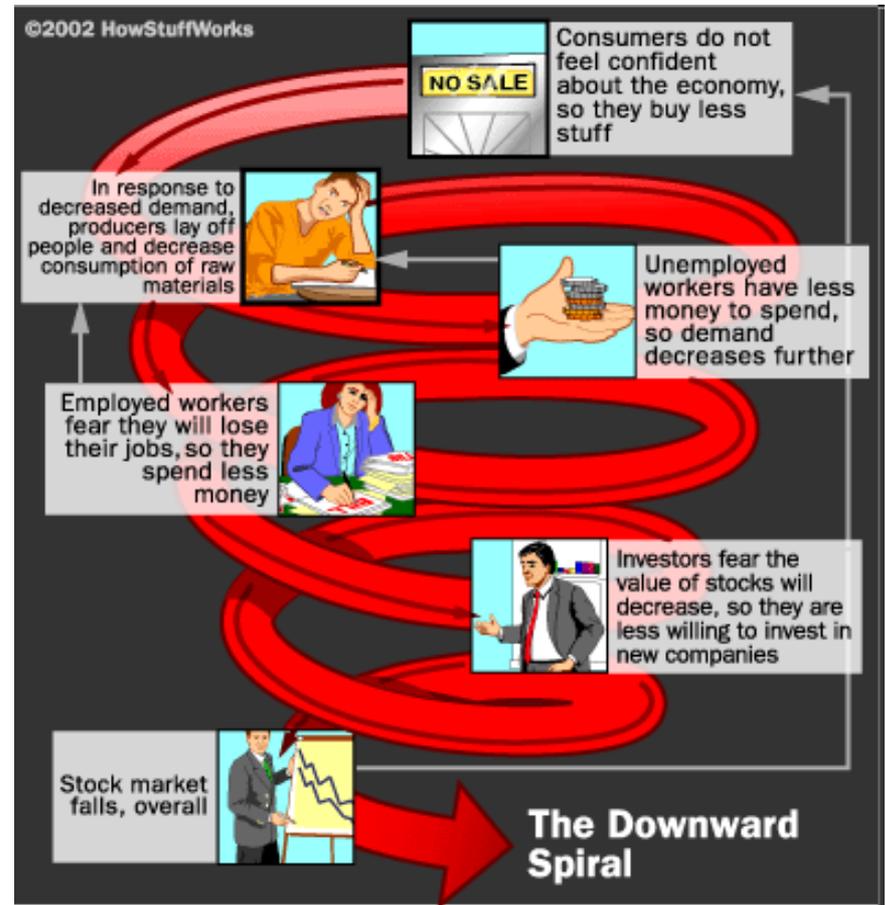
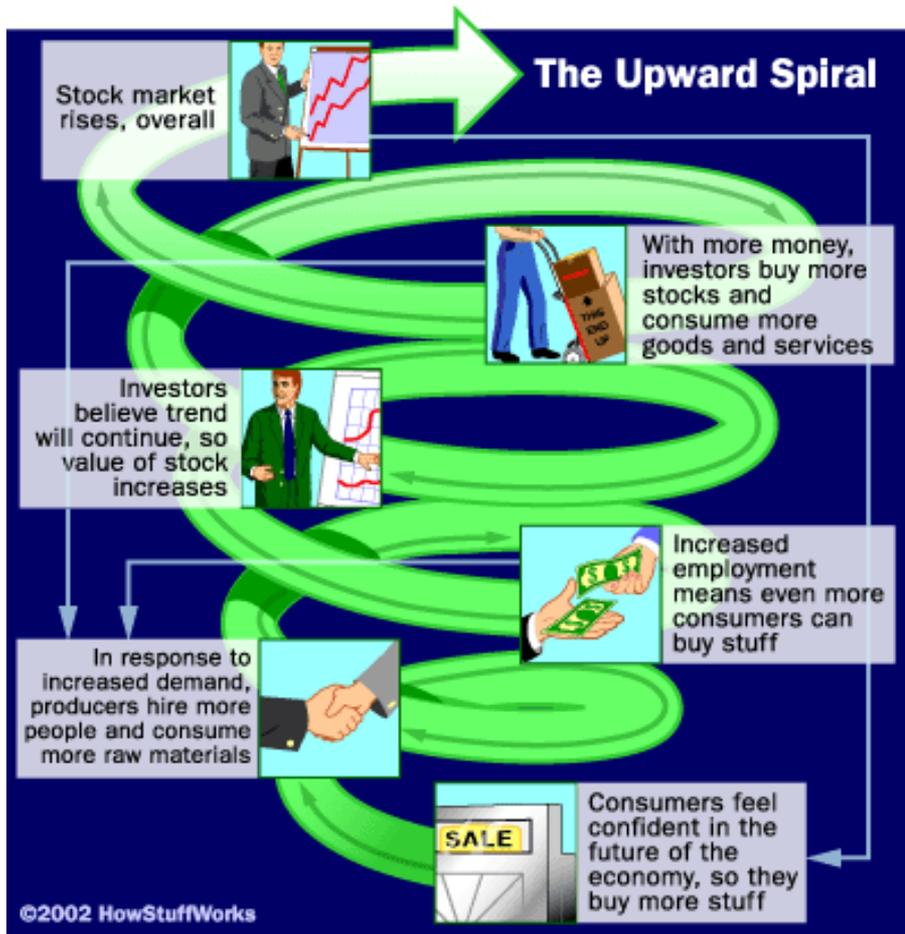


The Economy

How can we determine how the economy is doing overall?

