Meet Our Authors

Dr. Betty J. Brown is a Professor of Business Information Systems Management and Coordinator of the Business and Marketing Education Program at Ball State University in Muncie, Indiana. She served on the faculty in business education and management at The University of Tennessee, Knoxville. In addition to teaching at the secondary and postsecondary levels, she has written articles and conducted workshops on the teaching of business and economic education. Dr. Brown has served as National President for Delta Pi Epsilon, national graduate honor society in business education, as Executive Director for the Policies Commission for Business and Economic Education, and is a recipient of the John Robert Gregg Award in business education.

Dr. John E. Clow is the Director of the Leatherstocking Center for Economic Education and Professor Emeritus of Business Education at the State University of New York, College at Oneonta. He has held professorial positions at a number of universities in Illinois and Iowa. He has been the Director of a number of national projects in personal finance and consumer economics for the National Council on Economic Education. He has held several college and university administrative positions, including president of Berkeley College in New York City. Dr. Clow has taught at the middle, high school, and college levels and has to his credit numerous speeches and publications in the areas of business and economic education.

Business and Career Education

Industry Advisory Board

Peggy Bradfield
Vons, A Safeway Co.
Burbank, CA

Andy Chaves
Marriott International Inc.
Washington, DC

Mike De Fabio
Otis Spunkmeyer
Torrance, CA

Brian Dunn
JD Power and Associates
Westlake Village, CA

Donna Farrugia
Carrie Nebens
Robert Half International
Westlake Village, CA

Mark Hatch
Ohio Association of Public School Employees
Columbus, OH

Mike Kulis
Sherwin Williams Co.
Cleveland, OH

Dr. David M. Mitchell
Johnson & Wales University
Providence, RI

Debbie Moreton
JCPenney
Dallas, TX

Joyce Winterton
USA Today
McLean, VA
We wish to acknowledge the contributions of the following reviewers:

**Meredith H. Bell**
Timberland High School
St. Stephen, SC

**Barb Bielenberg**
Sioux City Community Schools
Sioux City, IA

**Jeremy Brady**
Coleman High School
Coleman, WI

**Jay S. Brown**
Pleasant Valley Middle School
Brodheadsville, PA

**Margaret Colvin**
Southern Regional High School
Manahawkin, NJ

**Cheryl Cooper**
Southeast Career Center
Columbus, OH

**Linda Cuppett**
East Bay
Gibsonton, FL

**Joy Davis**
Delaware Area Career Center
Delaware, OH

**Linda Davis**
Jay High School
Jay, ME

**Joe Deangelo**
Badin High School
Hamilton, OH

**Marta E. Diaz**
Channelview High School
Channelview, TX

**Brian Dudley**
Wapahani High School
Selma, IN

**Jody Forsythe**
Northwestern High School
Maple, WI

**Brian Gray**
Myers Park High School
Charlotte, NC

**Karen Griffith**
Phoebus High School
Hampton, VA

**Brad Hackworth**
Central Washington University
Ellensburg, WA

**Nancy J. King**
Fairfax County Public Schools
Falls Church, VA

**Vivian King**
Independence High School
Columbus, OH

**Brenda Knight**
Cedar Park High School
Cedar Park, TX

**Brad Knoche**
South Milwaukee High School
South Milwaukee, WI

**Sharon Larson**
Prairie Ridge High School
Crystal Lake, IL

**Pamela LeCompte**
Klein High School
Spring, TX

**Lynore Levenhagen**
Lyman High School
Longwood, FL

**Lucinda Mason**
Demopolis High School
Demopolis, AL

**Timothy M. McCabe**
Badin High School
Hamilton, OH

**Cindy Miller**
Freeshop High School
Wolfforth, TX

**Joan Miller**
Darlington High School
Darlington, WI

**Robert Moccia**
Learey Technical Center
Tampa, FL

**James Monroe**
Greene Central High School
Snow Hill, NC

**Cheryl A. Moore**
Ellison High School
Killeen, TX

**Vanessa Moorhead**
Alonso High School
Tampa, FL

**Beth Patzke**
Baldwin-Woodville High School
Baldwin, WI

**Deanna Peck**
David W. Butler High School
Matthews, NC

**Janet Richards**
Riverview High School
Riverview, FL

**Paul Richmond**
Thomas Edison High School
Elmira Heights, NY

**Tim Rohlinger**
Kewaskum High School
Kewaskum, WI

**Natalie Schaublin**
Westerville North High School
Westerville, OH

**Keith A. Schneider**
Cambridge High School
Cambridge, WI

**Michelle See**
East Mecklenburg High School
Charlotte, NC

**Donna Lee Sirkis**
Myers Park High School
Charlotte, NC

**Julie Smith**
Southeast Career Center
Columbus, OH

**Dale Snow**
Illinois Business Education Association
Joliet, IL

**Jaclyn Soles**
East Bay High School
Tampa, FL

**Joan Sountis**
Cliffside Park High
Cliffside Park, NJ

**Sandra Talley**
Sunny Hill High School
Fullerton, CA

**Karen Teach**
Clear Spring High School
Clear Spring, MD

**Vince Tesi**
Colts Neck High School
Colts Neck, NJ

**Victoria Vavricka**
Washington Township Public Schools
Sewell, NJ

**Joe Ward**
Jackson High School
Jackson, MI

**Liz Watt**
North Education Center High School
Columbus, OH

**April Winternheimer**
Tampa Bay Technical High School
Tampa, FL

**Nancy Yankee**
Holden High School
Holden, MI
# Brief Table of Contents

## Unit 1  The Economy and You
- Chapter 1  Basic Economic Concepts ........................................ 4
- Chapter 2  Economic Resources and Systems ................................ 20
- Chapter 3  Economic Activity in a Changing World ......................... 36
- Chapter 4  Business Ethics and Social Responsibility ........................ 52

