Chapter 2
UNDERSTANDING BASIC ECONOMICS

Chapter Overview

This chapter introduces important micro- and macroeconomic concepts such as demand versus supply, competition, monetary and fiscal policies, inflation, and economic indicators. It distinguishes among major economic systems and discusses ways of measuring economic activity. It also covers the debate over deregulation and identifies key roles that government play in the economy.

Chapter Outline

I. What Is This Thing Called the Economy?
   A. The **economy** is the sum total of all the economic activity within a given region
   B. **Economics** is the study of how a society uses its scarce resources to produce and distribute goods and services
      1. **Microeconomics** is the study of economic behavior among consumers, businesses, and industries that collectively determine the quantity of goods and services demanded and supplied at different prices
      2. **Macroeconomics** is the study of a country's larger economic issues, such as competition, government policies, and how an economy maintains and allocates its scarce resources
   C. Each society must decide how to use its economic resources or factors of production
      1. **Natural resources** – things that are useful in their natural state (land, forests, minerals, and water)
      2. **Human resources** – people and their individual talents and capacities
      3. **Capital** – money, computers, machines, tools, and buildings
      4. **Entrepreneurship** – the spirit of innovation, the initiative and the willingness to take on risks involved in creating/operating a business
      5. **Knowledge** – the collective intelligence of an organization
   C. The supply of these factors of production is limited
      1. Scarcity creates competition for resources
      2. Scarcity forces consumers, companies and governments to make trade-offs
         a. **Opportunity cost** is the value of the most attractive option not selected when making a trade-off

II. Economic Systems
   A. An **economic system** is the basic set of rules for allocating a society's resources to satisfy its citizens' needs

1. **Free-market system** – individuals and companies decide what products to produce, how to produce them, to whom to sell them, and at what price
   a. Referred to as **capitalism** – private parties own/operate the majority of businesses and competition, supply, and demand determine goods/services produced
   b. No economy is without limited intervention by government, creating a mixed economy or mixed capitalism
2. **Planned system** – governments largely control allocation of resources
   a. Communism is the economic system that allows individuals the least degree of economic freedom
   b. **Socialism** has a high degree of government planning, some government ownership of capital resources but private ownership is permitted in some industries
3. Governments change structure of economy in two ways:
   a. **Nationalizing** – assuming ownership of selected companies or industries
   b. **Privatizing** – allowing private businesses to perform services once performed by the government

III. The Forces of Demand and Supply

A. **Demand** – buyers' willingness and ability to purchase products at various price points
   1. The **demand curve** shows the relationship between price and demand – as price decreases, demand increases (i.e., more people are willing to buy)

B. **Supply** – the quantities of a good/service that producers will provide on a particular date at various prices
   1. The **supply curve** shows the relationship between supply and demand – as price increases, the quantity that sellers are willing to supply increases

C. Demand and supply curves intersect at **equilibrium point** – the point at which quantity supplied equals quantity demanded

IV. The Macro View: Understanding How an Economy Operates

A. **Competition** is rivalry among businesses for the same customers.

B. There are different degrees of competition
   1. **Pure competition –** the market situation in which there are so many buyers and sellers that no single buyer or seller can individually influence market price
   2. **Monopoly –** the market situation in which one company dominates the market and can control prices
   3. **Monopolistic competition –** the market situation in which there are many sellers who differentiate their products from those of competitors in at least some small way
   4. **Oligopoly** – the market situation in which a very small number of suppliers, sometimes only two, provide a particular good or service

C. Economic activity changes in response to factors such as investment patterns, shifts in consumer attitudes, world events and basic economic forces – called economic fluctuation or **business cycles**
   1. Economic expansion – when the economy is growing and consumers are spending more money

2. Economic contraction – when spending declines, employment drops and the economy slows down
   a. A **recession** is two consecutive quarters of decline in gross domestic product
   b. A deep and prolonged recession can be considered a depression, a catastrophic collapse of financial markets

D. **Unemployment rate** – the percentage of labor force currently without employment
   1. Four types of unemployment – frictional, structural, cyclical, and seasonal