How does government try to help when things are not going well?



What can cause macroeconomic changes to occur?

Business Cycle

Y-axis = Output, often GDP

X-axis = Time in months

Peak = Highest level of prosperity

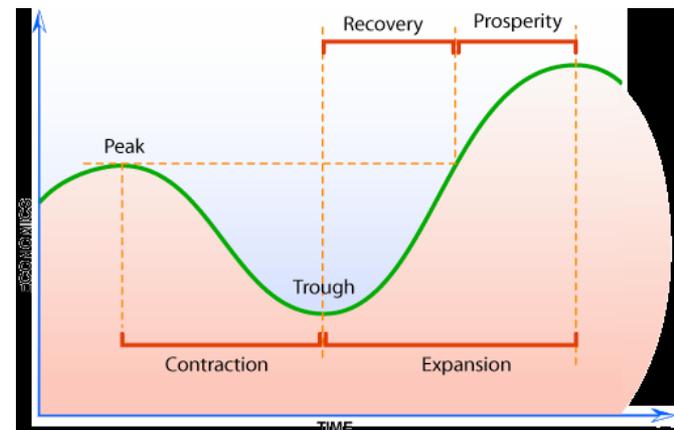
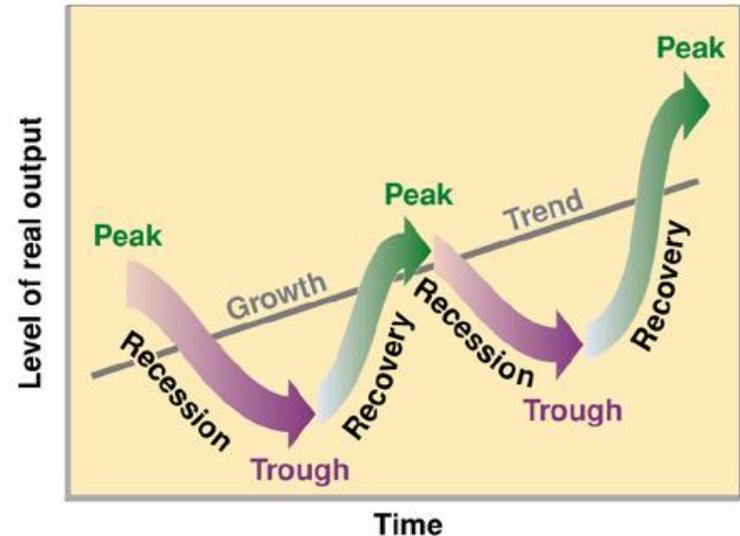
Trough = Lowest point of contraction

