

Macroeconomics: Performance and Stabilization

UNIT PACING CHART

	Chapter 12	Chapter 13	Chapter 14	Chapter 15
Day 1	Unit Opener Chapter Opener Section 1	Chapter Opener Section 1	Chapter Opener Section 1	Chapter Opener Section 1
Day 2	Profiles in Economics Section 2 Case Study	BusinessWeek Newsclip Section 2 Profiles in Economics	Case Study Section 2 Profiles in Economics	BusinessWeek Newsclip Section 2 Profiles in Economics
Day 3	Section 3 BusinessWeek Newsclip	Section 3 Case Study	Section 3 BusinessWeek Newsclip	Section 3 Case Study
Day 4	Review Chapter Assessment	Review Chapter Assessment	Review Chapter Assessment	Review Chapter Assessment
Day 5	The Global Economy & You	Debates in Economics		



Teacher to Teacher



Ken Olson
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Penny Supply and Fractional Reserves

Start by giving a volunteer 10 pennies. The student (Student One) deposits the pennies in a bank (Bank A). (The “bank” is another student volunteer.) Set the reserve requirement at “1 penny” of each new deposit. **Ask:** *How many pennies can be loaned out?* (9 pennies) Then have Bank A loan the pennies to another student (Student Two). **Ask the class:** *How many pennies are in the money supply now?* (There are now 19 pennies in the money supply—10 deposited in

Bank A and 9 on loan to Student Two.) Have Student Two “make a purchase at the cost of 9 pennies” from a third student, who then deposits the money in a second bank (Bank B). **Ask:** *How many pennies are in the money supply now?* (28 pennies) Then have Bank B loan out 8 pennies. Again take a count of the money supply. (36 pennies are in the money supply: 10 in Bank A, 9 loaned out from Bank A, 9 deposited in Bank B, and 8 loaned out) Continue until students grasp the concept.

Author Note



Dear Economics Teacher:

With an economy as large as ours, there is a lot at stake for everyone. For example, we need to do more than make sure that the basic WHAT, HOW, and FOR WHOM to produce questions are addressed in a suitable way. We also want to make sure that the economy functions smoothly and does not suffer unnecessary and harmful setbacks. Accordingly, we need to know how to measure economic performance as well as fix problems if something should go wrong. Fortunately, as your students have already learned in the first unit, our market economy generally requires little coordination and supervision. This means that we don't have to waste a lot of scarce resources on an administrative bureaucracy.

Still, market economies are not perfect. They do not benefit everyone equally, which is why I discuss poverty in this unit. In addition, the historical record of market economies is replete with periods of recession, inflation, and unemployment. Fortunately, though, our economic expansions are considerably longer than our brief periods of recessions.

This means that there is a role and a place for stabilization policies, although such policies have changed over time. Political gridlock has largely resulted in the demise of fiscal policy in favor of monetary policy, but that may change in the future as new ideas come and go. Our challenge is to learn about and teach our students these ideas so that we all can decide for ourselves whether these economic theories and ideas actually solve problems without introducing new ones.

There are no shortcuts or easy ways out. We simply can't be vigilant about the state of the economy without understanding how it works. No pain, no gain, we might say—but the gains we get from understanding how our economy works are definitely worth the pain of finding out.

A handwritten signature in cursive script that reads "Gary Clayton".

Gary Clayton, Ph.D.
Author

Macroeconomics: Performance and Stabilization

Unit Objectives

After studying this unit, students will be able to:

- **Discuss** the different methods of measuring economic performance.
- **Describe** the phases of the business cycle and its possible causes.
- **Describe** the evolution of money, the banking system, and the role of the Federal Reserve System.
- **Understand** the purpose of monetary and fiscal policies.

Unit Overview

Unit 4 explains the measurement of the U.S. economy and policies designed to achieve economic growth and stability.

Chapter 12 focuses on the nation's economic performance and its Gross Domestic Product (GDP). It also discusses the distribution of poverty and income.

Chapter 13 discusses the business cycle, inflation, and unemployment.

Chapter 14 discusses the development of the banking system and the role of the Federal Reserve System as manager of the country's money supply.

Chapter 15 focuses on the goal of economic stability and the policies needed to achieve it.

CHAPTER 12

Macroeconomic
Performance

CHAPTER 13

Economic Instability

CHAPTER 14

Money, Banking,
and the Fed

CHAPTER 15

Economic
Stabilization Policies

Economists like to monitor all economic activity, including the productivity of the workers and the output of this aircraft engine plant.

316 UNIT 4



Activity: Launching the Unit

Stimulating the Economy Organize students into several groups, and ask them to imagine they are panels of economic advisers reporting to the president. Then provide the following hypothetical situation: Recently, the national economy has been in a recession, with unemployment at 7 percent and rising, inflation at 4 percent, investment at low levels, and economic growth close to 1.5 percent. The

president has asked for recommendations on how to stimulate the economy.

Have groups investigate the different methods that might be used to stimulate the economy, starting with the information in this unit. Ask groups to prepare a written report listing their recommendations. **OL**



Making It Relevant

Ask: What issues help us measure the performance of the national economy? (Possible answers: unemployment rate, inflation, number of people living in poverty, housing market) Call on volunteers to share their ideas with the rest of the class. On the board, list the issues that students mentioned. Ask students to explain what they think these issues indicate about the performance of the American economy. Conclude by mentioning that many of these issues will be discussed in this unit. **OL**

BusinessWeek **ONLINE**

To find up-to-date news and analysis on the economy, business, technology, markets, entrepreneurs, investments, and finance, have students search feature articles and special reports on the BusinessWeek Web site, www.businessweek.com.

Extra Credit Project

Ask each student to select a country and look up macroeconomic statistics about it. Have them find real GDP, the population, the unemployment rate, and the inflation rate. On a long sheet of paper, draw a scale of per capita real GDP. Have students mark on the scale where their countries lie. On another large sheet of paper, draw a scaled graph with the inflation rate on the vertical axis and the

unemployment rate on the horizontal axis. Have students mark the positions of their countries on that graph. Discuss the differences among the countries' statistics. **OL**

Planning Guide

Key to Ability Levels

BL

Below level

OL

On level

AL

Above level

ELLEnglish
Language Learners

Key to Teaching Resources



Print Material


















CD-Rom



DVD



Transparency








Levels				Resources		Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess
BL	OL	AL	ELL							
FOCUS										
BL	OL	AL	ELL		Daily Focus Skills Transparencies		27, 65	53	71	
TEACH										
BL	OL		ELL		Guided Reading Activities*		p. 34	p. 35	p. 36	
BL	OL	AL	ELL		Economic Content Vocabulary Activities*		p. 12	p. 12	p. 12	
	OL	AL			Critical Thinking Activities		p. 18			
BL	OL		ELL		Reading Essentials and Note-Taking Guide*		p. 100	p. 103	p. 106	
		AL			Enrichment Activities			p. 12		
BL	OL	AL	ELL		Primary and Secondary Source Readings		p. 35			
BL	OL	AL	ELL		Economic Concepts Transparencies, Strategies, and Activities		p. 25			
BL	OL	AL	ELL		Math Practice for Economics		p. 24			
BL	OL	AL	ELL		Reinforcing Economic Skills		pp. 1, 2, 13			
BL	OL		ELL		High School Reading in the Content Area Strategies and Activities	✓	✓	✓	✓	✓
BL	OL	AL	ELL		High School Writing Process Transparencies	✓	✓	✓	✓	✓
BL	OL	AL	ELL		Writer's Guidebook	✓	✓	✓	✓	✓
BL	OL	AL	ELL		StudentWorks Plus CD-ROM	✓	✓	✓	✓	✓
BL	OL	AL	ELL		Vocabulary PuzzleMaker CD-ROM	✓	✓	✓	✓	✓

*Also available in Spanish



- Interactive Lesson Planner
- Interactive Teacher Edition
- Fully editable blackline masters
- Economics & You videos

- Differentiated Lesson Plans
- Printable reports of daily assignments
- Standards tracking system

Levels				Resources		Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess
BL	OL	AL	ELL							
TEACH <i>(continued)</i>										
BL	OL	AL	ELL		Economics & You Video Program DVD— <i>Fighting Unemployment, Inflation and Poverty</i>	✓	✓	✓	✓	✓
BL	OL	AL	ELL		Graph Coach CD-ROM	✓	✓	✓	✓	✓
Teacher Resources					Differentiated Instruction Strategies	✓	✓	✓	✓	✓
					Success with English Learners	✓	✓	✓	✓	✓
					Presentation Plus! CD-ROM	✓	✓	✓	✓	✓
ASSESS										
BL	OL	AL	ELL		Section Quizzes and Chapter Tests		p. 149	p. 150	p. 151	pp. 153, 157
BL	OL	AL	ELL		Authentic Assessment Strategies and Activities				p. 23	
BL	OL	AL	ELL		ExamView® Assessment Suite CD-ROM		12-1	12-2	12-3	Ch. 12
BL	OL	AL	ELL		Interactive Tutor Self-Assessment CD-ROM		12-1	12-2	12-3	
CLOSE										
BL			ELL		Reteaching Activities*		p. 12	p. 12	p. 12	
BL	OL		ELL		Reading and Study Skills Foldables		p. 59			
BL	OL	AL	ELL		Graphic Organizer Transparencies				pp. 21, 23	

*Also available in Spanish

Activity

Using the
Glencoe Web Site

Self-Check Quizzes

Technology Product

Students can assess their comprehension of chapter content with Self-Check Quizzes on the Glencoe Web site. The Web site provides a 10-question quiz for each chapter.

