ECONOMIC SYSTEMS

WEST BRANCH CBI PROGRAM

WHAT IS AN ECONOMIC SYSTEM?

Economics: the study of how people produce, distribute, and consume goods and services.

Production is the act or process of creating and producing goods or services.

Distribution it the act of transporting and selling goods and services.

Consumption is the purchase and use of goods and services.

Economic System: the way a country utilizes the production, distribution, and consumption of good and services.

THE FREE ENTERPRISE SYSTEM

Free Enterprise System: individuals or businesses may buy and sell goods and services, and set prices, with little government control.

- System used by United States
- Government has a limited role in the economic system
    - Responsible for law enforcement, education, roads, mail, safety standards, regulation of industries, and consumer protection.

Consumer: the people who buy and use goods and services.

Producers: companies or individuals who make goods or provide services.

MARKETPLACE

Marketplace: anywhere that goods and services are sold.

To reach consumers and promote the purchasing of their products, producers must market their goods and services.

Marketing: the process of getting products and services to consumers.

PRICE FLUCTUATIONS

In a free enterprise system, prices fluctuate, or go up and down, because of three main factors.

1. **Supply and Demand**
    a) When the supply is greater than the demand, prices fall.
    b) When the demand is greater than the supply the prices rise.
        i. Demand can also refer to a specific quantity of a good or service that consumers are willing or able to purchase.

PRICE FLUCTUATIONS

2. **Production costs.**
   a) Production cost is the combined costs of material and labor to make a good or service. Businesses are in business to make a profit.
3. **Competition.**
   a) When there is a lot of competition for a good or service, prices tend to be lower. When there is little to no competition prices tend to be higher.

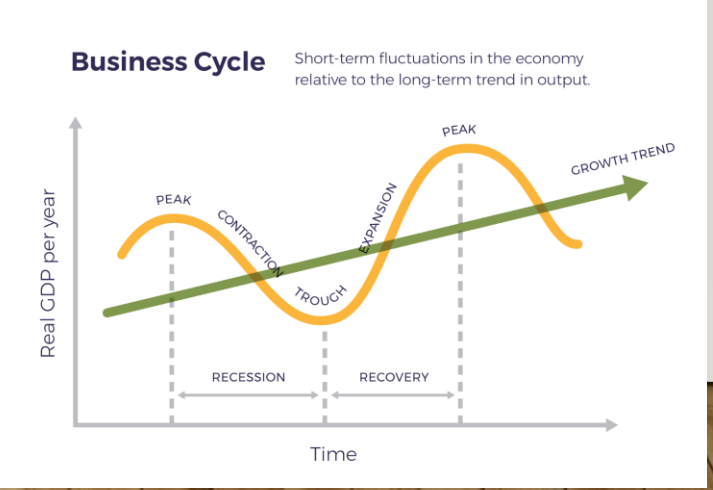
THE BUSINESS CYCLE

In addition to prices going up and down, the economy itself fluctuates.

Expansion: a period in which the economy is growing.

Recession: a period in which the economy is declining in growth.

The movement between these two stages is called **The Business Cycle**.



HOW DO WE MEASURE THE ECONOMY?

Fluctuations in the economy help to determine wages, spending, behavior, and production.

Economic Indicators: used to measure the performance and direction of the economy each year. These indicators are also what the government uses to determine economic policy.

1. **Gross Domestic Product (GDP):** the value of all goods and services produced by a county in a given time period.
   - The GDP is the main indicator of the size and condition of an economy. GDP is used to compare growth or decline of business activity in an economy.

HOW DO WE MEASURE THE ECONOMY?

2. **Consumer Price Index (CPI):** a collection of data that measures changes in the prices of consumer goods and services.
   - Based on a monthly survey conducted by the Bureau of Labor and Statistics.
   - Tracks price changes for about 90,000 items in 363 categories, including food, shelter, fuel, and medical services.
   - Also tracks prices changes for regions around the country.

HOW DO WE MEASURE THE ECONOMY?

3. **Inflation:** the rise in the price of goods and services the results in a decrease in the purchasing power of money.
    - Prices rise and it becomes difficult to by as much as you were able to buy before.
    - Inflation can cause the standard of living to decline.
    - Inflation can affect the business cycle and is a contributor to unemployment.
4. **Standard of Living:** the measure of the quality of life based on the amount of good and services a person can purchase.

HOW DO WE MEASURE THE ECONOMY?

5. **Unemployment Rate:** a statistic that identifies the percentage of the labor force that is without work but is actively seeking employment.
    - A low unemployment rate is a sign that the economy is doing well because most people are working, earning wages, and consuming goods and services.

Higher unemployment rates increase the chances of an economic slowdown due to the following factors.

HOW DO WE MEASURE THE ECONOMY?

- The unemployed and their dependents experience a downturn in their standard of living.
- In times of high unemployment, consumer spending decreases.
- Businesses pay more for unemployment insurance, which provides assistance to unemployed workers.
- The government has to spend more to provide money for unemployment benefits and increased use of social services for those without jobs.
- The government collects fewer tax dollars to pay its expenses.