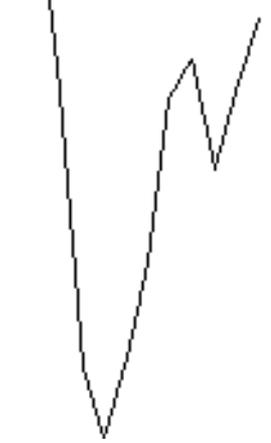
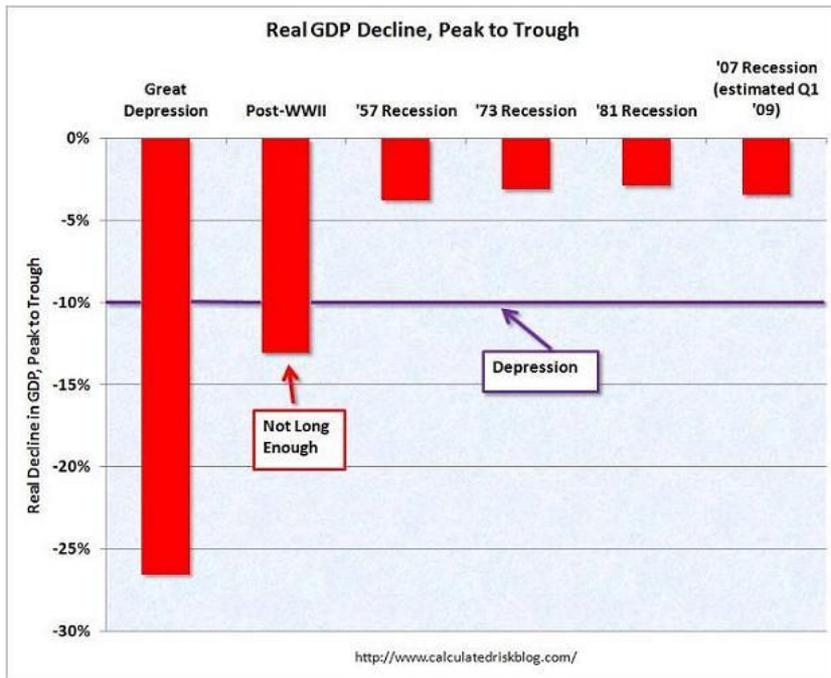
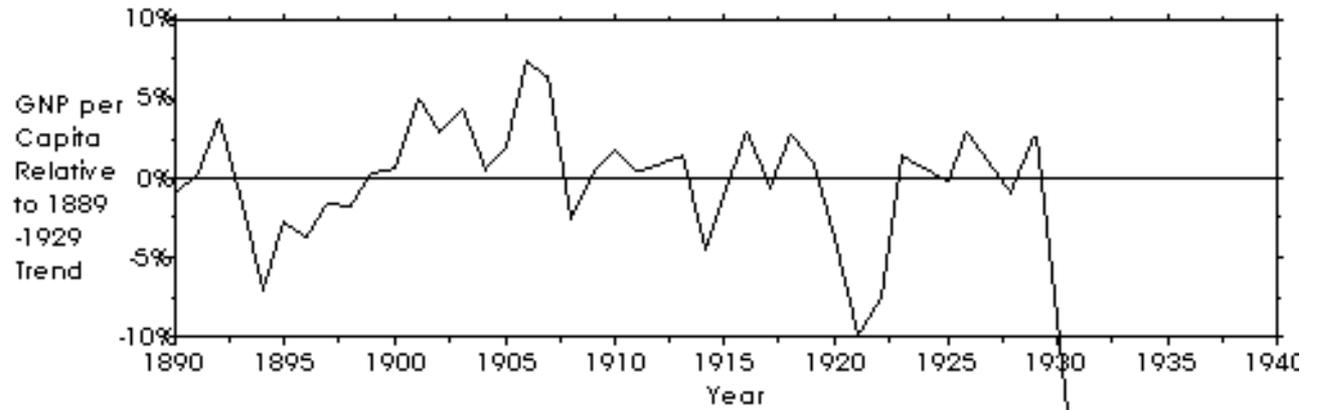
Recession = 6 months or more of contraction

Depression = Prolonged period, at least several years

Where are we now?

Can we avoid recessions?





Economic Indicators



- Average Prices
- Business Failures
- Unemployment Rate
- Consumer Spending
- Production/Output
- Housing Starts
- New Businesses
- Stock Market Index

Inflation

- Rise in the average price of goods and services
- Measured by the Consumer Price Index (CPI)
 - Monthly survey of 400 commonly used products



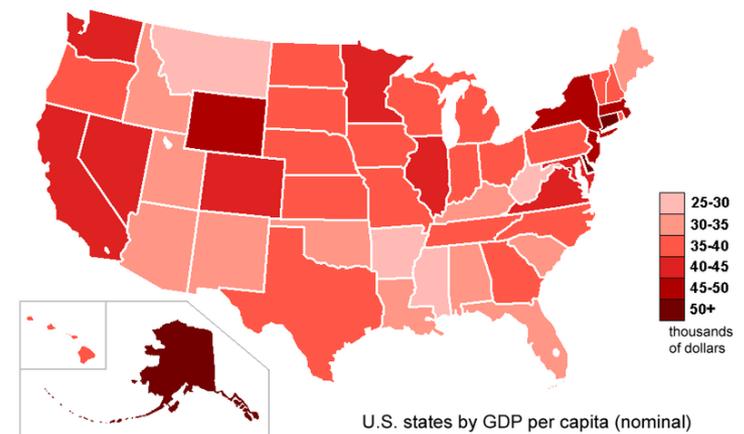
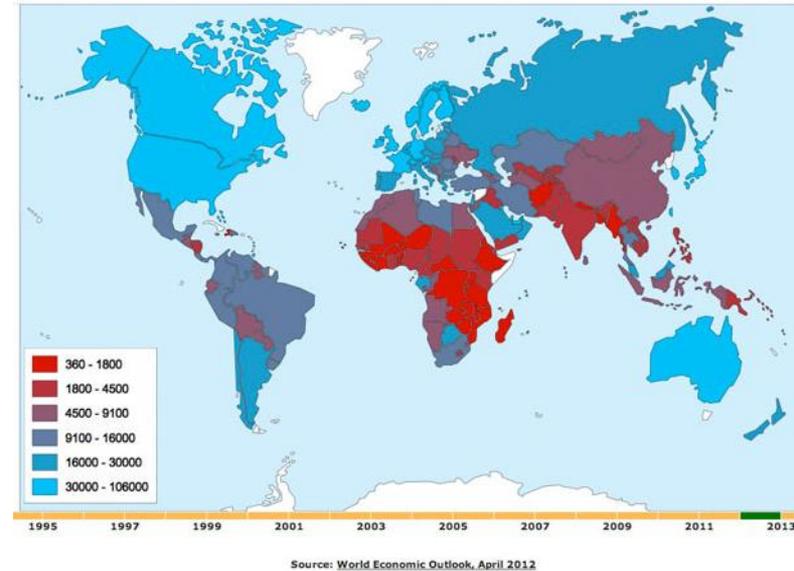
Causes?