Objectives

The Self-Check Quizzes help students


- assess their comprehension and recall of chapter content;
- build study skills;
- identify areas for additional study and reinforcement.

Steps

Provide students with the following steps to complete the activities:

- Locate the Web page for the textbook being studied on the Glencoe Web site glencoe.com.
- Click on **Student Center** under the textbook title.
- In the Student Center, select a unit from the Unit Resources menu and a chapter from the Chapter Activities menu using the drop-down arrows.
- Click on the **Self-Check Quizzes** link.
- Have students answer the questions in the chapter quiz and review feedback on incorrect answers.

Provide students with an e-mail address to submit their quiz results for analysis and recording.

			
	Student	Teacher	Parent
Beyond the Textbook	•	•	•
Chapter Overviews	•	•	•
ePuzzles and Games	•		•
Concepts in Motion	•		•
Multi-Language Glossaries	•		•
Online Student Edition	•	•	•
Self-Check Quizzes	•		•
Student Web Activities	•		•
Study Central™	•		•
Time Current Events	•	•	•
Teaching Today		•	
Vocabulary eFlashcards	•		•
Web Activity Lesson Plans		•	

Glencoe Media Center

> glencoe.com

Study-To-Go

- Vocabulary eFlashcards
- Self-Check Quizzes

> **Audio/Video**

- Student Edition Audio
- Spanish Summaries
- Economics & You Videos

READING SUPPORT FROM JAMESTOWN EDUCATION

- **Timed Readings Plus in Social Studies** helps students increase their reading rate and fluency while maintaining comprehension. The 400-word passages are similar to those found on state and national assessments.
- **Reading in the Content Area: Social Studies** concentrates on six essential reading skills that help students better comprehend what they read. The book includes 75 high-interest nonfiction passages written at increasing levels of difficulty.
- **Reading Social Studies** includes strategic reading instruction and vocabulary support in Social Studies content for both ELLs and native speakers of English.
www.jamestowneducation.com

Reading List Generator CD-ROM

GLENCOE BOOKLINK 3

Use this database to search more than 30,000 titles to create a customized reading list for your students.

- Reading lists can be organized by students' reading level, author, genre, theme, or area of interest.
- The database provides Degrees of Reading Power™ (DRP) and Lexile™ readability scores for all selections.
- A brief summary of each selection is included.

Leveled reading suggestions for this chapter:

For students at a Grade 10 reading level:

- **Poverty in America**, by Milton Meltzer

For students at a Grade 11 reading level:

- **Population: Opposing Viewpoints**, by Charles F. Hohm & Lori Justine Jones

For students at a Grade 12 reading level:

- **Poverty: Opposing Viewpoints**, by Karen Balkin

* Review suggested books before assigning them.



National Council on Economic Education

Voluntary Standards Emphasized in Chapter 12

Content Standard 15 Investment in factories, machinery, new technology, and in the health, education, and training of people can raise future standards of living.

Content Standard 13 Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.

Content Standard 18 A nation's overall levels of income, employment, and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies, and others in the economy.

Resources Available from NCEE

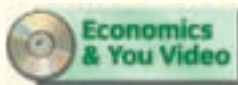
- Virtual Economics®: An Interactive Center for Economic Education Version 3.0
- Financing Your Future
- Learning, Earning and Investing, High School
- Focus: Institutions and Markets

To order these materials, or to contact your State Council on Economic Education about workshops and programs, call 1-800-338-1192 or visit the NCEE Web site at store.ncee.net.

Macroeconomic Performance

The BIG Idea

As students study the chapter, remind them to consider the chapter-based Big Idea. The **Essential Question** in the chapter launch activity below ties in to the Big Idea and helps students think about and understand important chapter concepts. In addition, the Hands-On Chapter Project relates the content from each section to the Big Idea. The steps in each section build on each other and culminate in the Wrap-Up Activity on the Visual Summary page.



To generate student interest and

provide a springboard for class discussion, access the Economics & You Topic 20 video, **Fighting Unemployment, Inflation and Poverty**, at glencoe.com or on the video DVD.



Dinah Zike's Foldables are

three-dimensional, interactive graphic organizers that help students practice basic writing skills, review key vocabulary terms, and identify main ideas. Have students complete this chapter's Foldable activity or activities in *Dinah Zike's Reading and Study Skills Foldables* booklet. **OL**



Introduce students to chapter content and key terms by having them access **Chapter 12—Chapter Overviews** at glencoe.com.

Why It Matters

Have you ever thought about what it means when someone is described as “successful”? Is the person wealthy, happy, or well known? Work with a partner and develop a list of the qualities or characteristics for your definition of *successful*. Share your list with the class and listen carefully to what the other students think. Is there a consensus among your classmates? Read Chapter 12 to learn more about how economists assess the success of a nation's economy by measuring its growth and performance.

The BIG Idea

Economists look at a variety of factors to assess the growth and performance of a nation's economy.

Busy factories such as this car manufacturing plant are indicators of economic growth.



Economics ONLINE Chapter Overview Visit the *Economics: Principles and Practices* Web site at glencoe.com and click on **Chapter 12—Chapter Overviews** to preview chapter information.

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Activity: Launching the Chapter

Assessing Have students imagine they are economic forecasters who must determine the total supply and demand in the U.S. economy for a particular month. Discuss what information to gather and how this information might be obtained. Then, ask the **Essential Question: Is the total supply and demand in the U.S. economy over the past five years an accurate indicator of the nation's economy? Why or why not?**

What other things might we look at to gauge the nation's economic health? (Students may note that supply and demand only focuses on goods and services, not on debt, employment rates, foreign trade, or the outcome of investments, each of which is important when analyzing the national economy; suggestions might include total production, income, exports, or tax revenues.) **OL**

Measuring the Nation's Output and Income

GUIDE TO READING

Section Preview

In this section, you will learn how we measure the output and income of a nation.

Content Vocabulary

- macroeconomics (p. 319)
- gross domestic product (GDP) (p. 320)
- intermediate products (p. 321)
- secondhand sales (p. 321)
- nonmarket transactions (p. 321)
- underground economy (p. 321)
- base year (p. 321)
- real GDP (p. 322)
- current GDP (p. 322)
- GDP per capita (p. 322)
- gross national product (GNP) (p. 324)
- net national product (NNP) (p. 324)
- national income (NI) (p. 324)
- personal income (PI) (p. 324)
- disposable personal income (DPI) (p. 324)

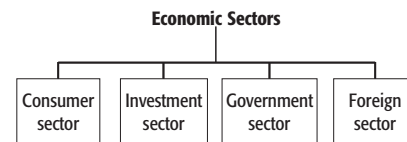
- household (p. 325)
- unrelated individual (p. 326)
- family (p. 326)
- output-expenditure model (p. 327)
- net exports of goods and services (p. 327)

Academic Vocabulary

- excluded (p. 321)
- components (p. 325)

Reading Strategy

Describing As you read the section, complete a graphic organizer like the one below by describing how the different economic sectors contribute to the nation's economic activity.



ISSUES IN THE NEWS

—CNMMoney.com

GDP posts smallest gain in 3 years

The nation's economy grew at its slowest pace in three years in the fourth quarter, according to the government's gross domestic product report Friday, which came in far weaker than economists' forecasts.

The broad measure of the nation's economic activity showed an annual growth rate of 1.1 percent in the fourth quarter, down from the 4.1 percent growth rate in the final reading of third-quarter growth. ■



The report in the news story above may be of little interest to many people, but it was worrisome for economists. When the nation's economic growth rate drops to a meager 1.1 percent, the news is not good. Welcome to **macroeconomics**, the branch of economics that deals with the economy as a whole, using aggregate measures of output, income, prices, and employment.

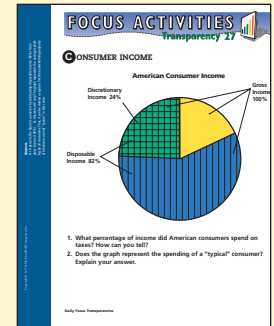
Gross Domestic Product is one of our most important macro measures and the most important statistic in the National Income and Product Accounts (NIPA). The NIPA keeps track of the nation's production, consumption, saving, and investment. Other key measures exist, and collectively they tell us a great deal about the economic health and performance of our country.

macroeconomics
part of economics that deals with the economy as a whole and uses aggregate measures of output, income, prices, and employment

Focus

Bellringer

Daily Focus Transparency 27



GUIDE TO READING

Answers to Graphic:

Consumer sector: income in the form of disposable personal income

Investment sector: income in the form of retained earnings

Government sector: income in the form of taxes

Foreign sector: represents the difference in dollar value of goods sent abroad and goods purchased from abroad

Resource Manager

R Reading Strategies

Teacher Edition

- Making Connections, pp. 324, 325
- Summarizing, p. 326

Additional Resources

- Guid. Read. Act., p. 34
- Read. Ess. & Note-Taking Guide, p. 100
- Pri./Sec. Source Read., p. 35

C Critical Thinking

Teacher Edition

- Form. Quest., p. 321
- Synthesizing, p. 322
- Speculating, p. 323
- Evaluating, p. 328

Additional Resources

- Econ. Concepts Trans., Strat. & Act., p. 25
- Crit. Think. Act., p. 18

D Differentiated Instruction

Teacher Edition

- ELL, p. 320
- Logical/Math., p. 320

Additional Resources

- Daily Focus Trans. 27, 65
- Reinforcing Econ. Skills, pp. 1, 2, 13

W Writing Support

Teacher Edition

- Expository Writing, p. 323
- Narrative Writing, p. 326

Additional Resources

- High School Writing Process Trans.