E. **Inflation** – the steady rise in the average prices of goods and services throughout the economy
   1. **Deflation** is the sustained fall in average prices

V. Government's Role in a Free-Market System

A. There is considerable debate over the key roles that governments play in the economy
   1. **Regulation** involves relying more on laws and policies than on market forces to govern economic activity
   2. **Deregulation** involves removing laws and regulations to allow the market to prevent excesses and correct itself over time

B. The government plays a role in the economy in four major areas:
   1. Protecting stakeholders through numerous regulatory agencies
   2. Fostering competition through prevention of monopolies
      a. Antitrust legislation
      b. Merger and acquisition approval
   3. Encouraging innovation and economic development
   4. Stabilizing and stimulating the economy through use of monetary policy and fiscal policy
      a. **Monetary policy** involves adjusting the nation's money supply by increasing or decreasing interest rates. It is administered by the Federal Reserve Board
      b. **Fiscal policy** involves changes in the government's revenues (taxation) and expenditures

VI. Economic Measures and Monitors

A. **Economic indicators** are statistics such as interest rates, unemployment rates, housing data and industrial productivity
   1. Leading indicators (such as housing starts and durable-goods orders) suggest changes that may happen to the economy in the future
   2. Lagging indicators (such as the unemployment rate) provide confirmation that something has happened in the past

B. Price indexes offer a way to monitor inflation or deflation
   1. The **consumer price index (CPI**) measures rate of inflation by comparing change in prices of a representative "basket" of consumer goods and services
   2. The **producer price index (PPI)** is a statistical measure of price trends at the producer and wholesaler levels

C. The **gross domestic product (GDP)** is the value of all the final goods and services produced by businesses located within a nation's borders.

Classroom Activities

Break-out Group Discussion*: *Capitalism vs. Socialism
Goal: Ask students to discuss the pros and cons of both capitalism and socialism and to come away with the understanding that each system has its own benefits and shortcomings.

Time Limit: 15 minutes.

Details:
1. Break students into groups of five. (2 minutes)
2. Ask each group to come up with the top pros and cons of capitalism or socialism. Sample list items include capitalism's efficient self-adjusting market mechanism via "demand vs. supply", encouragement of hard work and entrepreneurship, lower taxes, higher income disparity, and generally poorer records in the public sector such as education, healthcare and social welfare, and socialism's generally better records in education, healthcare and social welfare, lower income disparity, higher taxes and less incentive for hard work and entrepreneurship. Use examples of countries and regions to illustrate such differences, e.g. U.S. and Hong Kong for capitalism, and France and Canada for socialism (10 minutes)
3. Ask representatives/speakers from each group to present their results to the whole class, either verbally or written (on the blackboard). (3 minutes)

Summary: Instructor summarizes the top pros and cons for both capitalism and socialism, and concludes that the best system tends to be a mixed system that incorporates the beneficial elements of both systems.

In-Class Activity*: *GDP vs. GNP
Goal: Help students differentiate between Gross Domestic Product (GDP) and Gross National Product (GNP).

Time Limit: 10 minutes.

Details:
1. Draw a table with three columns and four rows on the blackboard with the following column headings respectively: "Scenarios", "Which Country's GDP" and "Which Country's GNP".
2. Lists the following three scenarios under the column heading "Scenarios".
    a. An American banker working in London
    b. A Chinese factory worker in a Coca Cola bottling plant in Shanghai
    c. An Australian volunteer in South Africa
3. Ask students to pair up and recreate the content of the blackboard in their notebooks. They then need to populate the rest of the table by listing the names of countries under the two column headings corresponding to GDP and GNP.

4. Make it clear to students that the main difference between GDP and GNP is that GDP considers *where* the production occurs and GNP considers *who* is responsible for the production. For instance, in Scenario A, the goods and services produced by an American banker in London should be classified as the GDP of United Kingdom (UK) and the GNP of United States (US).