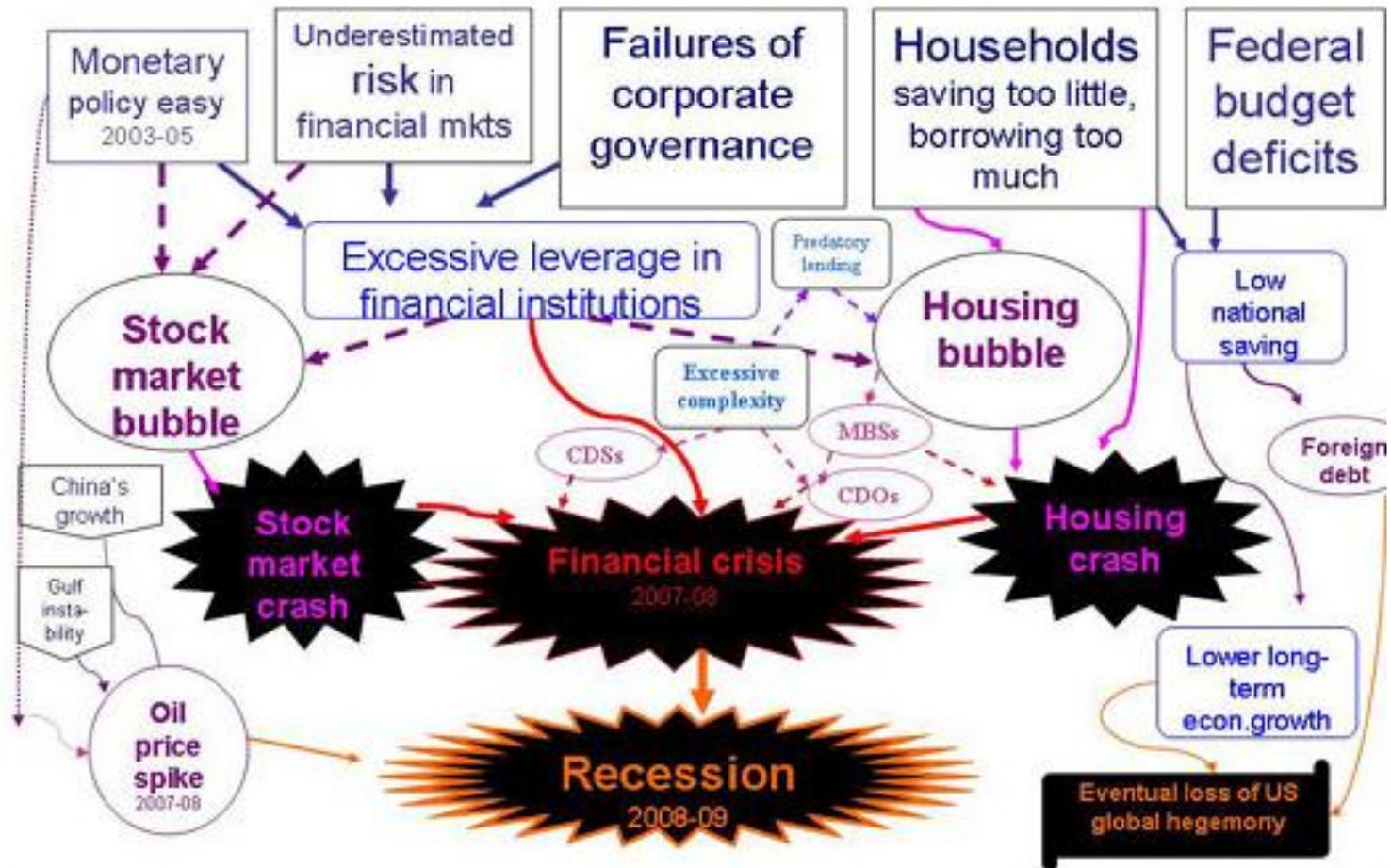
Effects?