S Skill Practice

Teacher Edition

- Making Pred., p. 321
- Using Tables and Charts, pp. 322, 327
- Analyzing Info., p. 324
- Visual Literacy, p. 325

Additional Resources

- Reading and Study Skills Fold., p. 59

Teach

D1 Differentiated Instruction

English Language Learners
Have each student, without using the textbook or a dictionary, write definitions of *gross*, *domestic*, and *comprehensive*. Then have students explain the meanings to partners. Finally, have pairs check their definitions in a dictionary. **BL**

D2 Differentiated Instruction

Logical/Mathematical
Ask: Why do scientific sampling techniques give an accurate picture of the economy, even though economists do not record every single good and service produced? (Sampling techniques are created to draw out an exact representative picture of the nation's economic activity, which includes some estimation.) **AL**

Economic Analysis
Answer: quantity multiplied by price per unit

Additional Support

gross domestic product (GDP) the dollar value of all final goods, services, and structures produced within a country's national borders during a one-year period (also see page 9)

GDP—The Measure of National Output

MAIN Idea GDP measures national output.

Economics and You Did you know that your work may be counted in our GDP? Read on to find out how we measure output.

Gross domestic product (GDP) is our most comprehensive measure of national output. This means that Japanese automobiles produced in Kentucky, Ohio, and Indiana count in GDP even if the owners of the plants live outside the United States. On the other hand, production in U.S.-owned plants located in Mexico, Canada, or other countries is not counted in GDP.

Measuring Current GDP

The measurement of GDP is fairly easy to understand. Conceptually, all we have to do is to multiply all of the final goods

and services produced in a 12-month period by their prices, and then add them up to get the total dollar value of production.

Figure 12.1 provides an example. The first column contains three product categories—goods, services, and structures—used in the NIPA. The third of these categories, structures, includes residential housing, apartments, and buildings for commercial purposes. The total number of final goods and services produced in the year is in the quantity column, and the price column shows the average price of each product. To get GDP, we simply multiply the quantity of each good by its price and then add the results, as is done in the last column of the table.

Of course it is not possible to record every single good and service produced during the year, so government statisticians instead use scientific sampling techniques to estimate the quantities and prices

Figure 12.1 ▶ Estimating Total Annual Output

ESTIMATING GROSS DOMESTIC PRODUCT				
Product		Quantity (millions)	Price (per 1 unit)	Dollar value (millions)
Goods	Automobiles	6	\$25,000	\$150,000
	Replacement tires	10	\$60	\$600
	Shoes	55	\$50	\$2,700
	...*	...*	...*	...*
Services	Haircuts	150	\$8	\$1,200
	Income tax filings	30	\$150	\$4,500
	Legal advice	45	\$200	\$9,000
	...*	...*	...*	...*
Structures	Single family	3	\$175,600	\$525,000
	Multifamily	5	\$300,000	\$1,500,000
	Commercial	1	\$1,000,000	\$1,000,000
	...*	...*	...*	...*

Note: * ... other goods, services, and structures

Total GDP = \$13.5 trillion

▶ Gross domestic product is the total dollar value of production within a country's borders in a 12-month period. It can be found by multiplying all of the goods and services produced by their prices, and then adding them up.

Economic Analysis How is the dollar value for each of the products on the table calculated?

Activity: Hands-On Economics

A Community GDP Have students make a rough estimate of the GDP for your community using a chart like the one in Figure 12.1. (Students may wish to consult local government offices, business development offices, colleges, or the chamber of commerce when researching your community's statistics.) They should list the items, services, and structures produced by the community in the first column, the

approximate quantity in the second column, and the approximate price per unit in the third column. Students should then multiply the quantity by the price to get the dollar value, which they should record in the fourth column. Have them calculate the community's GDP by adding the dollar value of each item, as in the chart on this page. **AL**

of the individual products. To keep the report as current as possible, they estimate GDP quarterly, or every three months, and then revise the numbers for months after that. As a result, it takes several months to discover how the economy actually performed.

Some Things Are Excluded

C GDP is a measure of final output. This means that **intermediate products**—goods used to make other products already counted in GDP—are **excluded**. If you buy new replacement tires for your automobile, for example, the tires are counted in GDP because they were intended for final use by the customer and not combined with other parts to make a new product. However, tires on a new car are *not* counted separately because their value is already built into the price of the vehicle. Other goods such as flour and sugar are part of GDP if they are bought for final use by the consumer. However, if a baker buys them to make bread for sale, only the value of the bread is counted.

Secondhand sales—the sales of used goods—are also excluded from GDP because no new production is created when products already in existence are transferred from one owner to another. Although the sale of a used car, house, or compact disc player may give others cash that they can use on new purchases, only the original sale is included in GDP.

Nonmarket transactions—economic activities that do not generate expenditures in the market—also are excluded. For example, GDP does not take into account the value of your services when you mow your own lawn or do your own home repairs. Instead, these activities are counted only when they are done for pay outside



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Underground Economy

Although there is no consensus on the size of the underground economy, estimates suggest that it is between 5 and 15 percent of the recorded GDP.

What activities make up the underground economy?

the home. For this reason, services that homemakers provide are excluded from GDP even though they would amount to billions of dollars annually if actually purchased in the market.

Finally, transactions that occur in the **underground economy**—economic activities that are not reported for legal or tax collection purposes—are not counted in GDP. Some of these activities are illegal, such as those found in gambling, smuggling, prostitution, and the drug trade. Other activities are legal, such as those in flea markets, farmers' markets, garage sales, or bake sales, but they involve cash payments, which are difficult to trace.

Current GDP vs. Real GDP

S Because of the way it is computed, GDP can appear to increase whenever prices go up. For example, if the number of automobiles, replacement tires, and other products in Figure 12.1 stays the same from one year to the next while prices go up, GDP will go up every year. Therefore, in order to make accurate comparisons over time, GDP must be adjusted for inflation.

To do so, economists use a set of constant prices in a **base year**—a year that serves as the basis of comparison for all

intermediate products products that are components of other final products included in GDP

secondhand sales sales of used goods not included in GDP

nonmarket transaction economic activity not taking place in the market and, therefore, not included in GDP

underground economy unreported legal and illegal activities that do not show up in GDP statistics

base year year serving as point of comparison for other years in a price index or other statistical measure

C Critical Thinking

Formulating Questions Have students create a 5-question quiz about gross domestic product based on the text on this page. Questions should cover the main points about GDP. Have students exchange quizzes with a partner. With textbooks closed, each student should then take the quiz his or her partner created.

OL

S Skill Practice

Making Predictions Ask: What would happen if a nation counted the sales of used items in its GDP? Of nonmarket transactions? (GDP totals would be artificially inflated; the inaccurate information would prevent the nation from effectively addressing its economic concerns.) **OL**

Caption Answer: illegal activities such as gambling, smuggling, and other crimes; some legal activities, such as garage sales, bake sales, or farmers' markets, which involve cash payments that are hard to trace

Additional Support

Activity: Hands-On Economics

Examining the Underground Economy

Remind students that the GDP might be larger by 5 to 15 percent if underground transactions were tracked and included. Ask students to analyze ways to decrease the amount of activity in the underground economy. Note suggestions on the board. (Suggestions may include lower taxes, increased policing of underground economic activities, or harsher penalties for those taking part in

underground economic activities.) Have students also address the issue of what kinds of responses those taking part in underground economic activities might make to these suggested policy changes. Have students use the information discussed to write a letter to their member of Congress on ways to address the problem of the underground economy. **OL**

C Critical Thinking

Synthesizing Ask: Why is per capita GDP a better measure of a country's prosperity than total GDP? (Per capita GDP describes the average prosperity of each person, while total GDP says nothing about the share of the prosperity of an individual person; larger countries may have higher total GDPs, but if the individual's per capita GDP is lower than that of an individual in a smaller country, that person has a lower standard of living.)

OL

S Skill Practice

Using Tables and Charts

Have students explain what would happen to the line showing current GDP if the economy experienced a period of deflation, or falling prices. (The line would be artificially flattened.)

OL

Economic Analysis

Answer: current GDP

Differentiated Instruction

real GDP gross domestic product after adjustments for inflation

current GDP gross domestic product measured in current prices, unadjusted for inflation

GDP per capita gross domestic product on a per person basis; can be expressed in current or constant dollars

Skills Handbook

See page R56 to learn about Understanding Nominal and Real Values.

other years. For example, if we compute GDP over a period of time using only prices that existed in 2000, then any increases in GDP must be due to changes in the quantity column and cannot be caused by changes in the price column.

This measure is called **real GDP**, or GDP measured with a set of constant base year prices. In contrast, the terms *GDP*, *current dollar GDP*, *nominal GDP*, and **current GDP** all mean that the output in any given year was measured using the prices that existed in those years. Because these prices change from one year to the next, nominal or current GDP is not adjusted for inflation.

When the two series are plotted together, as in **Figure 12.2**, you can see that real GDP grows more slowly than current GDP. The difference in growth rates occurs because current GDP reflects the distortions of inflation. The U.S. Department of Commerce uses 2000 as the base year, so the two series are equal in that year. The U.S. Department of

Commerce updates the base year in four-year increments and will eventually switch to 2004, but only after a substantial lag. Any other year would work just as well.

