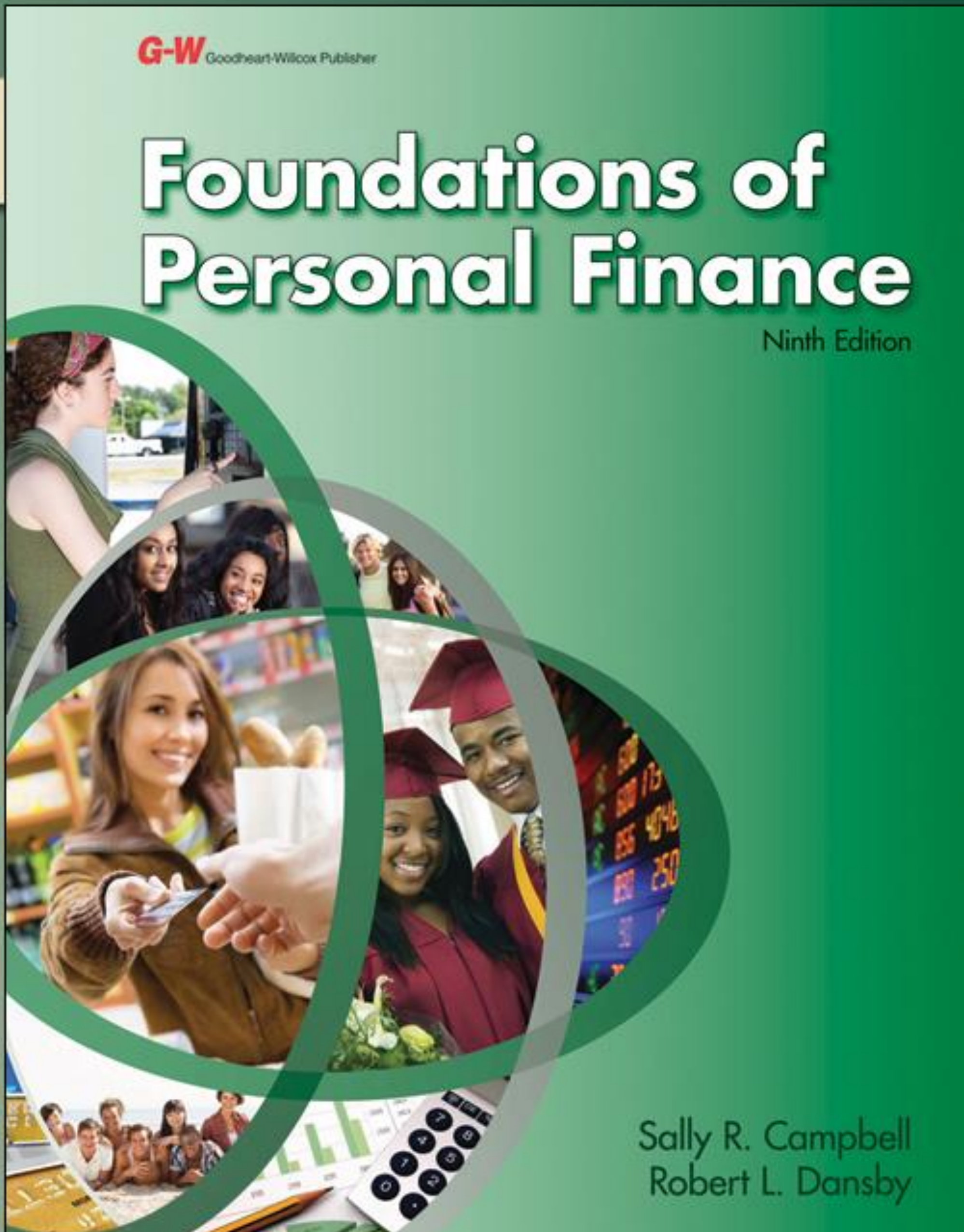

PowerPoint Presentations for

Foundations of Personal Finance

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Chapter 19

Government and the Economy

Section 19.1

ECONOMICS

Objectives

- Describe the relationship between the US government and the economy.
- Discuss the economic conditions that are monitored by the government.

Terms

- business cycle
- recession
- depression
- inflation
- stagflation
- deflation
- labor force
- unemployment rate
- underemployment

US Economic System

- The US economic system is a market or free enterprise system in which government plays these roles:
  - Sets economic policies
  - Makes taxing and spending decisions
  - Controls the money supply
  - Regulates fair business practices

Economic Conditions

- **Business cycle** refers to fluctuations between periods of growth and slowdown:
  - Expansion is when activity is growing
  - Peak is height of expansion
  - Contraction is period of slow growth, or no growth
  - Trough occurs when a contraction stops

Economic Conditions (Continued)

- **Recession** is an extended period of slow or no economic growth:
  - Lasts for two quarters or more
  - High unemployment, declining retail sales, lowered average personal incomes, decreased consumer spending, reduced business spending on equipment and expansion.
- **Depression** is when a recession goes on for several years

Did You Know?