Gross Domestic Product

- Total value of all goods and services sold in a year
 - Based on price and quantity
 - Does not show quality
 - New products only
- Per capita GDP = per person
 - Good indicator of standard of living
- Real GDP = adjusted for inflation



What caused the Recession of 2008?



Stock Market Crash

The background of the slide features a light blue grid pattern. In the upper right corner, there is a stylized bull with large horns, facing left. In the lower left corner, there is a stylized bear, facing right. The overall aesthetic is clean and professional, with a focus on financial market symbolism.

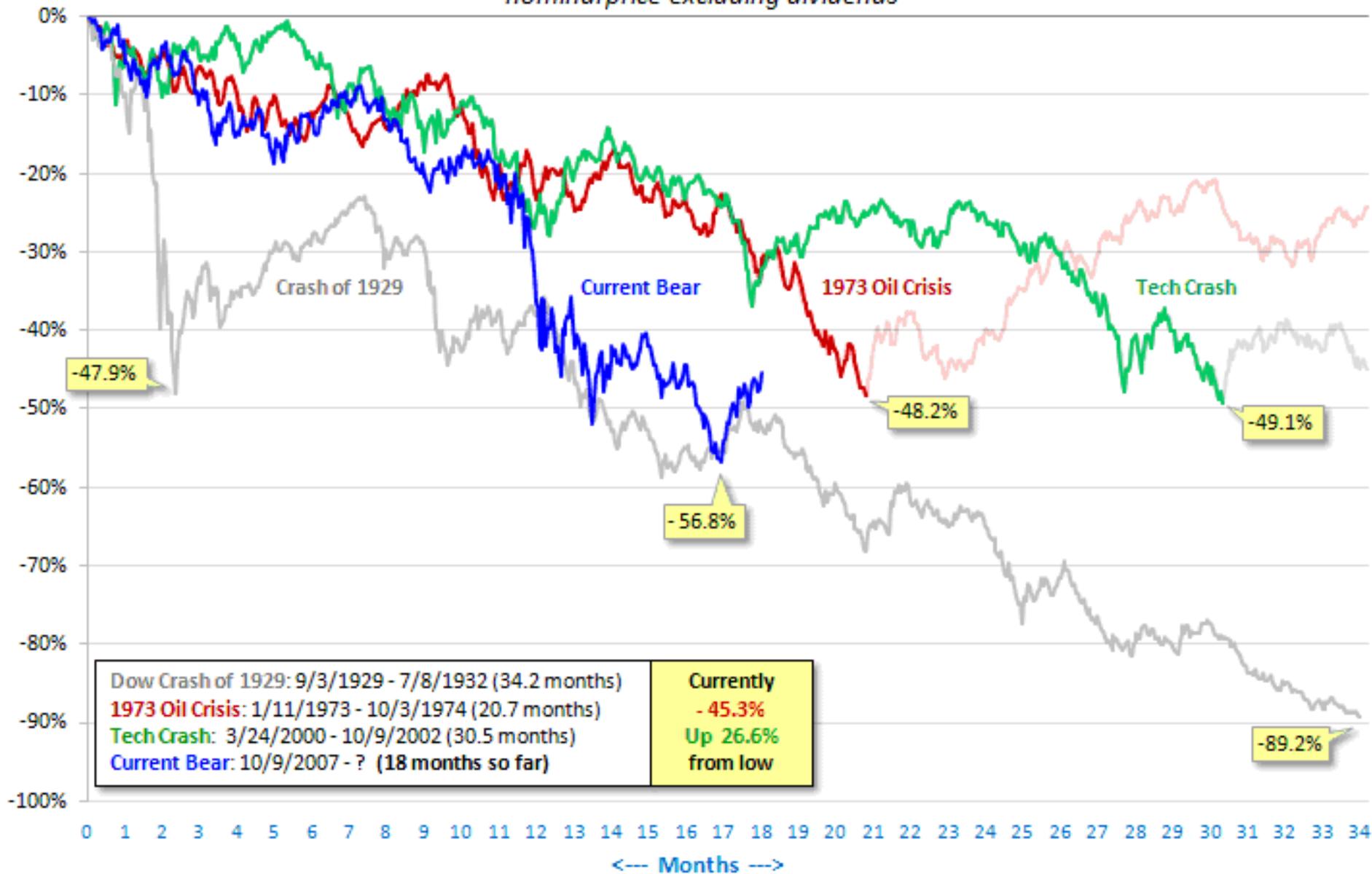
- Review: [Stock Market Video](#)
- Tech-boom of 90s caused global investors to flood market with available credit
- Dot com bubble bursts in 2000, leading to a recession
- Interest rates were lowered to encourage more borrowing and spending
- The market recovered, but crashed again in 2007 when investors realized the market was inflated and began to lose confidence

- *What indexes are used to measure the stock market?*
- *What do they show about the economy?*