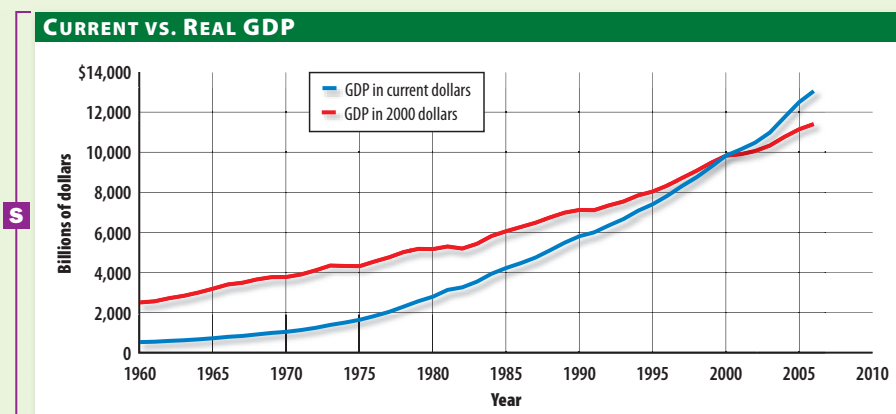
GDP per Capita

There may be times when we want to adjust GDP for population. For example, we may want to see how the economy of a country is growing over time, or how the output of one country compares to that of another. If so, we use **GDP per capita**, or GDP divided by the population, to get the amount of output on a per person basis. Per capita GDP can be computed on a current or constant basis.

Limitations of GDP

Despite GDP's advantages, there are several limitations to keep in mind. First, by itself GDP tells us nothing about the composition of output. If GDP increases

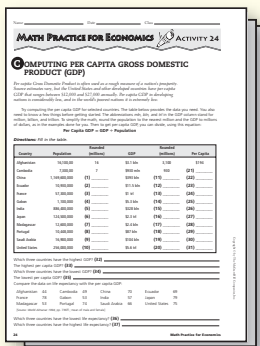
Figure 12.2 Current GDP and Real GDP



Source: Bureau of Economic Analysis, U.S. Department of Commerce

► Because prices tend to rise over time, current GDP rises faster than real GDP, which uses a constant set of prices to value the output in every year.

Economic Analysis Which series is distorted by inflation?



Math Practice for Economics, p. 24

Computing Per Capita Gross Domestic Product (GDP)

Objective: Compute a nation's per capita GDP.

Focus/Teach: Explain that the definition of *per capita* is "per person." Discuss why per capita calculations are significant. Have students fill in the table and answer the questions in the activity.

Assess: Go over the correct answers with the class.

Close: Have each student write a paragraph explaining how per capita GDP and life expectancy are related.

Differentiated Instruction Strategies

BL Have students rank all 12 nations based on their per capita GDP.

AL Have students complete the activity again with data for 10 other nations.

ELL Ask: In which other areas would per capita measurements be of interest to economists? (income, food, and so on)



World GDP

Why should you be concerned about the size of the U.S. economy or that of other countries? A healthy U.S. economy means manufacturing and employment increase, tax revenues go up, and the standard of living improves. When the economies of other countries also do well, they are better able to purchase products that American firms export, which further improves the U.S. economy.

How big is the U.S. economy, and how big is the world economy? One way to find out is to look at GDP. According to economists at the Central Intelligence Agency (CIA), the United States accounted for one out of every five dollars of output produced worldwide in 2005. The 25 countries in the European Union had a GDP only slightly lower. China, the world's third-largest economy, produced 13.7 percent, or more than one-eighth, of total

Country	GDP (in billions)	Percentage of World GDP
United States	\$12,410	20.8%
China	\$8,182	13.7%
Japan	\$3,914	6.6%
India	\$3,699	6.2%
Germany	\$2,454	4.1%
United Kingdom	\$1,869	3.1%
France	\$1,822	3.0%
Italy	\$1,651	2.8%
Brazil	\$1,568	2.6%
European Union	\$12,180	20.4%
World	\$59,590	100.0%

Source: www.cia.gov/cia/publication/factbook/rankorder

world output. This means that GDP for the remaining countries in the world was less than half of world GDP.

Writing Support

Expository Writing Have students write a short essay, intended for younger students, that explains the weaknesses of GDP as a measure of the nation's economic health. Remind them to provide a general background of the subject and use language and examples that younger people would readily understand. Have volunteers read their explanations to the class. **OL**

Critical Thinking

Speculating Ask: How do you think the current economic situation will affect the next election? Why? (Answers will vary depending on the current economy but should note that economic issues and people's perceptions about them influence voting patterns.) **OL**

by \$10 billion, for example, we know that production is growing and that jobs and income are generated, so we are likely to view the growth as a good thing. However, we might feel differently if we discovered that the extra output consisted of military nerve gas stockpiles rather than new libraries and parks.

Second, GDP also tells little about the impact of production on the quality of life. The construction of 10,000 new homes may appear to be good for the economy. However, if the homes threaten a wildlife refuge, the value of the homes may be viewed differently. In practice, GDP does not take into account quality of life issues, so it is helpful to be aware of such matters to gain a better understanding of GDP.

Finally, some GDP is produced to control activities that give us little utility or satisfaction, thus making GDP even larger. The money spent to fight crime is one example. If we had less crime, our GDP might actually be smaller because of lower government spending to control it—leaving us better off as well.

A Measure of Economic Performance and Well-Being

Even with these minor limitations, GDP is still our best measure of overall economic performance and well-being, because it is a measure of the voluntary transactions that take place in the market. Voluntary transactions occur only when both parties in a transaction think they are better off after they have made it than before. This is one reason why GDP is considered an indicator of our overall economic health.

Changes in GDP even influence national elections. Whenever the economy is growing slowly or contracting, the political party in power usually does not fare as well as it would have during a time of economic growth. Economic growth, as measured by increases in real GDP, means that jobs are plentiful and that incomes are rising. Such economic trends often influence the decisions of voters. As a result, GDP is the single most important economic statistic compiled today.

Reading Check Explaining What does GDP measure, and why is it important?

Reading Check Answer: It represents the dollar value of all final goods, services, and structures produced in a country during a year; it is the most accurate gauge we have of a country's economic health.

Leveled Activities

BL Reinforcing Economic Skills, p. 2

Reinforcing Economic Skills Activity 2

USING CHARTS AND TABLES

Use the data in the chart to answer the questions that follow.

Population and Gross Domestic Product of Selected Countries, 2005 (in billions)

Country	Population	GDP
United States	293	12,410
China	1,300	8,182
Japan	127	3,914
India	1,027	3,699
Germany	82	2,454
United Kingdom	60	1,869
France	63	1,822
Italy	59	1,651
Brazil	189	1,568

1. How does the population of China compare with the population of the United States?

2. Which country listed in the table has the largest population?

3. Which country listed in the table has the highest per capita GDP?

4. How does the GDP of the United States compare with the GDP of China?

5. How does the per capita GDP of China compare with that of the United States?

OL Economic Concepts Transparencies, Strategies, and Activities, p. 25

ECONOMIC CONCEPTS Student Activity 13

GROSS DOMESTIC PRODUCT

ABOUT THE CONCEPT

GDP is the total value of all final goods and services produced in a country during a year. It is a measure of the economic health of a country. GDP is calculated by adding up all the final goods and services produced in a country during a year. It is a measure of the economic health of a country. GDP is calculated by adding up all the final goods and services produced in a country during a year. It is a measure of the economic health of a country.

REINFORCING THE CONCEPT

1. How does the GDP of the United States compare with the GDP of China?

2. How does the per capita GDP of China compare with the per capita GDP of the United States?

GOING BEYOND THE TRANSPARENCY

1. How does the GDP of the United States compare with the GDP of China?

2. How does the per capita GDP of China compare with the per capita GDP of the United States?

AL Primary and Secondary Source Readings, p. 35

PRIMARY & SECONDARY SOURCES Reading 18

TAKING THE MEASURE OF THE GDP: ANOTHER NUMBER THAT DOESN'T QUITE ADD UP

1. How does the GDP of the United States compare with the GDP of China?

2. How does the per capita GDP of China compare with the per capita GDP of the United States?

R Reading Strategy

Making Connections Ask: How do you and your family affect the measurements that economists use to evaluate the U.S. economy? (*Wages that students, siblings, parents, and other family members earn are counted as personal income. This total is then added to the national income for the United States.*) **OL**

S Skill Practice

Analyzing Information Have students compute their weekly or monthly disposable personal income. Have them review how to find it. Then have them estimate how they dispose of this amount. **OL**

✓Reading Check Answer: gross national product, net national product, national income, personal income, and disposable personal income

Additional Support

gross national product (GNP) total dollar value of all final goods, services, and structures produced in one year with labor and property supplied by a country's residents, regardless of where the production takes place

net national product (NNP) GNP less depreciation charges for wear and tear on capital equipment

national income (NI) net national product less indirect business taxes

personal income (PI) total amount of income going to the consumer sector before individual income taxes are paid

disposable personal income (DPI) personal income less individual income taxes

GNP—The Measure of National Income

MAIN Idea National income can be measured in a number of different ways

Economics and You Have you ever wondered about the deductions on your pay stub? Read on to find out how your net pay is part of an economic measure.

Whenever business activity creates output, it generates jobs and income for someone. GDP, then, is like a two-sided coin, where one side represents output and the other side an equal amount of income. If we want to see how much output is produced, we look at one side of the coin. If we want to see how much income is generated, we look at the other side of the coin. Economists recognize one major category and several subcategories of national income.