## Unit 2  Owning and Operating a Business
- Chapter 5  Entrepreneurship .................................................. 74
- Chapter 6  Business Ownership and Operations .............................. 92
- Chapter 7  Business Management ............................................. 108
- Chapter 8  Leadership in Management ...................................... 124
- Chapter 9  Technology and Business ..................................... 140

## Unit 3  Influences on Business
- Chapter 10  Business in a Global Economy ................................ 162
- Chapter 11  The Role of Government in Our Economy ................. 178
- Chapter 12  Money and Financial Institutions .............................. 194

## Unit 4  Marketing
- Chapter 13  Marketing in Today's World .................................. 216
- Chapter 14  Advertising .......................................................... 232

## Unit 5  Human Resources
- Chapter 15  Human Resources Management .............................. 254
- Chapter 16  Culture and Diversity in Business ............................ 270

## Unit 6  Financial and Technological Resources
- Chapter 17  Managing Business Finances ................................ 292
- Chapter 18  Technology in the Workplace ................................. 310
- Chapter 19  Computer Basics ................................................ 326

## Unit 7  Career Planning in a Global Economy
- Chapter 20  Career Planning .................................................. 348
- Chapter 21  Getting a Job ....................................................... 364

## Unit 8  Buying Goods and Services
- Chapter 22  Making Consumer Decisions ................................ 388
- Chapter 23  Consumer Rights and Responsibilities ....................... 404
- Chapter 24  Protecting Consumers ........................................... 420

## Unit 9  Credit
- Chapter 25  The Basics of Credit ............................................ 442
- Chapter 26  How to Get and Keep Credit .................................. 458
- Chapter 27  Credit and the Law .............................................. 474

## Unit 10  Money Management
- Chapter 28  Managing Personal Finances ................................ 496
- Chapter 29  Checking Accounts ............................................. 512
- Chapter 30  Savings Accounts ................................................ 528
- Chapter 31  Investing ............................................................. 544
- Chapter 32  Real Estate and Other Investment Options ............... 564

## Unit 11  Risk Management
- Chapter 33  The Basics of Risk Management ............................. 586
- Chapter 34  Vehicle and Property Insurance .............................. 602
- Chapter 35  Life and Health Insurance ..................................... 618
## Table of Contents

### Unit 1  The Economy and You

<table>
<thead>
<tr>
<th>Chapter 1</th>
<th>Basic Economic Concepts</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ask AN EXPERT</td>
<td>4</td>
</tr>
<tr>
<td><strong>Section 1.1</strong></td>
<td>A Look at Wants and Needs</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Ethics in Business</td>
<td>8</td>
</tr>
<tr>
<td><strong>Section 1.2</strong></td>
<td>Business Activities</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Science/Tech Trends</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Business Case Study</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Chapter 1 Review and Activities</td>
<td>16</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 2</th>
<th>Economic Resources and Systems</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ask AN EXPERT</td>
<td>20</td>
</tr>
<tr>
<td><strong>Section 2.1</strong></td>
<td>Economic Resources</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>International Business</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Business Case Study</td>
<td>24</td>
</tr>
<tr>
<td><strong>Section 2.2</strong></td>
<td>Economic Systems</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>Science/Tech Trends</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>Chapter 2 Review and Activities</td>
<td>32</td>
</tr>
</tbody>
</table>
Chapter 6  Business Ownership and Operations ................................. 92

Section 6.1  Types of Business Ownership ............................................. 94

Section 6.2  Types and Functions of Businesses .................................... 99

Chapter 6  Review and Activities ............................................................. 104

Chapter 7  Business Management ...................................................... 108

Section 7.1  Management Functions ...................................................... 110

Section 7.2  Management Structures .................................................... 115

Chapter 7  Review and Activities ............................................................. 120
Chapter 8  Leadership in Management ................................................. 124
  Ask EXPERT ......................................................................................... 124
Section 8.1  Leadership Qualities .............................................................. 126
  International Business ........................................................................ 127
Section 8.2  Leadership Styles ................................................................. 131
  Business Case Study ............................................................................ 132
  Science/Tech Trends ............................................................................ 133
Chapter 8 Review and Activities ............................................................. 136

Chapter 9  Technology and Business ...................................................... 140
  Ask EXPERT ......................................................................................... 140
Section 9.1  The History of Technology ..................................................... 142
  Business Case Study ............................................................................ 143
  Ethics in Business ............................................................................... 144
Section 9.2  E-Commerce ....................................................................... 147
  Science/Tech Trends ............................................................................ 149
Chapter 9 Review and Activities ............................................................. 152

Unit 2  Real-World Business and Career Profile: Seventh Generation .......... 156
Unit 2  Unit Thematic Project: Entrepreneurship in a Global World .......... 158

Unit 3  Influences on Business ................................................................. 160
Chapter 10  Business in a Global Economy .............................................. 162
  Ask EXPERT ......................................................................................... 162
Section 10.1  The Global Marketplace ...................................................... 164
  International Business .......................................................................... 165
Section 10.2  Global Competition ............................................................. 169
  Business Case Study ............................................................................ 170
  Science/Tech Trends ............................................................................ 171
Chapter 10 Review and Activities ............................................................. 174
# Table of Contents