Four Bad Bear Markets

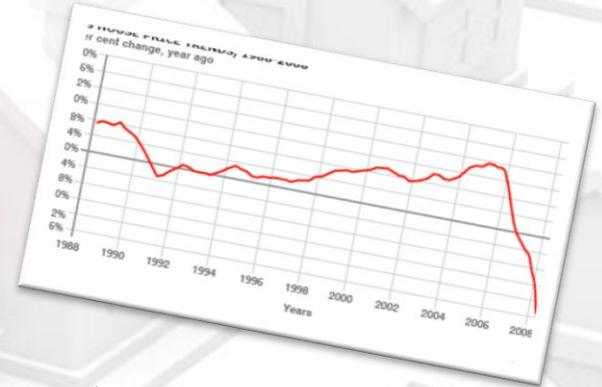
Dow in 1929-1932; S&P 500 in 1973-74, 2000-02, 2007-09

nominal price excluding dividends

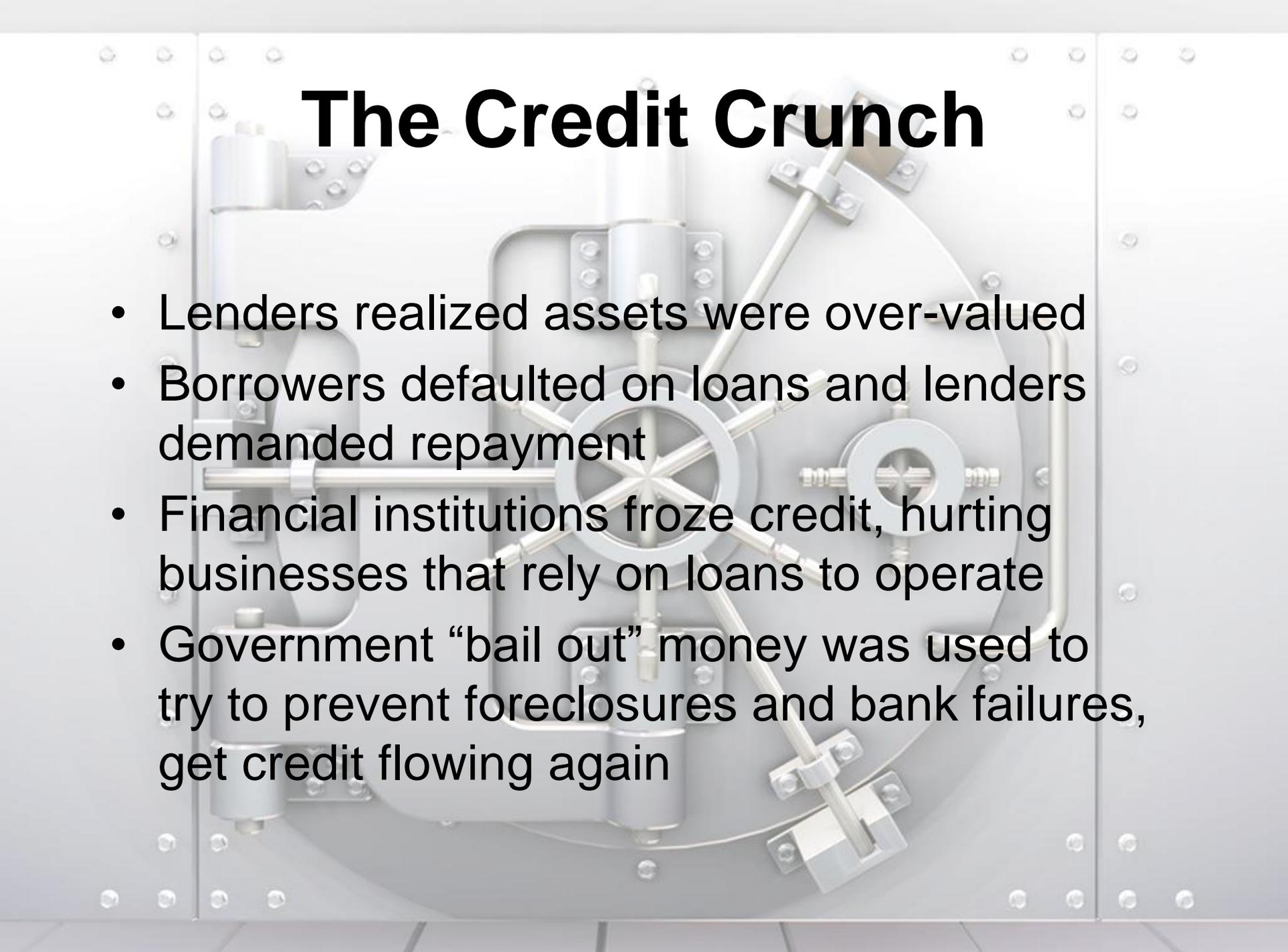


Housing Crash

- Market got inflated (“Bubble”)
 - Low interest rates increased home loans
 - Banks offered risky “sub-prime” mortgages
 - [Sub-Prime Video](#)
- Builders took out more loans
 - To increase production to meet greater demand
 - To cover increasing costs due to rising oil prices
- Surplus caused resale values to plunge



The Credit Crunch

The background of the slide is a close-up, slightly blurred view of a heavy-duty metal vault door. The door is silver or light grey and features a complex locking mechanism with several large bolts and a central circular handle. The door is set within a frame of rivets, suggesting a secure and robust environment.