Gross National Product

When economists focus on total income rather than output, they measure it with **gross national product (GNP)**—the dollar value of all final goods, services, and structures produced in one year with labor and property owned by a country's residents. While GDP measures the value of all the final goods and services produced within U.S. borders, GNP measures the income of all Americans, whether the goods and services are produced in the United States or in other countries.

To go from GDP to GNP, we add all payments that Americans receive from outside the United States, then subtract the payments made to all foreign-owned businesses located in the United States. The result, GNP, is the most comprehensive measure of our nation's income.

Net National Product

The second measure of national income is **net national product (NNP)**, or GNP less depreciation. Depreciation is also called

capital consumption allowances. It represents the capital equipment that wore out or became obsolete during the year.

National Income

The third measure in the NIPA is **national income (NI)**. National income is the income that is left after all taxes except the corporate profits tax are subtracted from NNP. Examples of these taxes, also known as indirect business taxes, are excise taxes, property taxes, licensing fees, customs duties, and general sales taxes.

Personal Income

The fourth measure of the nation's total income is **personal income (PI)**—the total amount of income going to consumers before individual income taxes are subtracted. To go from national to personal income, several adjustments must be made. For example, personal income would not include payments into the Social Security fund that working people make. It would include Social Security checks that retired individuals receive.

Disposable Personal Income

The fifth measure of income in the NIPA is **disposable personal income (DPI)**—the total income the consumer sector has at its disposal after personal income taxes. Although it is the smallest measure of income, it is important because it reflects the actual amount of money consumers are able to spend.

At the individual level, a person's disposable income is equal to the amount of money received from an employer after taxes and Social Security have been taken out. When you look at the pay stub that is illustrated in Figure 9.6 on page 248, the disposable personal income consists of the \$586.89 net pay on the check plus the \$3.20 of deductions which the individual chose to make.

✓Reading Check Summarizing What are the different measures of national income?

Activity: Collaborative Learning

Graphing Information Tell students: The Census Bureau collects information on personal income groups for large metropolitan areas in the United States. Then organize students into several groups, and have them use the most recent print edition or Web site edition of the *Statistical Abstract of the United States* to find the top 10 metropolitan areas in

terms of personal income. Have them note how personal income has changed for these metropolitan areas over time. Then have groups present their findings in annotated graph form. Encourage groups to display and discuss their graphs. **OL**

Economic Sectors and Circular Flows

MAIN Idea The production of output generates income which flows through different sectors of the economy.

Economics and You Have you ever thought about your role as a consumer? Read on to find out how consumers are part of an economic model.

It helps to think of the economy as consisting of several different parts, or sectors. These sectors receive various **components** of the national income, which they then use

to purchase the total output. These sectors are part of the circular flow of economic activity illustrated in **Figure 12.3**.

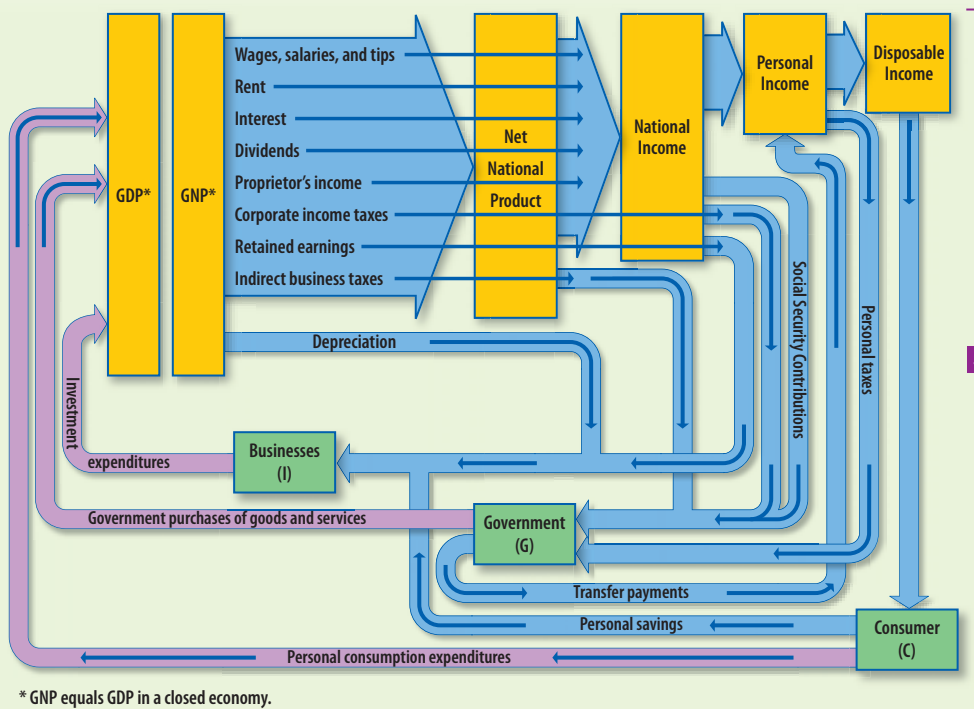
Income generated by production flows to the business, government, and consumer sectors. These sectors then use the income to purchase the nation's output.

household basic unit of consumer sector consisting of all persons who occupy a house, apartment, or separate living quarters

Consumer Sector

The largest sector in the economy is the consumer, or household, sector. Its basic unit, the **household**, consists of all persons who occupy a house, apartment, or room that constitutes separate living quarters.

Figure 12.3 Circular Flow of Economic Activity



► Income generated by production flows to the business, government, and consumer sectors. These sectors then use the income to purchase the nation's output.

Economic Analysis What is the difference between national income and personal income?

Charts in Motion
See StudentWorks™ Plus
or glencoe.com.

CHAPTER 12, SECTION 1

R Reading Strategy

Making Connections

Ask students to suggest ways that consumers as a whole can affect the nation's economy. (*buying decisions, savings patterns, living arrangements, and so on*) Have them explain their answers. Also ask them to identify the section of the circular flow chart where these activities are located. (*the bottom of the chart*) **OL**

S Skill Practice

Visual Literacy Ask: What expenditures make up gross domestic product? (*personal consumption expenditures, government purchases of goods and services, and investment expenditures*) **OL**

Economic Analysis

Answer: National income is the income that is left after all taxes except corporate profits tax are subtracted from the net national product; personal income is the total amount of income going to consumers before individual income taxes are subtracted.

Additional Support

Extending the Content

Three Kinds of Consumption National income accounting records three classifications of consumption in the consumer sector. Durable goods are goods with an average life of more than three years; examples are automobiles, furniture, and appliances. Nondurable goods are goods that have an average life of less than three years: shampoo, food products, gasoline, and clothing, for example. Services, such as financial or legal advice, health care, and

haircuts, make up the final classification of consumption. In some cases the classifications seem arbitrary. A well-made coat may last for five to ten years, and a large bottle of hot pepper sauce could sit in some refrigerators for more than three years. Nevertheless, an item of clothing and a kind of food are both regarded as nondurable goods.

W Writing Support

Narrative Writing Have students write a story describing an item they or their family owned that experienced depreciation. Stories should explain the rate of the depreciation and approximate estimates of the value of the item before and after depreciation. **OL**

R Reading Strategy

Summarizing Ask: *Why might the foreign sector appear to be insignificant when, in fact, large numbers of goods and services may be traded? (If imports and exports are about equal, the foreign sector [the difference between the two] of the economy will appear small.)* **OL**

Caption Answer: consumer, government, foreign

✓Reading Check **Answer:** A household consists of all persons who occupy a living place, while a family is a group of two or more persons related by blood, marriage, or adoption living in the same place.

Hands-On Chapter Project

Step 1

Evaluating an Economy

In this project, students will create a fictional nation with figures on national income, population, economic growth, and poverty. Students will create an economic status report using these statistics.

Step 1: Measuring National Income. Students will create statistics that indicate the national income of a fictional country.

Directions: Organize the class into five different groups, each representing a

Investment Sector Businesses such as this auto manufacturer that produce the nation's output are included in the investment sector. *What other sectors are part of the circular flow of economic activity?*



unrelated individual person living alone even though that person may have relatives living elsewhere

family two or more persons living together who are related by blood, marriage, or adoption

Households include related family members and all others—such as lodgers, foster children, and employees—who share the living quarters.

A household also can consist of an **unrelated individual**—a person who lives alone even though he or she may have family living elsewhere. Finally, we have the **family**—a group of two or more persons related by blood, marriage, or adoption who are living together in a household.

The consumer sector, shown as **C** in Figure 12.3, receives its income in the form of disposable personal income. This is the income that is left over after all of the depreciation, business and income taxes, and FICA payments are taken out, and after any income received in transfer payments is added back in.

Investment Sector

The next sector of the macro economy is the business, or investment, sector, which is labeled **I** in Figure 12.3. This sector is made up of proprietorships, partnerships, and corporations that are responsible for producing the nation's output. The income of this sector comes from the retained earnings—the profits not paid out to owners—

that are subtracted from NI and the depreciation or capital consumption allowances that are subtracted from GNP.

Government Sector

The third sector is the public sector, which includes all local, state, and federal levels of government. Shown as **G** in Figure 12.3, this sector receives its income from indirect business taxes, corporate income taxes, Social Security contributions, and individual income taxes.

Foreign Sector

The fourth sector of the macro economy is the foreign sector. Although not shown in Figure 12.3, it includes all consumers and producers outside the United States.