## Chapter 11  The Role of Government in Our Economy ................. 178

### Section 11.1  Government as Regulator ..................................................... 180

<table>
<thead>
<tr>
<th>Business Case Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>................................. 181</td>
</tr>
</tbody>
</table>

### Ethics in Business ................................................................. 185

<table>
<thead>
<tr>
<th>Science/Tech Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>................................. 187</td>
</tr>
</tbody>
</table>

Chapter 11  Review and Activities ................................................................. 190

## Chapter 12  Money and Financial Institutions .......................... 194

### Section 12.1  Money and Banking ................................................................. 196

<table>
<thead>
<tr>
<th>International Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>................................. 198</td>
</tr>
</tbody>
</table>

### Section 12.2  Types of Financial Institutions ......................... 201

<table>
<thead>
<tr>
<th>Science/Tech Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>................................. 202</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Case Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>................................. 203</td>
</tr>
</tbody>
</table>

Chapter 12  Review and Activities ................................................................. 206

### Unit 3  Real-World Business and Career Profile: Jenzabar ................. 210

### Unit 3  Unit Thematic Project: Community Outreach and Service Learning ................. 212
# Table of Contents

## Unit 4  Marketing  214

### Chapter 13  Marketing in Today's World  216

- **Ask AN EXPERT**

### Section 13.1  Marketing Essentials  218

- *Ethics in Business*  219

### Section 13.2  Market Research and Product Development  223

- *Science/Tech Trends*  224

### Chapter 13 Review and Activities  228

### Chapter 14  Advertising  232

- **Ask AN EXPERT**

### Section 14.1  Advertising Media  234

- *International Business*  237

### Section 14.2  Media Measurement and Rates  239

- *Science/Tech Trends*  240

### Chapter 14 Review and Activities  244

## Unit 4  Real-World Business and Career Profile: Expeditiontrips.com  248

## Unit 4  Unit Thematic Project: Marketing in a Global Economy  250
Table of Contents

Unit 6  Financial and Technological Resources  290

Chapter 17  Managing Business Finances ................................................................. 292

AN EXPERT

Section 17.1  Financial Management ................................................................... 294

Business Case Study

? Ethics in Business ................................................................................................. 296

Section 17.2  Accounting......................................................................................... 299

Science/Tech Trends ................................................................................................. 300

Chapter 17 Review and Activities ........................................................................... 306

Chapter 18  Technology in the Workplace ............................................................. 310

AN EXPERT

Section 18.1  Information Technology ................................................................. 312

International Business

Section 18.2  Internet Basics ................................................................................. 317

Business Case Study

Science/Tech Trends ................................................................................................. 319

Chapter 18 Review and Activities ........................................................................... 322

Chapter 19  Computer Basics ............................................................................... 326

AN EXPERT

Section 19.1  Computer Hardware ....................................................................... 328

? Ethics in Business

Section 19.2  Computer Software ........................................................................... 333

Business Case Study

Science/Tech Trends ................................................................................................. 335

Chapter 19 Review and Activities ........................................................................... 338

Unit 6  Real-World Business and Career Profile: Enlightened, Inc........................................... 342

Unit 6  Unit Thematic Project: Technology's Effect on Global Business ........................... 344
# Table of Contents

## Unit 7  Career Planning in a Global Economy  346

### Chapter 20  Career Planning  ............................................................. 348

- **Ask An Expert**  ........................................................................... 348

  - **Section 20.1**  Preparing for a Career  ...................................................... 350
    - **Business Case Study**  .................................................................. 352
    - **International Business** ................................................................. 353

  - **Section 20.2**  Developing a Career Plan  ................................................. 355
    - **Science/Tech Trends** ................................................................ 358

- **Chapter 20 Review and Activities** ......................................................... 360

### Chapter 21  Getting a Job  ................................................................. 364

- **Ask An Expert**  ........................................................................... 364

  - **Section 21.1**  Qualifying for a Job  .......................................................... 366
    - **Ethics in Business** ................................................................... 367
    - **Business Case Study**  ................................................................ 369

  - **Section 21.2**  Getting the Job You Want  ................................................. 371
    - **Science/Tech Trends** ................................................................ 372

- **Chapter 21 Review and Activities** ......................................................... 378

### Unit 7  Real-World Business and Career Profile: Girlstart  .......... 382

### Unit 7  Unit Thematic Project: Lifelong Learning  ............................. 384
### Unit 8 Buying Goods and Services 386

#### Chapter 22 Making Consumer Decisions ........................................ 388

**Ask**

<table>
<thead>
<tr>
<th><strong>Section 22.1</strong></th>
<th>Consumer Choices ................................................................... 390</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Case Study</strong></td>
<td>....................................................................... 391</td>
</tr>
<tr>
<td><strong>International Business</strong></td>
<td>....................................................................... 393</td>
</tr>
<tr>
<td><strong>Section 22.2</strong></td>
<td>How to Be a Smart Consumer .................................................. 395</td>
</tr>
<tr>
<td><strong>Science/Tech Trends</strong></td>
<td>....................................................................... 398</td>
</tr>
</tbody>
</table>

Chapter 22 Review and Activities ......................................................... 400

#### Chapter 23 Consumer Rights and Responsibilities .................. 404

**Ask**

<table>
<thead>
<tr>
<th><strong>Section 23.1</strong></th>
<th>Consumer Rights ..................................................................... 406</th>
</tr>
</thead>
<tbody>
<tr>
<td>** Ethics in Business**</td>
<td>....................................................................... 407</td>
</tr>
<tr>
<td><strong>Business Case Study</strong></td>
<td>....................................................................... 408</td>
</tr>
<tr>
<td><strong>Section 23.2</strong></td>
<td>Consumer Responsibilities ....................................................... 411</td>
</tr>
<tr>
<td><strong>Science/Tech Trends</strong></td>
<td>....................................................................... 414</td>
</tr>
</tbody>
</table>