   Hint: GNP excludes the value of production from foreign-owned businesses within a nation's boundaries (Scenario B). Volunteering is not a component of GDP or GNP (Scenario C).

End-of-Chapter

Behind The Scenes
The Push for Grid Parity at Suntech Power

Critical Thinking Questions

2-1. What effect are feed-in tariffs likely to have on electricity users who don't adopt solar? Is this outcome fair? Why or why not?
Feed-in tariffs will likely raise the electricity rates in the short term for users who don't adopt solar because individual suppliers are often paid above-market rates for their power by some governments. This outcome is fair because feed-in tariffs are intended to spur the growth of solar in the short term. Over the long run, high adoption rates of solar, combined with technical advances and production efficiencies will drive down the cost of solar energy. (LO: 5, AACSB: Ethical understanding and reasoning)

2-2. If a particular government believes that solar is a more desirable energy source than nonrenewables such as coal and gas, why wouldn't it simply grant solar energy utilities monopoly rights?
Because monopoly typically has the effect of reducing competition and raising prices. (LO: 4, AACSB: Analytical thinking)

2.3 Why could it make sense for a company to acquire one or more competitors during an industry shakeout, if there isn't enough business to sustain al the suppliers in the market?
It would make sense for Suntech to acquire ailing competitors if it can structure an all-stock deal and conserve much needed cash during a recession. Another advantage of acquiring during a deep recession is the lower-than-usual acquisition price. (LO: 4, AACSB: Analytical thinking)

Learn More Online
Students' responses will depend, in large part, on the material currently posted on the website. (LO: 4, AACSB: Analytical thinking).

Test Your Knowledge

Questions for Review

2-3. Why is it important, especially for businesspeople, to understand economic issues at both micro and macro levels?

It is important to have an understanding of both macro- and micro-economic issues because, even though these are two distinct areas of study, they do not sit in isolation and therefore, one can affect the other. This means that to fully appreciate and analyze a given problem you need to understand both the small- and large-scale issues causing and shaping it. (LO: 1)

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2-5. Give examples of various economic resources.

Economic resources are also known as factors of production and could include knowledge, capital, natural resources, human capital, and entrepreneurship. It would be expected that students would either describe each of these in turn, or give an example of each. (LO: 1)

2-6. Does the United States have a purely free-market economy or a mixed economy?

The U.S. has a mixed economy. (LO: 2)

2-7. Why is government spending an important factor in economic stability?

In an attempt to foster economic stability, the government can levy new taxes or adjust the current tax rates, raise or lower interest rates, and regulate the total amount of money circulating in our economy. These government actions have two facets: monetary policy and fiscal policy. Monetary policy involves adjusting the nation's money supply by increasing or decreasing interest rates to help control inflation. Fiscal policy involves changes in the government's revenues and expenditures to stimulate or dampen the economy. Government spending is indeed an important factor in U.S. economic stability. For one thing, the U.S. federal and state governments are responsible for supplying and maintaining such *public goods and services* as the highways, military, public water works, fire and police protection, and so on. The U.S. government gets money to provide such public goods by collecting a variety of taxes. (LO: 5)

2-8. Why might a government agency seek to block a merger or acquisition?

To preserve competition, a government agency may stipulate requirements companies must meet to gain approval of a proposed merger or acquisition. If the governmental agency thinks a proposed merger or acquisition might restrain competition, it may deny approval altogether. (LO: 5, AACSB: Ethical understanding and reasoning)

Questions for Analysis

2-9. Why do governments intervene in the free-market system?