This sector does not have a specific source of income. Instead, it represents the difference between the dollar value of goods sent abroad and that of goods purchased from abroad, identified as $(X - M)$. If the two are reasonably close, the foreign sector appears to be small, even when large numbers of goods and services are traded.

✓Reading Check **Contrasting** How do households and families differ?

fictional country. Assign each of the groups a letter: A, B, C, D, F. The letter assigned to them represents the “grade” of their nation’s economy (for example, the nation of the “A” group could be a thriving industrial powerhouse; the nation of the “F” group could be an impoverished single-crop country). Have students come up with a name for their fictional nation and numbers for the five major statistical categories described in this section. Statistics should reflect an understanding of the concepts of this section, as well as the grade assigned

to the nation (for example, the “D” country should have a relatively low GDP). Encourage groups to come up with brief creative explanations for their figures (for example, labor unrest weakened GDP; lower taxes increased PI). Ask each student group to use the numbers they generated to create graphics like the ones on pages 320 and 322.

Summarizing Have students write a short essay summarizing how economists measure the performance of a nation’s economy. **OL**

(Chapter Project continued in Section 2.)

The Output-Expenditure Model

MAIN Idea The output-expenditure model is used to explain aggregate economic activity.

Economics and You Have you learned in math class how to write a problem as an equation? Read on to learn how this can be done in economics.

The circular flow can be represented by the **output-expenditure model**. This macroeconomic model shows how GDP is equal to the sum of aggregate demand by the consumer, investment, government, and foreign sectors. When written as

$$GDP = C + I + G + (X - M)$$

the equation becomes a formal output-expenditure model used to explain and analyze the economy's performance.

According to this model, the consumer sector spends its income on the goods and services used by households. These personal consumption expenditures include groceries, rent, and almost anything else people buy. Income that is not spent appears as personal saving, which is borrowed by the business and government sectors.

The investment, or business, sector spends its income on labor, factories, equipment, inventories, and other investment goods. These expenditures include the total value of capital goods created in the economy during the year.

The government sector spends its income on many categories, including national defense, income security, interest on the national debt, health care, and roads. The only major government expenditure not included in total output is transfer payments, because this money is diverted for use by others to buy goods and services.

The foreign sector also buys many U.S. goods—such as tractors, airplanes, and agricultural products—and services—such as insurance—that make up our GDP. In return, it supplies products—such as Japanese cars, Korean steel, and Brazilian shoes—to U.S. consumers. For this reason, the foreign sector's purchases are called **net exports of goods and services**. They are abbreviated as $(X - M)$ to reflect the difference between exports and imports.

✓ Reading Check **Describing** How does the foreign sector fit into the output-expenditure model?

output-expenditure model

macroeconomic model describing aggregate demand by the consumer, investment, government, and foreign sectors

net exports of goods and services

net expenditures by the foreign sector; equal to total exports less total imports

CHAPTER 12, SECTION 1

S Skill Practice

Using Tables and Charts

Have students construct a table describing the four sectors that make up GDP, using the information on this page and elsewhere in the section. **OL**

✓ Reading Check **Answer:** It represents the difference in dollar values between goods and services imported and exported, or $(X - M)$, and includes all consumers and producers in a country.

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 1, and then assign the Section 1 Review as homework or as an in-class activity.

Close

Outlining Have students create an outline for this section. Suggest that they use the headings as the main entries for their outline and the main ideas within the entries as supporting details. **OL**

SECTION 1

1

Review

Vocabulary

- Explain** the significance of macroeconomics, gross domestic product, intermediate products, secondhand sales, nonmarket transactions, underground economy, base year, real GDP, current GDP, GDP per capita, gross national product, net national product, national income, personal income, disposable personal income, household, unrelated individual, family, output-expenditure model, and net exports of goods and services.

Main Ideas

- Comparing** Use a graphic organizer like the one below to compare GDP and GNP.



- Stating** What is the circular flow of economic activity?

Critical Thinking

- The BIG Ideas** Explain why GDP is important to economists.
- Synthesizing Information** Describe the limitations of GDP.
- Analyzing Visuals** Use Figure 12.3 on page 325 to describe how your personal spending and saving contribute to the circular flow of economic activity.
- Drawing Conclusions** What would be the effects of a decline in GDP?

Applying Economics

- Gross Domestic Product** What effect do you think the computer industry has had on GDP? Use examples.

Review

SECTION 1

1

Answers

- All definitions can be found in the section and the Glossary.
- Both GDP and GNP measure the value of final goods and services produced in a single year. GDP measures goods and services produced inside the United States, while GNP measures all products made with labor and property supplied by U.S. residents, no matter where the production takes place.
- the constant circulation of money that flows to the business, government, and consumer sectors; these sectors then use the income to purchase the nation's output
- Because it represents the dollar value of all final goods, services, and structures produced in a country during a year, it is the most accurate gauge we have of a country's economic health.
- GDP does not identify the composition of the output, it tells little about the impact of the production on the quality of life, and it excludes some economic activity.
- Consumers' disposable income becomes personal expenditures, which is counted as a part of GDP.
- A decline in GDP would mean that fewer transactions are taking place, so people and firms do not feel better off. If severe enough, this could lead to a change in political leadership.
- Most students will recognize that computer companies, such as Microsoft, Intel, and Cisco, contribute huge amounts to the GDP.

Teach

C Critical Thinking

Evaluating Guide a class discussion by asking students the following questions: *Is it the role of government to shape people's values? Would Galbraith's plan work? Who would decide which values the government would endorse? Is individual wealth wrong? Does it necessarily lead to a neglect of public projects? Conclude by having students decide whether Galbraith's ideas are in general favor today, and in what ways.* **OL**

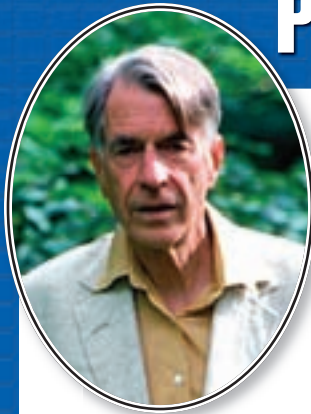
Examining the Profile

Answers:

1. He favored public projects over individual wealth and believed that corporations convinced people to buy goods they really didn't need.
2. **Possible answer:** A person might view positively the results of government intervention to right the nation's economy.

Additional Support

Profiles in Economics



Galbraith attended college during the early years of the Great Depression. His experiences taught him to question accepted theories and challenge what he called "conventional wisdom."

John Kenneth Galbraith (1908–2006)

- advocated public works funding in *The Affluent Society*
- served as economic adviser to five presidents

Iconoclast Economist

Shaped by his experiences during the Great Depression, John Kenneth Galbraith believed in the government's ability to solve problems. Early in his career, he also developed a love of writing and an engaging, witty style. This turned the Harvard professor of economics into the most widely read American economist of his generation and turned his books into bestsellers.

Galbraith developed a reputation as an iconoclast—a person willing to challenge accepted belief. Other economists objected to the liberal ideas Galbraith promoted. For example, in his classic *The Affluent Society*, Galbraith argued that Americans needed to reconsider their values. The U.S. economy had resulted in individual wealth, while public projects such as education and highways were neglected or underfunded. According to Galbraith, Americans were "artificially affluent" because corporations convinced people to buy goods they did not want or need. Government regulation of prices on certain goods would steer Americans away from spending and help them refocus on more important matters, such as attaining an education or appreciating culture.

Presidential Influence

Unlike most other economists, Galbraith was able to apply his economic theories in the social and political arenas. As an adviser to presidents Franklin Roosevelt, Harry Truman, John Kennedy, Lyndon Johnson, and Bill Clinton, Galbraith was a major force in directing the Democratic Party's economic platform. Under President Roosevelt, he administered wage and price controls in the Office of Price Administration. His most direct influence, though, is reflected in President Johnson's "war on poverty," which incorporated many of Galbraith's ideas, and increased funding for public works projects.

Examining the Profile

1. **Making Inferences** Which viewpoint made Galbraith an iconoclast to other economists?
2. **Drawing Conclusions** How might living through the Great Depression lead to liberal economic thought?

Extending the Content

A Gift for Words It wasn't only his height of six feet eight inches that made John Kenneth Galbraith the most famous economist of his generation. His wit and gift for expressing ideas in colorful language also made him well known. Among his witticisms are these:

- Economics is extremely useful as a form of employment for economists.

- It is a far, far better thing to have a firm anchor in nonsense than to put out on the troubled sea of thought.
- Under capitalism man exploits man. Under communism, it's just the opposite.
- If all else fails, immortality can always be assured by spectacular error.
- The only function of economic forecasting is to make astrology look respectable.

GUIDE TO READING

Section Preview

We are interested in population because it makes up the economy's largest sector, the consumer sector, and affects the economic performance of a nation.

Content Vocabulary

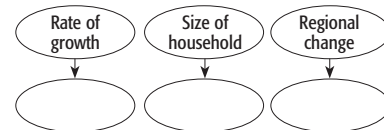
- census (p. 329)
- urban population (p. 330)
- rural population (p. 330)
- center of population (p. 331)
- infrastructure (p. 332)
- baby boom (p. 332)
- population pyramid (p. 333)
- dependency ratio (p. 333)
- demographers (p. 334)
- fertility rate (p. 334)
- life expectancy (p. 334)
- net immigration (p. 334)

Academic Vocabulary

- residence (p. 329)
- projected (p. 334)

Reading Strategy

Identifying As you read the section, complete a graphic organizer like the one below by identifying changes in the United States in the listed categories.