Chapter 23 Review and Activities ......................................................... 416

#### Chapter 24 Protecting Consumers ........................................... 420

**Ask**

<table>
<thead>
<tr>
<th><strong>Section 24.1</strong></th>
<th>Consumer Organizations and Agencies ..................................... 422</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International Business</strong></td>
<td>....................................................................... 424</td>
</tr>
<tr>
<td><strong>Section 24.2</strong></td>
<td>Consumer Protection Laws ...................................................... 427</td>
</tr>
<tr>
<td><strong>Science/Tech Trends</strong></td>
<td>....................................................................... 428</td>
</tr>
<tr>
<td><strong>Business Case Study</strong></td>
<td>....................................................................... 430</td>
</tr>
</tbody>
</table>

Chapter 24 Review and Activities ......................................................... 432

**Unit 8 Real-World Business and Career Profile:** New Leaf Paper ........................................ 436

**Unit 8 Unit Thematic Project:** How the Consumer Movement Affects Business ........................ 438
# Table of Contents

## Unit 9  Credit

### Chapter 25  The Basics of Credit ...................................................... 442

- **Section 25.1** Credit Essentials .......................................................... 444
  - *Ethics in Business* ........................................................................... 445
- **Section 25.2** Types of Credit .............................................................. 449
  - **Business Case Study** ................................................................. 450
  - **Science/Tech Trends** ............................................................... 451

**Chapter 25 Review and Activities** ................................................................ 454

### Chapter 26  How to Get and Keep Credit ........................................... 458

- **Section 26.1** Applying for Credit ....................................................... 460
  - *International Business* ................................................................. 461
  - **Business Case Study** ................................................................. 462
- **Section 26.2** Maintaining Credit ......................................................... 465
  - **Science/Tech Trends** ............................................................... 467

**Chapter 26 Review and Activities** ................................................................ 470

### Chapter 27  Credit and the Law .......................................................... 474

- **Section 27.1** Credit Laws ................................................................. 476
  - *Ethics in Business* ........................................................................... 478
- **Section 27.2** Solving Credit Problems ................................................ 481
  - **Business Case Study** ................................................................. 482
  - **Science/Tech Trends** ............................................................... 484

**Chapter 27 Review and Activities** ................................................................ 486

## Unit 9  Real-World Business and Career Profile: Geomagic .......................... 490

## Unit 9  Unit Thematic Project: Making Credit Decisions ............................. 492
Unit 10  Money Management  494

Chapter 28  Managing Personal Finances  496

Section 28.1  Personal Financial Planning  498

Section 28.2  Money Management  503

Chapter 28  Review and Activities  508

Chapter 29  Checking Accounts  512

Section 29.1  The Basics of Checking Accounts  514

Section 29.2  Account Records  519

Chapter 29  Review and Activities  524
# Table of Contents

## Chapter 30  Savings Accounts .......................................................... 528

### Section 30.1  Savings Account Basics ................................. 530

- **International Business** ................................. 531

### Section 30.2  Types of Savings Accounts ......................... 535

- **Science/Tech Trends** ................................. 538

## Chapter 30 Review and Activities ........................................... 540

## Chapter 31  Investing .............................................................. 544

### Section 31.1  Bonds .......................................................... 546

- **Ethics in Business** ........................................ 551

### Section 31.2  Stocks .......................................................... 553

- **Science/Tech Trends** ........................................ 557

## Chapter 31 Review and Activities ........................................... 560

## Chapter 32  Real Estate and Other Investment Options ........ 564

### Section 32.1  Real Estate .................................................. 566

- **International Business** ........................................ 567

### Section 32.2  Other Investment Options ......................... 571

- **Science/Tech Trends** ........................................ 573

## Chapter 32 Review and Activities ........................................... 576

## Unit 10  Real-World Business and Career Profile:
Integrated Management Services Engineers .......................... 580

## Unit 10  Unit Thematic Project: Building a Financial Future .......... 582
## Table of Contents

### Unit 11  Risk Management  584

<table>
<thead>
<tr>
<th>Chapter 33  The Basics of Risk Management  586</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Section 33.1</strong>  Types of Risk  588</td>
</tr>
<tr>
<td><strong>Section 33.2</strong>  Handling Risk  593</td>
</tr>
</tbody>
</table>

**Chapter 33 Review and Activities  598**

<table>
<thead>
<tr>
<th>Chapter 34  Vehicle and Property Insurance  602</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Section 34.1</strong>  Vehicle Insurance  604</td>
</tr>
<tr>
<td><strong>Section 34.2</strong>  Property Insurance  609</td>
</tr>
</tbody>
</table>

**Chapter 34 Review and Activities  614**
Table of Contents

Chapter 35  Life and Health Insurance ................................................. 618

Section 35.1  Life Insurance ................................................................. 620

Section 35.2  Health Insurance ............................................................. 625

Chapter 35 Review and Activities ........................................................... 630

Unit 11  Real-World Business and Career Profile: Advanced Physical Therapy, P.C. .... 634
Unit 11  Unit Thematic Project: Understanding Risk ............................................. 636

Math Appendix ...................................................................................... 638
Business Plan Appendix .......................................................................... 660
Key Terms Glossary ............................................................................... 674
Academic Vocabulary Glossary ............................................................... 688
Index........................................................................................................ 694
Chapter 3

Economic Activity in a Changing World

Chapter Objectives

After completing this chapter, you will be able to:

Section 3.1 U.S. Economic History

• Describe the four types of economic shifts the United States has experienced.
• Describe what is shown by GDP, unemployment rate, rate of inflation, and national debt.