- Lenders realized assets were over-valued
- Borrowers defaulted on loans and lenders demanded repayment
- Financial institutions froze credit, hurting businesses that rely on loans to operate
- Government “bail out” money was used to try to prevent foreclosures and bank failures, get credit flowing again

What should the government do?



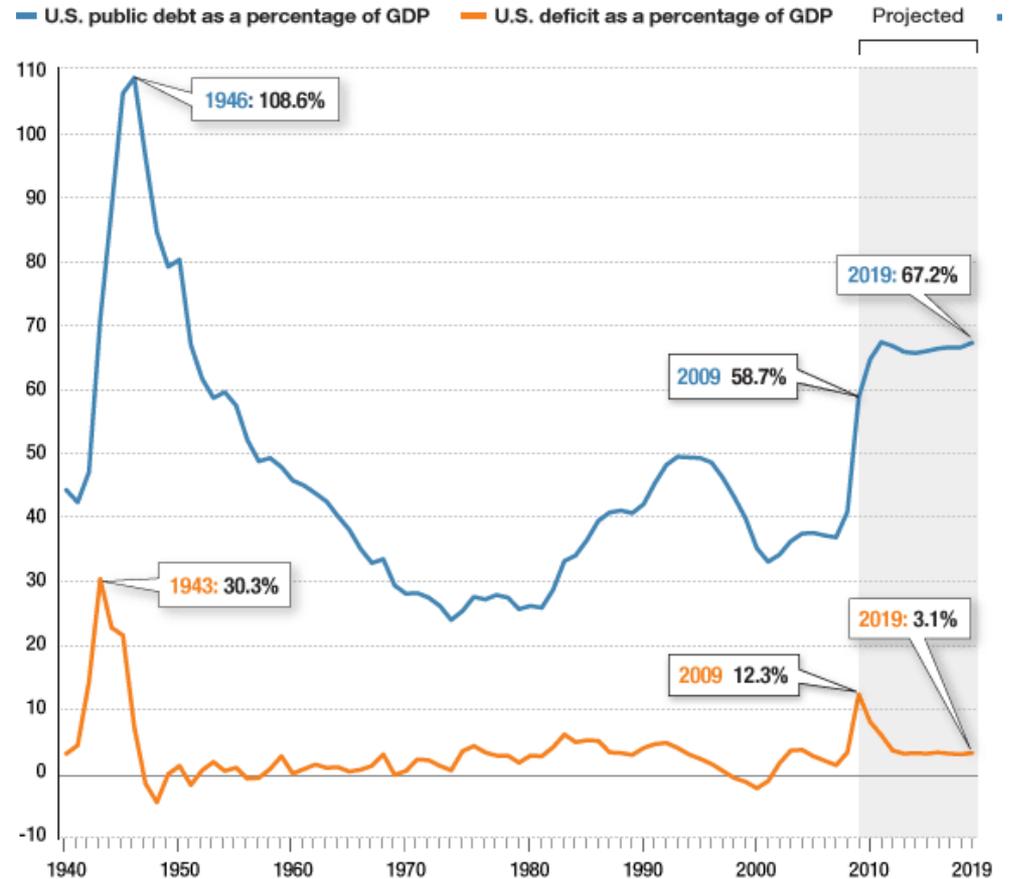
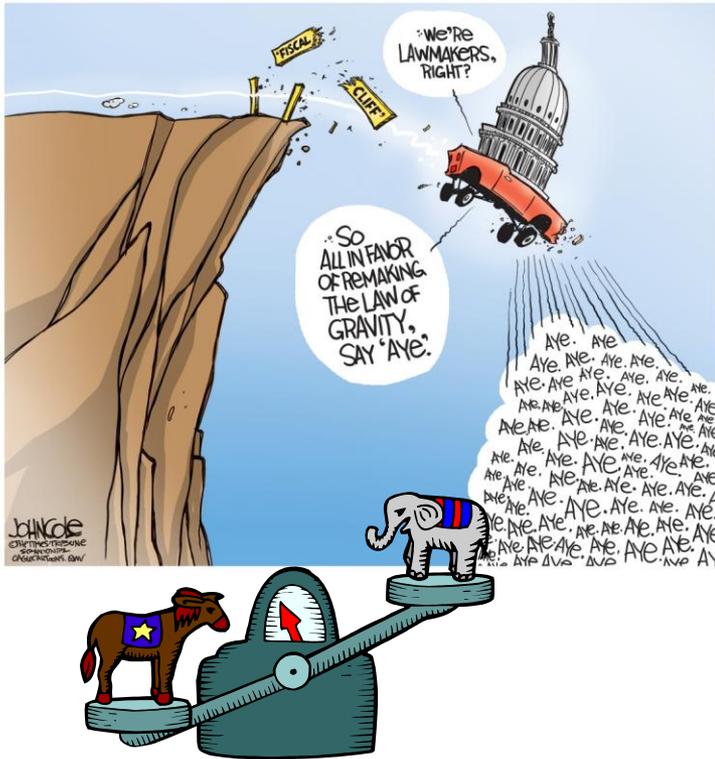
- Goal: To jump start the economy during a period of contraction
 - Cut taxes to “stimulate” spending and hiring
 - Increase government spending on services to help those in need
 - Balance the two to avoid excessive deficits and debt
- Goal: To adjust money supply to meet the needs of the economy
 - Expansionary: Increase money supply to encourage spending during a recession
 - Contractionary: Decrease money supply to combat inflation during a peak