Governments intervene in free-market systems to influence prices and wages or to change the way resources are allocated. This practice of limited intervention is called mixed capitalism, which is the economic system of the United States. Under mixed capitalism, the pursuit of private gain is regarded as a worthwhile goal that ultimately benefits society as a whole. (LO: 2)

2-10. What would happen if scarcity did not exist in economies?
Scarcity is crucially important in any economy as it provides us with the fundamentals for basic economics. To suggest that scarcity did not exist would be to suggest that there is an infinite amount of anything that could be demanded. If this was the case then there would be no competition as demand could always be satisfied instantly, prices would become extremely low, and competition would be limited. (LO: 6)

2-11. Are the fluctuations in the business cycle predictable?
No, such fluctuations are rarely predictable. (LO: 4)

2-12. Is pure competition better for customers than monopolistic competition? Why or why not?
Monopolistic competition is better for buyers. In pure competition, there are many small suppliers with virtually identical products. In monopolistic competition, many sellers differentiate their products from those of competitors in at least some small way. (LO: 4, AACSB: Analytical thinking)

2-13. Ethical Considerations. The risk of failure is an inherent part of free enterprise. Does society have an obligation to come to the aid of entrepreneurs who try but fail? Why or why not?
Students' answers will vary, but may reflect some of the following concerns:

- Entrepreneurs willing to face risks of failure are a vital force in capitalist economies
- Such entrepreneurs will be rewarded handsomely when they become successful
- Many such entrepreneurs are involved in multiple ventures and may use earnings from successful ventures to fund, develop or improve ventures that are less successful (LO: 5, AACSB: Ethical understanding and reasoning)

Questions For Application

2-14. How might government and education leaders work with business to minimize structural unemployment?
Government and education leaders might work with businesses to provide educational opportunities and training programs that would best match workers' skills with the current needs of employers in an effort to minimize structural unemployment. (LO: 6, AACSB: Analytical thinking)

2-15. What would be the impact of introducing a minimum allowable price on a highly desirable product?
In answering this question it would be beneficial for students to apply product examples to help better illustrate their ideas. Students may think of highly desirable products such as computer games or mobile phones, however, more basic commodities should also be considered as there is a high rate of demand for staples. Introducing a minimum allowable price may lead to a rise in the prices, it

may mean that large organizations are unable to use certain products as loss leaders in order to encourage customers to shop with them, or it could mean that producers are guaranteed a minimum income level. (LO: 6, AACSB: Analytical thinking)

2-16.If you wanted to increase demand for your restaurant but are unable to lower prices or increase advertising, what steps might you take?

Applying the law of demand vs. supply, you may want to relocate your restaurant to a neighborhood/area where there are not as many other restaurants, i.e. where there is less supply. There will be less competition and you may even be able to raise your price slightly without driving customers away. (LO: 3, AACSB: Analytical thinking)

2-17.Concept Integration. What effect might the technological environment, discussed on page 10 in Chapter 1, have on the equilibrium point in a given market?

Student answers may vary; however, the following provides a possible scenario:

- Technological advances may help reduce the cost of producing goods and services and therefore increasing the supply for a given market at every price, thus moving the equilibrium point as well. (LO: 3, AACSB: Information technology)

Expand Your Knowledge

Discovering Career Opportunities

Thinking about a career in economics? Find out what economists do by reviewing the *Occupational Outlook Handbook* in your library or online at **www.bls.gov/oco/**. This is an authoritative resource for information about all kinds of occupations. Search for "economists" then answer these questions:

2-18.Briefly describe what economists do and their typical working conditions.

Economists study the production and distribution of resources, goods, and services by collecting and analyzing data, researching trends, and evaluating economic issues. Economists typically research and analyze economic issues, conduct surveys and collect data, analyze data using mathematical models and statistical techniques, and prepare reports, tables, and charts that present research results. They also interpret and forecast market trends, advise businesses, governments, and individuals on economic topics, design policies or make recommendations for solving economic problems, and write articles for publication in academic journals and other media sources.

Economists apply economic analysis to issues within a variety of fields, such as education, health, development, and the environment. Some economists study the cost of products, healthcare, or energy. Others examine employment levels, business cycles, or exchange rates. Still, others analyze the effect of taxes, inflation, or interest rates.

Economists held about 16,900 jobs in 2012, of which 45 percent were in government. Another 19 percent worked in management, scientific, and professional consulting services. Economists typically work independently in an office. However, many economists collaborate with other economists and statisticians, sometimes working on teams. Some economists work from home, and others may be required to travel as part of their job or to attend conferences. (LO: 5)

2-19. What is the job outlook for economists? What is the average salary for starting economists?