Section 3.2 The Business Cycle

• Explain how individuals and the government influence the economy.
• Describe the four stages of the business cycle.

Ask

AN EXPERT

Q: I am a drummer in a band. I can’t decide if I should buy a new drum set now, or wait until next year when we go on the road. Should I buy now, or wait until next year and hope prices don’t go up?

A: Financial risk is always a factor when making major purchasing decisions. You have identified one risk—inflation. Prices may go up, but they also may come down. If you need a loan to buy the drum set, changing interest rates represent another risk. You also have liquidity risk. If the band breaks up, how long will it take you to sell your drums so you can pay off your loan? Some risks can be evaluated mathematically, others cannot.

Mathematics You can calculate the effects of price and interest rate fluctuation on purchases. For example, if a drum set costs $7,500, and the interest rate for one year is 7 percent, the total cost will be (0.07 × $7,500) + $7,500 = $8,025. Calculate the total cost with interest for each of the scenarios in the comparison chart and determine the least expensive option.

Comparison Charts A chart can help in comparing different scenarios of price and interest rates.

<table>
<thead>
<tr>
<th>Price</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7,500</td>
<td>7%</td>
</tr>
<tr>
<td>$7,450</td>
<td>8%</td>
</tr>
<tr>
<td>$8,200</td>
<td>5%</td>
</tr>
</tbody>
</table>
A market economy has its ups and downs. How is the business cycle similar to a roller-coaster ride?
Section 3.1

U.S. Economic History

Reading Guide

Before You Read
Think of some factors that affect the health of the U.S. economy.

Read to Learn
• Describe the four types of economic shifts that the United States has experienced.
• Describe what is shown by GDP, the unemployment rate, rate of inflation, and national debt.

The Main Idea
Throughout the years, the U.S. economic system has changed. Each change affected what was produced and how people were employed. To gauge the health of our economic system, we use a variety of economic indicators.

Key Concepts
• The Changing U.S. Economy
• Measuring Economic Activity

Vocabulary
Key Terms
- gross domestic product (GDP)
- standard of living
- inflation
- deflation
- budget deficit
- national debt
- budget surplus

Academic Vocabulary
You will find these words in your reading and on your tests. Make sure you know their meanings.
- shifts
- emphasis
- sum
- period

Graphic Organizer
Use a timeline like this one to indicate the changes in the U.S. economy from the 1700s to the 2000s. Mark the timeline to designate the following eras: Agricultural, Industrial, Production of Services, and Information Technology.

1700 1800 1900 2000

Go to connectED.mcgraw-hill.com to print out this graphic organizer.
The Changing U.S. Economy

Sometimes major shifts in certain growth areas can change the emphasis of the U.S. economy. The United States has experienced four major economic shifts.

During the early 1600s, the colonists bartered, or traded, goods and services. This created our service-based economy. In the 1700s, farming was a common way of life. This formed the agriculture-based economy. In the mid-1850s, the Industrial Revolution enabled the advent of big machines for producing goods. This started the industry-based economy. The 1900s saw the rapid movement of information, with the invention of the computer. This created the information-based economy. Computers have transformed the ways that goods and services are produced, delivered, and sold.

While we live in the information age, we also still rely upon aspects of the other types of economies. Agriculture, industry, services, and information all contribute to the health of the U.S. economy.

Business Case Study Reader and Case Study

Innovate for Good

Businesses think big to combine financial success with sustainability

Can businesses be responsible stewards of the planet while still remaining profitable and competitive?

Yes, says the World Economic Forum (WEF), which recently issued a report highlighting 16 companies that are doing exactly this. These “new sustainability champions” include companies from India, Brazil, Costa Rica, and other emerging markets. They represent industries including banking, fishing, solar energy, water technology—and even cement production, one of the largest contributors to global warming.

These companies combine superior financial performance with sustainable, innovative business practices. ShreeCement in India, for example, developed the world’s most energy-efficient process for making cement. Chinese air-conditioning manufacturer Broad Group invented a device to measure air pollution that fits inside a cell phone.

These companies have three things in common. They use innovation to turn challenges into opportunities. They are guided by a vision for sustainability. And they work to change the world around them to improve the way business is done.

Active Learning

Brainstorm in small teams about businesses in your community that you have seen advertising themselves as “green” or “sustainable.” Call one or more of these businesses and ask about their philosophy of sustainability, as well as about specifics of their practices. Brainstorm ways the business could use innovation to be even more sustainable. Present your ideas to the class.
Measuring Economic Activity

Baseball fans know that batting averages, strikeouts, RBIs, and ERAs are figures used to measure a player’s performance. Figures are also used to measure economic performance. These figures are called economic indicators. They measure things such as how much a country is producing, whether its economy is growing, and how it compares to other countries.

Gross Domestic Product

One way of telling how well an economy is performing is to measure how many goods and services it produces. The total value of the goods and services produced in a country in a given year is called its gross domestic product (GDP). GDP is one of the most important indicators of the status of an economy. To calculate the GDP, economists compute the sum of goods and services sold to businesses, consumers, the government, and other countries. The United States has a very high GDP compared to other countries.