ISSUES IN THE NEWS

—U.S. Census Bureau

Census Bureau Selects Sites for
Census Dress Rehearsal

San Joaquin County, Calif., and the city of Fayetteville, N.C., and surrounding area . . . have been selected by the U.S. Census Bureau to serve in 2008 as the dress rehearsal sites for the 2010 Census. . . .

San Joaquin County [is] an urban location with a multilingual population and an assortment of group quarters housing such as hospitals, college residence halls, nursing homes, prisons and facilities for the homeless. . . .

The Fayetteville site [has] a mix of . . . urban, suburban and rural areas and has two military bases (Fort Bragg and Pope Air Force Base). ■



Population is important for a number of reasons. First, a country's population is the source of its labor, one of the four factors of production. Second, the population is the primary consumer of the nation's output and has a direct effect on how much is produced. Because of this, the size, composition, and rate of growth of a country's population has an impact on macroeconomic performance.

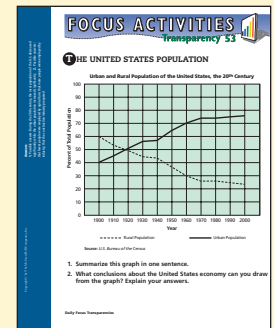
The Constitution of the United States requires the government to periodically take a **census**, an official count of all people living in the United States, including their place of **residence**. Because the official census occurs every 10 years, it is called the decennial census. As you can see in the news story, the U.S. Census Bureau begins making plans for the decennial census several years ahead of time.

census complete count of population, including place of residence

Focus

Bellringer

Daily Focus Transparency 53



GUIDE TO READING

Answers to Graphic:

Rate of growth: has slowed

Size of household: has shrunk

Regional change: center of population has moved to the Southwest

Resource
Manager

R

Reading
Strategies

Teacher Edition

- Skimming, p. 330
- Making Connections, p. 332
- Monitoring, p. 334

Additional Resources

- Guid. Read. Act., p. 35
- Read. Ess. & Note-Taking Guide, p. 103

C

Critical
Thinking

Teacher Edition

- Speculating, p. 331
- Compare/Contrast, p. 334
- Predicting, p. 335
- Evaluating, p. 336

Additional Resources

- Econ. Cont. Vocab. Act., p. 12

D

Differentiated
Instruction

Teacher Edition

- ELL, p. 330
- Intrapersonal, p. 333

Additional Resources

- Enrichment Act., p. 12
- Quizzes and Tests, p. 150

W

Writing
Support

Teacher Edition

- Personal Writing, p. 332
- Expository Writing, p. 336

Additional Resources

- Writer's Guidebook

S

Skill
Practice

Teacher Edition

- Synthesizing Info., p. 331
- Using Bar and Circle Graphs, p. 333

Additional Resources

- Reteach. Act., p. 12

Teach

D Differentiated Instruction

English Language Learners

Have students write a business letter or e-mail to the U.S. Census Bureau requesting information on how census information is gathered and analyzed. Have volunteers share their letters. **ELL**

R Reading Strategy

Skimming Students who have trouble reading a passage may benefit from skimming it before reading to develop a timeframe for the events or ideas that are presented. Have students skim the subsection “Historical Growth” for time markers such as “between 1790 and 1960” and “from the beginning of the Civil War until 1900.” Ask students to point out other similar markers in other subsections. **BL**

Caption Answer: track population growth, identify trends, predict future developments

Additional Support

urban population
those persons living in incorporated cities, towns, and villages with 2,500 or more inhabitants

rural population
those persons not living in urban areas

Population in the United States

MAIN Idea The country’s population has shifted from a fast-growing, mostly rural population to a slower-growing, mostly urban one.

Economics and You Have you ever wondered how we know the size of the U.S. population? Read on to learn how it is measured.

One of the original uses of the census was to apportion the number of representatives that each state elects to Congress. Ever since, the census has given us a wealth of data about our nation, and we even use it to make projections into the future.

Census Some census workers interview a select group of people in person. **How are census data used?**

Counting the Population

The federal government conducted the first census in 1790. Throughout the 1800s, it created temporary agencies each decade

to do the counting. In 1902, Congress permanently established the U.S. Census Bureau. Today, the Bureau works year-round, conducting monthly surveys relating to the size and other characteristics of the population.

When the Census Bureau conducted the last decennial census, it used the household as its primary survey unit. In this census, about five in every six households received a “short form,” which took just a few minutes to fill out. The remaining households received a “long form,” which included more questions and served to generate a more detailed profile of the population. Bureau employees also used different methods to count special groups, such as homeless persons, who do not normally conform to the household survey unit.

The Census Bureau tabulates and presents its data in a number of ways. One such classification considers the size of the **urban population**—people living in incorporated cities, villages, or towns with 2,500 or more inhabitants. The **rural population** makes up the remainder of the total, including those persons who live in sparsely populated areas along the fringes of cities.

R Historical Growth

The population of the United States has grown considerably since colonial times. The rate of growth, however, has slowly declined. Between 1790 and 1860, the population grew at a compounded rate of about 3.0 percent a year. From the beginning of the Civil War until 1900, the average fell to 2.2 percent. From 1900 to the beginning of World War II, the rate dropped to 1.4 percent. The rate of increase declined slowly but steadily after that, and today the rate of population growth is less than 1.0 percent annually.

The census also shows a steady trend toward smaller households. During colonial times, household size averaged about 5.8 people. By 1960, the average had fallen to 3.3 and today is about 2.6 people. The figures reflect a worldwide trend toward



Activity: Hands-On Economics

Analyzing Census and Other Government Economic Data

Census information can be valuable to the small, private businesses that are so important to the growth and success of the American free enterprise economy. Ask students to choose a particular small business, such as a restaurant, lawn-care service, or movie-rental store. Then have students consult

the print edition or Web site edition of the *Statistical Abstract of the United States* or census data publications and look for trends in your region. You may want to have students brainstorm a suitable list of relevant questions to research, such as: *Is the population increasing? By how much? In what age groups and other categories? Is the number of businesses increasing? What kinds*

of businesses? Is any kind of business decreasing? Is disposable personal income increasing? Is sales volume increasing? Have students write a paragraph, based on the data they find, explaining why they would or would not recommend that a friend enter the selected business. **OL**

▶ The center of population is the point where the country would balance if the map were flat and every person weighed the same.

Economic Analysis Why has the center moved since the first census was conducted in 1790?



Source: U.S. Census Bureau

smaller families in industrialized countries. The figures also show that more individuals are living alone today than ever before.

Regional Change

An important population shift began in the 1970s with a migration to the western and southern parts of the United States. These regions have grown quite rapidly, while most of the older industrial areas in the North and East have grown more slowly or even lost population. As people have left the crowded, industrial Northeast for warmer, more spacious parts of the country, the population in states such as Nevada, Arizona, Colorado, Utah, Idaho, Georgia, and Florida has been increasing steadily.

Another indicator of population shift is the **center of population**—the point where the country would balance if it could be laid flat and everyone weighed the same.

In 1790, the center was 23 miles east of Baltimore, Maryland. Since then, as you can see in **Figure 12.4**, it has moved farther west. By the 2000 decennial census, the center of population had reached a point about 2.8 miles east of Edgar Springs, Missouri.

center of population point where the country would balance if it were flat and everyone weighed the same

Consequences of Growth

Changes in population can distort some macroeconomic measures like GDP and GNP. As a result, both measures are often expressed on a per capita, or per person, basis. One result is GDP per capita, which is determined by dividing GDP by the population. GDP per capita is especially useful when making comparisons between countries.

Population growth can have several consequences. If a nation's population grows faster than its output, per capita output grows more slowly, and the country could

C Critical Thinking

Speculating Ask students to speculate on how the center of population is found. (Many students will recognize that the area of the country is compared mathematically with the population and the population's location to find the theoretical center.) **AL**

S Skill Practice

Synthesizing Information

Ask: What are some reasons Americans are moving to the Sun Belt, the name for the western and southern parts of the United States? Have students discuss suggested reasons. Then ask them to rank the reasons in importance for (1) most people, and (2) themselves. (Possible reasons may include climate, job opportunities, or desire to be near relatives. Students' rankings will vary.) **OL**

Economic Analysis

Answer: The places where Americans live, along with the nation's boundaries, have changed, moving westward and southward.

Additional Support

Activity: Interdisciplinary Connection

Music Play for students a recording of Bruce Springsteen's song about Sun Belt migration, "My Hometown," from his 1984 album *Born in the USA* (or ask a musical student to perform the song). Tell students that Bruce Springsteen is from New Jersey and is known for his songs about working-class life. Have students read the lyrics and discuss the issues the song raises

in the context of migration to western and southern parts of the country from the North and East. **Ask:** What might "Rust Belt" states do to prevent workers from leaving for more promising employment opportunities in the Sun Belt? (Answers will vary, but students may suggest tax breaks for residents and tax incentives for new businesses.) **OL**

W Writing Support

Personal Writing Have students write a letter to the editor of a local newspaper taking and supporting a position, pro or con, on this statement: *If our society does not significantly increase its spending on infrastructure, our economic well-being will be threatened.* **OL**

R Reading Strategy

Making Connections Have students list three ways in which population trends are used. Then have them give examples of each trend from history or current events, either locally or nationally. **OL**

Caption Answer: resources such as fresh water can become scarcer; infrastructure is stressed

✓Reading Check Answer: population has grown enormously, households have become smaller, the center of population has shifted to the West and South

Differentiated Instruction

Urban Sprawl
When the population grows, it results in heavier traffic. **What are other effects of population growth?**



Economics ONLINE
Student Web Activity Visit the *Economics: Principles and Practices* Web site at glencoe.com and click on Chapter 12—Student Web Activities for an activity about population trends.

infrastructure the highways, mass transit, communications, power, water, sewerage, and other public goods needed to support a population

baby boom historically high birthrate years in the United States from 1946 to 1964

end up with more mouths than it can feed. On the other hand, if a nation's population grows too slowly, there may not be enough workers to sustain economic growth. In addition, a growing population puts more demand on resources.