Employment of economists is projected to grow 14 percent from 2012 to 2022, about as fast as the average for all occupations.

Businesses and organizations across many industries are increasingly relying on economic analysis and quantitative methods to analyze and forecast business, sales, and other economic trends. Demand for economists should grow as a result of the increasing complexity of the global economy, additional financial regulations, and a more competitive business environment. As a result, demand for economists should be best in private industry, especially in management, scientific, and professional consulting services.

However, employment in the federal government—the largest employer of economists—is projected to decline. As a result, the need for economists in the federal government is likely to be limited.

The median annual wage for economists was $91,860 in May 2012. The median wage is the wage at which half the workers in an occupation earned more than the amount and half earned less. The lowest 10 percent earned less than $51,410, and the top 10 percent earned more than $155,490. (LO: 5, AACSB: Ethical understanding and reasoning)

2-20. What training and qualifications are required for a career as an economist? Are the qualifications different for jobs in the private sector as opposed to those in the government?

A master's degree or Ph.D. is required for most economist jobs. Positions in business, research, or international organizations often require a combination of graduate education and work experience.

Students can pursue an advanced degree in economics with a bachelor's degree in a number of fields, but a strong background in math is essential. A Ph.D. in economics requires several years of study after earning a bachelor's degree, including completion of detailed research in a specialty field.

Candidates with a bachelor's degree qualify for some entry-level economist positions, including jobs with the federal government. An advanced degree is sometimes required for advancement to higher level positions.

Most who complete a bachelor's degree in economics find jobs outside the economics profession as research assistants, financial analysts, market research analysts, and similar positions in business, finance, and consulting. (LO: 5)

Improving Your Tech Insights: Data Mining

To find a few ounces of precious gold, you dig through a mountain of earth. To find a few ounces of precious information, you dig through mountains of data, using *data mining*, a combination of technologies and techniques that extract important customer insights buried within thousands or millions of transaction records. (Data mining has many other uses as well, such as identifying which employees are most valuable to a firm. And a related technology, *text mining*, applies similar analysis tools to documents.)

Data mining is an essential part of *business intelligence* because it helps extract trends and insights from millions of pieces of individual data (including demographics, purchase histories, customer service records, and research results). Data mining helps marketers identify who their most profitable customers are, which goods and services are in highest demand in specific markets, how to structure promotional campaigns, where to target upcoming sales efforts, and which customers are likely to be high credit risks, among many other benefits. You may hear the term *business analytics* and *predictive analytics* used in this context as well, to describe efforts to extract insights from databases.

Research one of the commercially available data-mining or business analytics systems. The list of member companies of the Data Mining Group (**www.dmg.org**) is a good place to start**. In a brief email message to your instructor, describe how the system you've chosen can help companies market their goods and services more effectively.**
Student answers will vary depending on the magazines or companies they pick. (LO: 6, Information technology)

Practice Your Skills

Sharpening Your Communication Skills
The economics of supply and demand can affect us every day, from the ever-changing prices of plane tickets to the depleted stock of the latest must-have products. **In a brief paragraph (no more than 100 words), explain the impact and effect of supply and demand on the business world.**

Answers will vary depending on the key issues students pick up on. Based on the very short word count, however, it would be expected that students examine at least one factor from each side of supply and demand and explain the impact and effect on business in a concise manner. (LO: 4, AACSB: Reflective thinking)

Building Your Team Skills
Economic indicators help businesses and governments determine where the economy is headed. As part of a team assigned by your instructor, analyze the following newspaper headlines for clues to the direction of the U.S. economy:

- "Housing Starts Lowest in Months"
- "Fed Lowers Discount Rate and Interest Rates Tumble"
- "Retail Sales Up 4 Percent Over Last Month"
- "Business Debt Down from Last Year"

- More Manufacturers Showing Interest in Upgrading Production Equipment"
- "Local Economy Sinks as Area Unemployment Rate Climbs to 9.2 Percent"
- "Computer Networking Firm Reports 30-Day Backlog in Installing Business Systems"

Is each item good news or bad news for the economy? Why? What does each news item mean for large and small businesses? Report your team's findings to the class. Did all the teams come to the same conclusions about each headline? Why or why not? With your team, discuss how these different perspectives might influence the way you interpret economic news in the future. (LO: 6, AACSB: Analytic thinking)

- **Housing Starts Lowest In Months**
  This indicates that consumers are not very confident about the future, so they are "staying put" rather than building new houses.