Standard of Living

Another important measure of a country’s economic health is its standard of living. The standard of living is the level of material comfort as measured by the goods and services that are available. The more goods and services produced per person, the higher the standard of living.

The United States has a high standard of living largely because of its productive workforce. The standard of living refers to the amount of goods and services people can buy with the money they have. In the free-enterprise system, the wealth created by businesses benefits the entire community because businesses pay taxes and provide jobs.
Unemployment Rate

The unemployment rate measures the number of people who are able and willing to work but cannot find work during a given period. Changes in the unemployment rate show whether an economy is picking up or slowing down.

Rate of Inflation

Another important measure of economic strength is the rate of inflation. Inflation is a general increase in the price of goods and services. With inflation, one’s buying power decreases because it costs more to buy goods and services.

Inflation has many causes. It can occur after a war because scarce resources were transferred to the war effort. Inflation can be caused by increases in the costs of raw materials, expenses, and salaries. Inflation can also occur when the government allows too much money to circulate in the economy.

When the supply of goods is greater than demand, deflation can result. Deflation is a general decrease in the price of goods and services. When an economy produces more goods than people want, sellers have to lower prices and cut production. As a result, people have less money to buy goods, so the demand continues to go down.
Section 3.1

National Debt

Countries can run up large debts. The main source of income for a government is taxes. Governments use tax money to pay for programs such as defense, education, and Social Security. When the government spends more on programs than it collects in taxes, the difference in the amount is called a budget deficit. To pay for the difference, governments borrow money from the public, banks, and even other countries. The total amount of money a government owes is its national debt. If the debt gets too large, a nation can become dependent on other nations or unable to borrow more money. This is the case in many developing nations.

Sometimes, a government’s revenue can exceed its expenditures. When a government’s revenue exceeds its expenditures during a one-year period, it has a budget surplus. The United States experienced several years of budget surpluses in the late 1990s. The government often uses a surplus to cut taxes, reduce the national debt, or increase spending for certain programs.

Review Key Concepts

1. When did the service-based economy begin?
2. What do economic indicators measure?
3. What is the difference between a budget surplus and a budget deficit?

Academic Skills

4. **Mathematics** Suppose a recent study shows the U.S. Gross Domestic Product (GDP) is $11.5 trillion. The study also shows that personal spending accounts for 70.4 percent of the total GDP. How much is personal spending in dollars?

**CONCEPT** **Number and Operations: Percents**

A percent is a ratio comparing a number to 100. It can also be represented as a fraction, with 100 as the denominator. To find a decimal equivalent, divide the percent by 100. Multiply that decimal by the total amount to determine the dollar amount that it represents.

For math help, go to the Math Appendix.

Go to connectED.mcgraw-hill.com to check your answers.
The Business Cycle

Section 3.2

Think about the ups and downs local businesses experience in a market economy.

Read to Learn
- Describe the four stages of the business cycle.
- Explain how individuals and government influence the economy.

The Main Idea
In a market economy, there is an economic cycle, which includes four stages: prosperity, recession, depression, and recovery. These are also the four stages of the business cycle. In the last few decades, we have experienced the economic cycle a number of times.

Key Concept
- Guiding the Economy
- Four Stages of the Business Cycle

Vocabulary
Key Terms
business cycle
prosperity
recession
depression
recovery

Academic Vocabulary
You will find these words in your reading and on your tests. Make sure you know their meanings.
enormous
purchase
policy
decline

Graphic Organizer
On a figure like the one below, label each of the four boxes with the appropriate stage of the business cycle.

Go to connectED.mcgraw-hill.com to print out this graphic organizer.
Guiding the Economy

The U.S. economy is shaped by a mix of public and private forces. Individuals have an enormous role on the market for goods and services. Congress and the President enact laws that impact fiscal policy. Whenever tax money is spent, it has an effect on the economy. These expenditures are often planned to guide the economy. The Federal Reserve, informally called “the Fed,” is a government agency that guides the economy by regulating the amount of money in circulation, controlling interest rates, and controlling the amount of money loaned. State and local governments may also take steps to influence their local economies.

Four Stages of the Business Cycle

Economies go through ups and downs. This can happen for many reasons, including wars, foreign competition, changes in technology, and changes in consumer wants. Over long periods of time, these changes form patterns. For example, the U.S. economy went through slumps in the 1930s, the 1950s, the 1970s, and the early part of 2000. These slumps in economic activity with increased unemployment were followed by new waves of increased productivity and rises in GDP. The rise and fall of economic activity over time is called the business cycle. There are four stages of the business cycle—prosperity, recession, depression, and recovery. Figure 3.1 illustrates the business cycle.

In a global economy, one country’s economy can affect other trading partners. If a nation is in a period of economic expansion, it may purchase goods and services from other countries, promoting expansion in those countries.

Figure 3.1  Business Cycle Model

The repeated rise and fall of economic activity over time is called a business cycle. Does every business cycle have all four of these stages?
Prosperity

When unemployment is low, production of goods and services is high, new businesses open, and there is prosperity. **Prosperity** is a peak of economic activity. This condition spreads throughout the economy. Wages are usually higher, so workers have more income. There is a greater demand for goods to be produced. More people can buy houses, which creates more work for builders. People also want to buy more goods from other countries, which benefits those countries as well.

Recession

During a recession, economic activity slows down. Businesses produce less, so they need fewer workers. As the unemployment rate increases, people have less money to spend. Without a steady source of income, unemployed workers consume fewer goods and services. The general drop in the total production of goods and services makes GDP decline.

