



AUDIO STATION

**Chapter 3: American Free Enterprise
Section 2**

Prentice Hall

ECONOMICS

PEARSON

In Partnership With
THE WALL STREET JOURNAL
CLASSROOM EDITION

Objectives

1. **Explain** why the government tracks and seeks to influence business cycles.
2. **Describe** how the government promotes economic strength.
3. **Analyze** the factors that increase productivity.



Key Terms

- **macroeconomics:** the study of economic behavior and decision-making in a nation's economy
- **microeconomics:** the study of the economic behavior and decision-making in small units, such as households and firms
- **gross domestic product:** the total value of all final goods and services produced in a country in a given year
- **business cycle:** a period of macroeconomic expansion, or growth, followed by one of contraction, or decline



Key Terms, cont.

- **referendum:** a proposed law submitted directly to the public
- **obsolescence:** situation in which older products and processes become out-of-date
- **patent:** a government license that gives the inventor of a new product the exclusive right to produce and sell it
- **copyright:** a government license that grants an author exclusive rights to publish and sell creative works
- **work ethic:** a commitment to the value of work

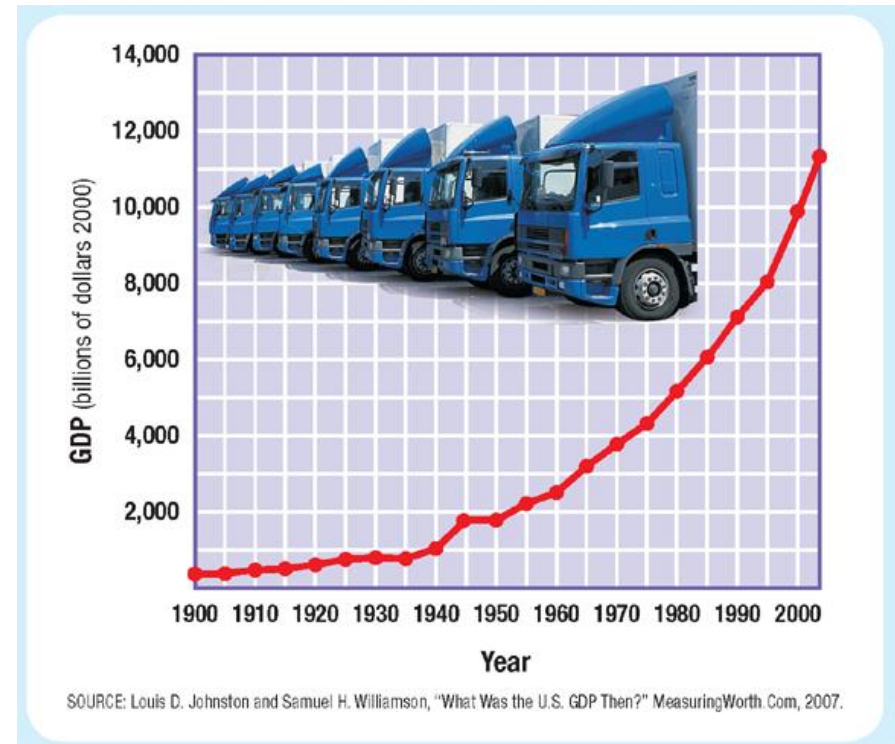


- How does the U.S. government encourage growth and stability?
 - The U.S. government encourages growth and stability by:
 - Tracking business cycles
 - Promoting a high employment rate
 - Keeping prices stable
 - Encouraging the development of new technologies
 - Taking pride in the American work ethic



Tracking Business Cycles

- Even under the free enterprise system, the government intervenes to influence macroeconomic trends.
- One measure of the nation's economic well-being is gross domestic product (GDP).



Action Graph
online

How much did the GDP grow between 1990 and 2006?



GDP and the Business Cycle

- During a period of growth, GDP goes up and in a period of contraction, GDP goes down.
- This pattern of a period of expansion followed by a period of contraction is called a business cycle.
 - Changes in the business cycle take place because individuals and businesses, acting in their own self-interest, make decisions about factors such as prices, production, and consumption.



Promoting Economic Strength

- Checkpoint: What three goals does the government try to meet when promoting economic strength?
 - High employment
 - Economic growth
 - Stability and security



Employment and Growth

- Employment
 - The government strives to make sure there are enough jobs for everyone who is able to work.
 - An unemployment rate between 4 percent and 6 percent is considered healthy.
- Economic Growth
 - To help spur economic growth, the government can cut taxes or increase spending.



Stability and Security

- Stability and Security
 - One indicator of economic stability is the general level of prices.
 - The government seeks to prevent sudden, drastic shifts in prices so that neither the consumer or the producer suffers.
 - Another indicator of stability is financial institutions such as banks and the stock market. Government regulations seek to keep these institutions as stable as possible.



Economic Citizenship

- Voters have a say in promoting economic strength by:
 - Voting for public officials
 - Voting on referendum



Technological Progress

- Checkpoint: How does improved technology help the economy?
 - Technological progress has enabled the U.S. economy to operate more efficiently.



These college entrepreneurs, Gavin McIntyre and Eben Bayer, created a new “green” insulation partly from mushrooms they grew under their beds.



Technological Progress, cont.

- Many inventions have improved productivity in the United States, including:
 - The light bulb, which made a longer workday possible
 - The assembly line, which led to mass production at affordable costs



The Government's Role

- The government promotes innovation and invention to help maintain the country's technological advantage by:
 - Funding research and development projects at universities
 - Establishing their own research institutions, like NASA
 - Granting patents and copyrights, which are an incentive to innovation



The American Work Ethic

- Economic growth cannot occur without individual effort.
 - Americans pride themselves on their strong work ethic, which has them not only working hard but caring about the work that they do.
 - The American work ethic has long been seen as a key ingredient in the nation's productivity and economic success.



Review

- Now that you have learned about how the U.S. government encourages growth and stability, go back and answer the Chapter Essential Question.
 - What role should government play in a free market economy?