- Between 2007 and 2009, the US economy went into what is being called the Great Recession
- Many people lost their jobs and homes, businesses failed, and the value of savings and investments fell dramatically

Economic Conditions (Continued)

- **Inflation** is an overall increase in the price of goods and services
  - Demand-pull inflation—as demand goes up, so do prices
  - Cost-push inflation—the cost of producing a good goes up and that pushes the price up
- **Stagflation** is a period of slow growth (stagnation) and high inflation
- **Deflation** is a period of declining prices

Unemployment

- The **labor force** is people age 16 and over, who are employed or looking for and able to work
- The **unemployment rate** is a percentage of the labor force that is out of work and seeking employment
- **Underemployment** is workers who are employed only part-time or are overqualified for their jobs

Types of Unemployment

- *Frictional unemployment* is short-term due to people moving or changing jobs or careers
- *Structural unemployment* is long-term due to mismatch between skills and available jobs
- *Cyclical unemployment* is when demand falls, workers are laid off; when demand rises, workers are rehired (tied to business cycle)
- *Seasonal unemployment* is related to jobs that depend on seasonal activities

Did You Know?

- When the Great Recession began in 2007, unemployment was at 5 percent
- In October of 2009, it peaked at 10 percent

Review 19.1

- What are the four parts of the Business cycle?
  - Expansion
  - Peak
  - Contraction
  - Trough
- What is the difference between a recession and a depression?
  - A recession is an extended period of slow or no economic growth that lasts two quarters or more; a depression is when a recession goes on for several years.

Section 19.2

ECONOMIC POLICIES

Objectives

- Discuss the gross domestic product and the consumer price index.
- Describe how the government uses monetary policies to combat inflation and recession.
- Differentiate between monetary and fiscal policy.
- Identify the laws and government agencies that protect consumer interests.

Terms

- gross domestic product (GDP)
- consumer price index (CPI)
- labor union
- monetary policy
- Federal Reserve System
- discount rate
- fiscal policy
- tax
- subsidy
- deficit spending
- surplus
- national debt
- perfect competition
- monopoly
- oligopoly
- collusion

Economic Indicators

- **Gross domestic product (GDP)** is a measure of the value of all goods and services produced by a nation during a specified period of time (usually one year), including these measures:
  - Personal consumption expenditures
  - Gross private domestic investment
  - Net exports of goods and services
  - Government spending

Economic Indicators (Continued)

- **Consumer price index (CPI)** is a measure of the average change in prices over time for selected goods and services (sometimes called the *cost of living index*)
- A **labor union** is a group of workers united to negotiate collective bargaining agreements (including issues such as pay, health care, and working conditions)
- CPI is used to adjust wages, and cost of living increases applied to Social Security and pension benefits

Did You Know?

- The GDP and the CPI are two key indicators that influence monetary and fiscal policies
- Other important indicators include:
  - The consumer confidence index (CCI)
  - The retail sales report
  - Employment figures

Monetary Policy

- M**onetary policy** is an action taken by the Federal Reserve Board to manage the supply of money and credit in the economy
- The **Federal Reserve System**, also called the *Fed,* regulates the nation's money supply and the banking system