In a recession there are downturns in many industries. A downturn in one industry can affect others. For example, a recession in the auto-making industry can lead to a recession in businesses that make parts for cars. When this happens, it is called the ripple effect. Because of the ripple effect, downturns in major industries can bring on a recession.

---

**As You Read**

When an economy enjoys prosperity, there is a greater demand for goods. What new technologies were developed in the last few decades as a result of good economic conditions?

---

**Science/TechTRENDS**

**Jobs in Your Future**

Job opportunities result from the relationships between the population, the labor force, and the demand for goods and services. Population changes influence the demand for goods and services. When the population changes, the size and makeup of the labor force change as well.

The Bureau of Labor Statistics recently released a report stating that nearly all the 30 fastest-growing occupations between now and 2022 are related to health care and construction. These occupations include home health aides, industrial psychologists, supervisors, and trade workers.

**WebQuest**

Locate Web sites where you can research population trends between now and 10 years from now. Make some predictions about how the demand for goods and services will change over the next 10 years.
During the Great Depression, millions of people lost their homes and livelihoods. However, a large percentage of middle-class Americans were able to keep their jobs. These people were in professions considered “depressionproof.”

**What professions do you think are more secure during a depression, and why?**

**Depression**

During a depression there is high unemployment and low production of goods and services. A depression is a deep recession that affects the entire economy and lasts for several years. It can be limited to one country but usually spreads to related countries. During a depression, many people are out of work, and fewer goods and services are produced. There is also a lot of unused manufacturing facilities. Fortunately, depressions are rare.

The stock market crash on October 29, 1929, or “Black Tuesday,” marked the beginning of the Great Depression. Between 1929 and 1933, GDP fell from approximately $103 billion to $55 billion—a decline of nearly 50 percent. At the same time, the number of people out of work rose nearly 800 percent—from 1.6 million to 12.8 million. During the worst years of the Depression, one out of every four workers was jobless. Even workers who had jobs suffered. The average manufacturing wage, which had reached 55 cents an hour by 1929, plunged to five cents an hour by 1933.

Many banks across the country failed. The FDIC did not exist at the time, so depositors were not protected. To prevent panic withdrawals, the federal government declared a “bank holiday” in March 1933. Every bank in the country closed for several days, and many never reopened. The money supply fell by one-third. Currency was in such short supply that towns, counties, chambers of commerce, and other civic bodies resorted to printing their own money.

**Describe** What happens to the economy during a depression?
Recovery

During a recovery, production starts to increase. A recovery is a rise in business activity after a recession or depression. People start going back to work and have money to purchase goods and services. The new demand for goods and services stimulates more production, and the GDP grows. Recovery leads back to prosperity as new businesses open and existing businesses increase productivity.

A recovery can take a long time or it can happen quickly. In 1939, the United States was only beginning to recover from the depression when World War II began. During the war, the United States recovered much faster because of the demand for war production.

During a recovery, some businesses innovate—meaning that they bring out new goods and services. These innovations can be different from what the businesses previously produced. They could also be different from what their competitors make. If the innovation is popular with consumers, sales increase dramatically, per unit costs decrease, and profitability increases. Businesses grow and economic activity soars.

Section 3.2

Review Key Concepts

1. What is the stage that follows a recession or depression?
2. What is the difference between a recession and a depression?
3. Why may innovation play an important role in the recovery stage of the business cycle?

Academic Skills

4. English Language Arts The business cycle is often described using terms that describe how large bodies of water behave. Two of those terms are ebb and flow and ripple effect. Write a few sentences about each of these terms. Explain what they mean and why they are good metaphors for different aspects of the business cycle.

5. English Language Arts The words listed below are all synonyms, or closely related in meaning. They all can be used to describe negative movement in the business cycle. Notice that some of the words imply a more serious fall in the economy than others. Rewrite the list so that the words are, in your best judgment, ordered from least serious to most serious. Then write a few sentences explaining why you ordered the words as you did.

recession  slump  depression
decline  downturn

Go to connectED.mcgraw-hill.com to check your answers.
Chapter 3 Review and Activities

Section 3.1 Summary

U.S. Economic History Throughout the years, our economic system has evolved and changed. In colonial times, the United States had begun its service-based economy. The 1700s saw the rise of the agriculture-based economy. The Industrial Revolution in the 1850s brought about the industrial economy, characterized by the large-scale manufacturing of goods. During the latter part of the 20th century, the information technology economy revolutionized the business world. To measure the health of our economic system, we use a variety of economic indicators, including GDP, unemployment rate, rate of inflation, and national debt.

Section 3.2 Summary

The Business Cycle In a global economy, one country’s economy can affect the economy of its other trading partners. The Fed adjusts monetary policies to try to level out the ups and downs of the economy. An economic cycle includes four stages: prosperity, recession, depression, and recovery. Prosperity is the peak of economic activity. Recession is a slowdown in economic activity. Depression is a deep recession that affects the entire economy and lasts for several years. A recovery is a rise in business activity after a recession or depression. Fortunately, the United States has not had a depression since the 1930s.

