Chapter 3 Political and Economic Analysis

Section 3.2 Understanding the Economy

Review Key Concepts

1. Monitoring economic measures helps economists quickly notice changes in productivity, employment, and prices, and determine when the government should respond to changing conditions; for example, by lowering interest rates to spur the economy.
2. High unemployment has a negative effect on a nation's economy. The unemployed cannot make purchases so companies produce less and cut back on capital projects. Tax revenue decreases. Unemployment benefits cause state governments to reduce spending.
3. During an expansion, jobs are readily available and wages typically increase; employees can move from one job to another fairly easily. In a recession, employees may be laid off and finding another job can be difficult. In a trough, jobs are typically scarce, but may gradually become more plentiful. In a recovery, more jobs become available as the economy grows and workers may see their wages increase, enabling them to increase their standards of living.

Practical Academics

Social Studies

4. During the Great Depression, the stock market crashed. Banks failed. People defaulted on loans and lost their homes and farms. FDR's New Deal established programs such as the Securities and Exchange Commission. The FDIC was established, which insures bank deposits. Due to these and other government policies, the 2008 financial crisis was not as bad as the Great Depression. The housing market plummeted and foreclosures increased. An economic stimulus plan helped spur the economy. The Emergency Economic Stabilization Act of 2008 provided up to $700 billion to financial institutions.

Mathematics

5. 5.4 output per worker hour (100 employees $\times$ 40 hours $\times$ 4 weeks $=$ 160,000; 864,000 divided by 160,000 $=$ 5.4)