- **Fed Lowers Discount Rate And Interest Rates Tumble**
  This headline indicates that aggregate demand is slow. In order to boost the economy and encourage firms to invest more, the Fed lowers the discount rate and other interest rates follow.

- **Retail Sales Up 4 Percent Over Last Month**
  Increase in sales indicates a healthy economy with employment rates rising and rising consumer confidence as a result. Some inflationary pressure may result.

- **Business Debt Down From Last Year**
  This indicates that business owners are less confident and less willing to take on debt.

- **More Manufacturers Showing Interest in Upgrading Production Equipment**
  This headline indicates that businesses are replacing labor with machines.

- **Local Economy Sinks as Area Unemployment Rate Climbs to 9.2 Percent**
  This indicates that high unemployment rate often contributes to lower consumer spending, resulting in a shrinking local economy.

- **Computer Networking Firm Reports 30-Day Backlog in Installing Business Systems**
  This indicates growth in the economy, as businesses are growing.

Developing Your Research Skills

In small groups, research examples of privatization in different industries, such as energy and rail, around the world. Consider the following questions: What impact does privatization have on the industry and the economy? What are the

kinds of difficulties that may exist when governments try to privatize industries? Write a one-page report summarizing your findings.
Answers will depend upon the examples students have found when undertaking their research. However, many will probably examine various energy or rail privatizations around the world. Impacts on the industry may be suggested as needing to run more efficiently, changes in employment terms or contracts, and changes in competition levels among others. Difficulties may be suggested as resilience to change, nation states receiving poor value for money, and public backlash. (LO: 4)

Assisted-graded Questions

2.21 Why is competition an important element of the free-market system?

The need to compete for customers keeps prices down, encourages cost-cutting techniques, and promotes a diversity of goods to cater to diverse and changing consumer preferences. Because competition responds to customer demands, products that are low quality or dangerous will be removed from the market, while products or services that are quality, fairly priced, and meet consumers needs will stay on the market. Because companies will not receive money for goods that the consumer does not find worthwhile, the system is considered to be “self-regulating.” (LO: 4, AACSB: Analytical thinking)

2.22 How might the word “free” affect public and political discussions of free-market systems?

There is much debate about how “free” the free market should be. In a broader view, this argument springs from profound philosophical differences over the role government should play in society as a whole. More narrowly, even professional economists don’t always agree on what role the government should play in the economy. Much of the debate is framed as the argument between regulation versus deregulation. (LO: 5, AACSB: Ethical understanding and reasoning)

CHECKPOINTS

LEARNING OBJECTIVE 1: Define *economics* and explain why scarcity is central to economic decision making.

Critical thinking:
(1)Why is entrepreneurship considered a factor of production?
Entrepreneurship is considered a factor of production because it is finite, just like the other four factors of production, in that not everyone has the spirit of innovation, the initiative, and the willingness to take the risks involved in creating and operating businesses. Like the other four factors, entrepreneurship can also be used to satisfy society’s needs.

(2) If you had an unlimited amount of money, would you ever need to make trade-offs again? Why or why not?

Students' responses will vary depending on personal opinions but points to consider include the fact that economics is defined in terms of scarcity, and scarcity makes trade-off a necessity.

It's your business:
(1) Did you consider opportunity cost when you chose the college or university you are currently attending?
Students' responses will vary depending on personal experiences.

(2) What trade-offs did you make in order to read this chapter at this exact moment in your life? (Think about the decisions you made to get to a point in your life where you're taking a business course.)
Students' responses will vary depending on personal experiences.