Vocabulary Review

1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

Key Terms
- gross domestic product (GDP)
- standard of living
- inflation
- deflation
- budget deficit
- national debt

Academic Vocabulary
- budget surplus
- business cycle
- prosperity
- recession
- depression
- recovery
- shifts
- emphasis
- sum
- period
- enormous
- policy
- purchase
- decline

Review Key Concepts

2. Describe the four types of economic shifts the United States has experienced.

3. Describe what is shown by GDP, unemployment rate, rate of inflation, and national debt.

4. Explain how individuals and the government influences the economy.

5. Describe the four stages of the business cycle.
Critical Thinking

6. Would the cars made in this country by a foreign-owned company be included in GDP? Why or why not?

7. Which would be included in GDP: babysitting at home or working at a day-care center?

8. Why are people who are unemployed but not looking for work not included in the unemployment figures?

9. Why is inflation especially difficult for retired people?

10. Why might deflation be a bad thing?

11. Suppose you go to a store to buy a soda but notice the price is 20 cents higher than it was last week. Other prices are unchanged. Is this an example of inflation? Why or why not?

12. In which stage or stages of the business cycle would there be more personal bankruptcies? More business formations?

13. Explain why the standard of living is higher in the United States than in many other countries.

Write About It

14. Many economists believe that some unemployment is necessary because many of the unemployed are between jobs. Write an essay explaining why this might be true.

15. To pay for expenses, the federal government issues bonds. Many of these bonds are bought by foreign countries. Write a paragraph indicating whether you think this is good or bad for America.

16. Write a letter to your school counselor that explains how understanding the unemployment rate can be beneficial to you as you look for a job.

17. Assume the current inflation rate is 3 percent. Write an e-mail to your teacher explaining how that might help you decide where to put your savings.

18. Write a summary of the pros and cons of your starting a new business in the prosperous stage of the business cycle.

19. The unemployment rate in your community has increased considerably because of the closure of two firms. Write a letter to the editor of the newspaper explaining what steps you might take in your business as a result.

Technology Applications

20. You want to do business on the Internet. You know what kind of business you want to open. Use the Internet to research several businesses that might be considered your competition. Write a report that evaluates their Web sites. Print pages from each Web site and include them in your report.

Business Ethics

21. You are the president of a biotechnology company that produces vaccines. A foreign government has asked to buy a vaccine to help stop a deadly infectious disease, but the negotiator expects a bribe. Should you look the other way so that you can get the vaccine to people who need it?
Chapter 3 Review and Activities

**English Language Arts**

22. Major novelists of the 1920s, a time of prosperity in the United States, and the 1930s, the time of the Great Depression, include John Steinbeck, William Faulkner, F. Scott Fitzgerald, Ernest Hemingway, and John Dos Passos. Find out more about their work and the work of other writers of the period. Make a bibliography of novels that portray everyday life during the 1920s and 1930s. Choose one to read and write a review of it to share with your classmates.

24. The words Internet, interdependent, and international have the same prefix. Write a sentence in your own words telling what the prefix is and what it means. Give examples of other words that use the same prefix, and write sentences using them. Do the same for productivity and prosperity. Then check your work by looking in a dictionary or other resource.

**Mathematics**

23. The Agriculture sector of the U.S. economy produces \( \frac{1}{5} \) of the GDP while the Industry sector produces 18 percent. The rest is produced by the Service sector. What percent of GDP is contributed by the service sector?

25. Find unemployment statistics for the years 1933, 1944, 1955, 1966, 1977, 1988, 1999, and the most recent year for which statistics are available. Present the information in a bar graph. Write a few sentences discussing the reasons for the differences shown in the graph.

**Active Learning**

**Track News Stories**

26. During a two-week period, read the newspaper or watch the national news on television. Pick out three articles or report on three sequences of television news programming that relate to one of the topics discussed in this chapter, such as unemployment, inflation, deflation, and national debt. Write a report or give an oral presentation to the class on your findings.

**Business in the Real World**

**Interview a Businessperson**

27. Identify a businessperson in your community who has been in business for several years and experienced a number of business cycles. Interview the business owner to find out how his or her company performed during periods of recession and periods of prosperity. Then write a report summarizing the business owner’s responses.
**Real Life Skills**

**Assessing Your Skills**

28. These skills are needed by all employees: creative thinking, decision making, and problem solving. Give an example of how you have implemented each skill in the last month. Then indicate which skills you believe you are fairly good at doing. Recommend how you can become better at doing the skill or skills in which you need work.

**Role Play**

**Analyzing Economic Indicators**

30. **Situation** You are an intern for a federal bureau that collects and analyzes economic data. You have been asked to research recent economic indicators.

**Activity** Choose a sector of the economy to measure how well the economy is doing. Give a presentation to the bureau’s economists. Sectors include housing construction, gross domestic product, and retail and food services.

**Evaluation** You will be evaluated on how well you meet the following performance indicators:
- Research an economic sector.
- Interpret economic data.
- Answer questions about your findings.
- Present clear and relevant information.
- Project your voice, and use correct grammar and English.

**Find Your Dream Job**

29. Locate the Occupational Outlook Handbook Web site. Click on the “OOH Search/A-Z Index” link and enter the job title “economist.” Then write a one-page report about this type of occupation. Conclude your report with a list of things you could do now to prepare yourself to pursue the occupation.

**Standardized Test Practice**

**Directions** Read the paragraph and answer the question that follows. Write the letter for the answer on a separate piece of paper.

Some reasons for unemployment represent more of a problem for the economy than others. For example, recently graduated students and those who are voluntarily looking for a new job are only temporarily unemployed. Some workers are seasonal workers and only unemployed during part of the year. However, those workers who have lost their jobs because the economy has slowed down may be out of work until the economy recovers.

1. Which best describes the way the paragraph is organized?
   
   A sequence of events  
   B comparison  
   C statement and example  
   D cause and effect

**Test-Taking Tip** When studying from a textbook, read the chapter summaries. They usually do a good job at summarizing important points.