Taxes and Budget Basics

- *Review: Who controls taxes? The budget?*
- Taxes help generate revenue
 - Collected at federal, state, and local levels
 - Paid by individuals and businesses
 - Different philosophies = Benefits received (sales) vs. Ability to pay (income)
 - Based on percentage (progressive = income, flat = property, regressive = sales)
- Budget = Revenue – Expenditures
 - Deficit is how much expenditures exceed revenues in a fiscal year
 - *Have we ever had a surplus?*
 - Debt accumulates over time (like wealth)



What are the pros and cons of different fiscal policies?

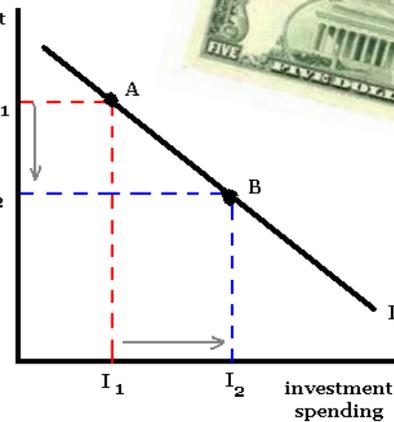
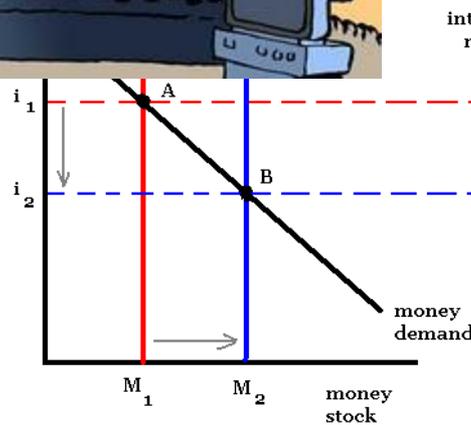


Tools of The Fed	Open-Market Operations	Reserve Requirement	Discount Rate
Illustration			
Definition	Exchange of government bonds and T-bills	How much money must be kept in reserve by banks	The interest rate it offers to banks for additional money
To expand money supply	Buy bonds with new dollars to go into circulation	Lower the RR so banks lend out more money to be spent	Lower interest rates to encourage borrowing and spending
To contract money supply	Sell bonds for dollars to pull them out of circulation	Raise the RR so more money is kept in banks	Raise interest rates to discourage borrowing and encourage saving

What are the pros and cons of the Fed's monetary policies?



Quantitative Monetary Policy



1. The increase in the money supply leads to lower interest rates.

2. The lower interest rates cause investment spending to rise.

WORLD'S HIGHEST STANDARD OF LIVING

The Great Depression vs. Recession of 2009

Bank Failures	9,000 (50%)	57 (.6%)
Unemployment	25%	8.5%
Dow Jones	-89%	-54%
Prices	-25%	+5%
Emergency spending programs	1.5% GDP for 1 year 1934 budget deficit	2.5% GDP for 2 years 2009 Reinvestment and Recovery Act
Increase in money supply by the Fed	+17%	+125%

What has changed?

- Better understanding of supply/demand and the business cycle
- Tighter regulation of banks and insurance of accounts (Fed, FDIC)
- Greater oversight of stock market practices (SEC)
- More govt programs to increase employment and provide assistance (SSA)
- *Other?*

What hasn't changed?

- Too much credit used by producers, consumers
- Overconfidence in peak times = risky investments
- Interdependence causes disruptions in trade and access to resources
- Parties disagree over fiscal and monetary policy
- Gap between the rich and poor is growing larger
- *Other?*