LEARNING OBJECTIVE 2: Differentiate among the major types of economic systems.

Critical thinking:
(1) Why are no economies truly free, in the sense of having no controls or restrictions?
Because in all economies, local, state, national and even international governments intervene in the economy to various degrees, to accomplish goals that leaders deem socially or economically desirable. These interventions include taxation and price controls.

(2) What are some possible risks of privatizing basic services such as the transportation infrastructure?
Some possible risks include that the private entities that are in control of transportation infrastructure could sacrifice infrastructure quality and safety to minimize costs and maximize profits. They may also be entities controlled by foreign governments that may not be friendly towards the U.S. or even become hostile both politically and militarily.

It's your business:
(1) What is your emotional reaction to the terms *capitalism* and *socialism*? Explain why you feel the way you do.
Students' responses will vary depending on personal opinions.

(2) Would you rather pay lower taxes and accept the fact that you need to pay for many services such as health care and education, or pay higher taxes with the assurance that the government would provide many basic services for you? Why?
Students' responses will vary depending on personal opinions.

LEARNING OBJECTIVE 3: Explain the interaction between demand and supply.

Critical thinking:
(1) How does the interaction of demand and supply keep a market in balance, at least approximately and temporarily?

The interaction of demand and supply keep a market in balance through the equilibrium point.

(2) If the prices of complementary products for a given product go up, what effect is this increase likely to have on demand for that product?
This increase will likely reduce the demand for that product.

It's your business:
(1) Are there any products or brands you are so loyal to that you will purchase them at almost any price? Will you accept cheaper substitutes?
Students' responses will vary depending on personal opinions.

(2) Have you ever purchased something simply because it was on sale? Why?
Students' responses will vary depending on personal experiences.

LEARNING OBJECTIVE 4: Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

Critical thinking:
(1) Are colleges and universities an example of pure competition or monopolistic competition? Why?
They are monopolistic competition since they offer products that can be distinguish from competing products in at least some small way, such as strengths in certain majors or facilities.

(2) Are monopolies always harmful to consumers? Why or why not?
Not necessarily. There are some government sanctioned monopolies such as utilities and the U.S. Post Service, which are not really harmful to consumers.

It's your business:
(1) What state of the business cycle is the economy currently in? Is this influencing your career plans?
Students' responses will vary depending on personal experiences and opinions.

(2) Have you ever been unemployed (at a time when you were actively looking for work)? Which of the four categories of unemployment would you have fallen under?
Students' responses will vary depending on personal experiences and opinions.

LEARNING OBJECTIVE 5: Outline the debate over deregulation and identify four key roles that governments play in the economy.

Critical thinking:
(1) Would it be wise for the government to put price controls on college tuition? Why or why not?
Students' responses will vary depending on personal opinions as well as how much of a role they think government should play in the economy.

(2) Under what conditions, if any, should the federal government step in to rescue failing companies?
Students' responses will vary depending on how much of a role they think government should play in private industries.

It's your business:
(1) How do you benefit from competition among the companies that supply you with the goods and services you need?
Students' responses will vary depending on personal opinions

(2) Does this competition have any negative impact on your life?
Students' responses will vary depending on personal opinions

LEARNING OBJECTIVE 6: Identify the major ways of measuring economic activity.

Critical thinking:
(1) Why would anyone bother to monitor lagging indicators?
Lagging indicators are important since they provide confirmation that something (such as a recession) has occurred in the past.

(2) Why is GDP considered a more accurate measure of a country's economic health than GNP?
GDP is considered a more accurate measure since it includes goods and services produced within a country's borders, and enables a nation to evaluate its economic policies and to compare its current performance with prior periods or with the performance of other nations.

It's your business:
(1) In your multiple economic roles as a consumer, employee, and investor, is inflation a good thing, a bad thing, or both? Explain your answer.
Students' responses will vary depending on personal opinions.

(2) How have increases in college costs affected your educational plans?
Students' responses will vary depending on personal experiences.