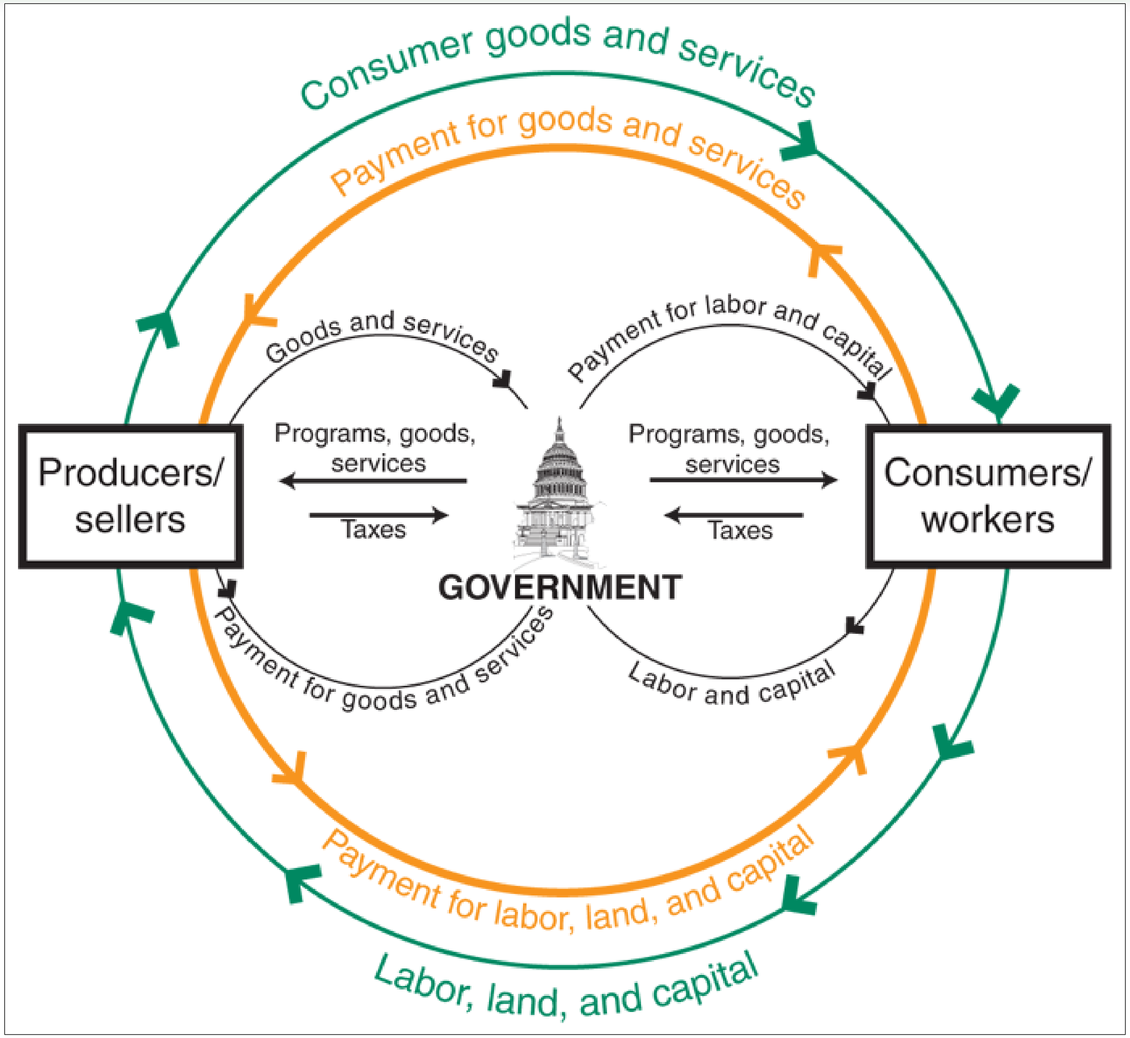
Monetary Policy (Continued)

- The Fed uses three tools to manage the supply of money and credit:
  - Reserve requirements limit the amount of money available for a bank to lend
  - The **discount rate** which is interest rate charged by fed when lending to commercial banks
  - *Open market operations* refers to the Fed's buying and selling of treasury securities in the marketplace
  - An easy monetary policy means money and credit are readily available; a tight monetary policy means they are not

Fiscal Policy

- **Fiscal policy** is the federal government's taxing and spending decisions controlled by Congress
- **Tax** is a fee imposed by a government on income, products, or activities and paid by citizens and businesses

Fiscal Policy (Continued)



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Fiscal Policy (Continued)

- **Subsidy** is a form of transfer payment that gives financial assistance to a business or entity
- Subsidies can be a direct payment, a tax benefit, or some other advantage

Did You Know?

The federal government supports over 2,000 programs involving some form of subsidy at a cost of billions of dollars.

Fiscal Policy (Continued)

- **Deficit spending** is the amount the federal government spends each year beyond the amount it receives in revenues
- A **surplus** is when a government receives more than it spends it is called a surplus
- The **national debt** is the total amount of money the government owes at a given time

Did You Know?

The government borrows money to cover its expenses. The money is raised by the sale of treasury and savings bonds to individuals, companies, and foreign countries.

Government Regulations

- **Perfect competition** is when no single seller can significantly influence the market price of a product or service
- A **monopoly** is a situation in which there is a single seller or producer of a given product or service
- **Oligopoly** is a situation in which a few large companies dominate the industry
- **Collusion** is making a secret agreement among companies to shut out smaller competitors and to engage in price fixing

Review 19.2

- What is the measure of the value of all goods and services produced by a nation during a specified period of time?
  - Gross domestic product (GDP)
- What is the name for the actions the Federal Reserve Board takes to manage the supply of money and credit in the economy?
  - Monetary policy