When a growing population shifts toward certain areas, such as cities or suburbs, it puts different pressures on existing resources. In Atlanta, Georgia, for example, urban sprawl and traffic congestion have become major problems. In heavily populated areas of Arizona, Nevada, and southern California, adequate supplies of fresh water have become concerns.

Because it takes a long time to plan and construct a country's **infrastructure**—the highways, levees, mass transit, communications systems, electricity, water, sewer, and other public goods needed to support a population—we need to pay attention to future population trends. If we neglect them, even modest shifts in the population can cause enormous problems in the future.

✓Reading Check Explaining What have been the major population changes since the first census in 1790?

Projected Population Trends

MAIN Idea Fertility, life expectancy, and net immigration influence population trends.

Economics and You Have you considered how immigration affects population growth? Read on to learn how the U.S. population is expected to change.

Population trends are important to many groups. Political leaders watch population shifts to see how voting patterns may change. Community leaders are interested because changes in local population affect services such as sanitation, education, and fire protection. Businesses use census data to help determine markets for products and sales territories.

Age and Gender

When making its projections, the Census Bureau assumes that the aging generation of baby boomers will drive many characteristics of the population. People born during the **baby boom**, the high birthrate years from 1946 to 1964, make up a sizable portion of the current population. As

The Population-Economy Connection

- Objective:** Understand the relationship between population and economics.
- Focus/Teach:** Have students list some ways that an aging population will affect them in the future. Then have students complete the activity.
- Assess:** Go over students' answers as a class, pausing to discuss any on which there is disagreement.
- Close:** Ask students how the federal government could prepare for each demographic change.

Differentiated Instruction Strategies

- BL Ask:** Which of the expected changes will affect you the most? Why?
- AL** Have students list three businesses they would start, based on the chart answers, and three they would avoid.
- ELL** Have students make a graph that represents one piece of demographic information in the left-hand column.

ENRICHMENT Chapter 12																							
THE POPULATION-ECONOMY CONNECTION																							
<p>Directions: The table below highlights some major changes that the Census Bureau forecasts may occur between 2000 and 2050. Think about these changes and the economic challenges they pose. Consider each factor of the economy, with a focus on the impact of the projected growth in the labor force, and the projected changes in the population.</p>																							
<p>How change in the population of the United States will affect the economy:</p> <table border="1"> <thead> <tr> <th>Population change</th><th>Impact on the economy</th></tr> </thead> <tbody> <tr> <td>Population will increase by about 100 million by 2050.</td><td>(1)</td></tr> <tr> <td>Population will be more diverse.</td><td>(2)</td></tr> <tr> <td>Population will be older.</td><td>(3)</td></tr> <tr> <td>Population will be more educated.</td><td>(4)</td></tr> <tr> <td>Population will be more mobile.</td><td>(5)</td></tr> <tr> <td>Population will be more urban.</td><td>(6)</td></tr> <tr> <td>Population will be more diverse.</td><td>(7)</td></tr> <tr> <td>Population will be more educated.</td><td>(8)</td></tr> <tr> <td>Population will be more mobile.</td><td>(9)</td></tr> <tr> <td>Population will be more urban.</td><td>(10)</td></tr> </tbody> </table>	Population change	Impact on the economy	Population will increase by about 100 million by 2050.	(1)	Population will be more diverse.	(2)	Population will be older.	(3)	Population will be more educated.	(4)	Population will be more mobile.	(5)	Population will be more urban.	(6)	Population will be more diverse.	(7)	Population will be more educated.	(8)	Population will be more mobile.	(9)	Population will be more urban.	(10)	
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Eventually, the baby boomers will reach their retirement years and want to collect pensions, Social Security, and Medicare benefits. Because most of these payments are transfer payments, they will place a heavy burden on the younger and relatively smaller working population. The burden becomes evident with changes in the **dependency ratio**—the number of children and elderly people in the population for every 100 persons in the working-

Finally, if you compare the left side of the population pyramid with the right, you will see that women tend to outlive men. Separate population pyramids can also be created for any racial or ethnic group.

The Census Bureau also makes projections for racial and ethnic groups. In 2000, whites were the largest component of the total population. The numbers of African Americans, Hispanic Americans, Asian Americans, and Native Americans followed in that order.

Differences in fertility rates, life expectancies, and immigration rates will change the racial statistics dramatically in the future. By 2050, the Asian and Hispanic

dependency ratio number of children and elderly people in the population for every 100 persons in the 18 to 64 working-age bracket

Figure 12.6 ▶

Projected Change in U.S. Population by Race and Ethnic Origin, 2000–2050

C Critical Thinking**Comparing and Contrasting**

Ask: How would a graph about your own community be similar to or different from the one in the book? Have students explain their reasons for the differences they cite. **OL**

R Reading Strategy

Monitoring To help students understand the material in the subsection on population growth, have them create word webs for each of the three factors that affect population growth: *fertility*, *life expectancy*, and *net immigration levels*. Have students contribute their ideas to webs on the board. **BL**

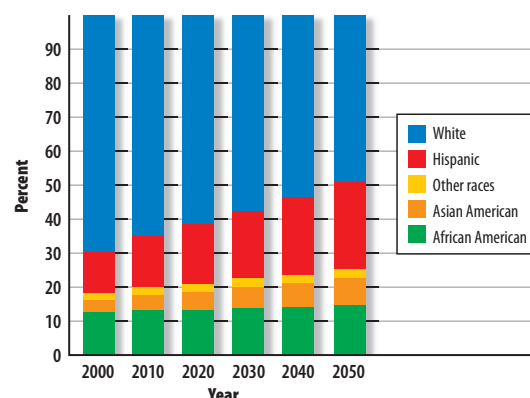
Economic Analysis

Answer: Asians and Hispanics; whites

▶ The distribution of population by race is projected to change dramatically by the year 2050.

Economic Analysis Which ethnic groups are expected to increase the most? Which will decrease in proportion to the total population?

PROJECTED POPULATION, 2000–2050



Source: U.S. Census Bureau.

demographer
person who studies growth, density, and other characteristics of the population

fertility rate
number of births that 1,000 women are expected to undergo in their lifetime

life expectancy
average remaining life span in years for persons who attain a given age

net immigration
net population change after accounting for those who leave as well as enter a country

portions of the population are expected to nearly double. The number of African Americans will also increase. The white non-Hispanic population is expected to remain a majority of the total population at just over 50 percent. Figure 12.6 shows how the Census Bureau projects the ethnic makeup of the U.S. population to change over the next few decades.

Population Growth

According to **demographers**—people who study the growth, density, and other characteristics of population—three major factors affect population growth. These factors are fertility, life expectancy, and net immigration levels.

The **fertility rate** is the number of births that 1,000 women are expected to undergo in their lifetime. A fertility rate of 2,119, for example, translates to 2.119 births per woman. According to the Bureau of the Census, this rate is **projected** as the most likely fertility rate for the United States. That rate is barely above the replacement

population rate—the rate at which the number of births in a population offsets the number of deaths and the size of the population neither increases nor decreases.

This was not always the case. In the late 1800s and early 1900s, Americans tended to have large families. In the days before modern machines and appliances, the work of maintaining a home and family and earning a living was difficult and time-consuming. Children were needed to do household chores, work on family farms, and bring in additional money from outside jobs. Later, as life became mechanized and fewer people lived on farms, having large families became less important. As a result, the nation's birthrate dropped steadily throughout the last century.

The second factor, **life expectancy**, is the average remaining life span of a person who has reached a given age. The Bureau of the Census predicts that life expectancy at birth will go from about 75.9 years today to 82.1 years by 2050.

The third factor is **net immigration**—the overall change in population caused by

**Hands-On
Chapter Project****Step 2****Evaluating an Economy**

Step 2: Examining Population and Economic Growth. Student groups will create statistics that reflect the population and economic growth of a fictional country.

Directions: Have students reassemble into the groups formed in Step 1. For this step, have student groups create a graph like the one on page 333 showing population distribution for the present and for

20 years in the future for their fictional nation. Then have the group produce a press release from the nation's economic ministry about its plans for future economic development, based on the population data and other relevant facts about the economy. The press release should answer the questions *who*, *what*, *where*, *when*, and *how*.

Contrasting Have a few students in the group produce a “dissenting report” that

proposes the nation develop in a different way. Remind students to support their alternative recommendations with economic data. **OL**

(Chapter Project continued in Section 3.)

people moving into and out of the country. The Census Bureau recently estimated a constant net immigration of about 880,000 per year. This figure is based on 1,040,000 immigrants—those entering the country—and 160,000 emigrants—those leaving the country—in the future.

Taking into account these three factors, analysts expect the rate of population growth in the United States to continue to decline. The growth rate, already below 1 percent today, is likely to decrease further until the year 2050. At that time, the resident United States population is expected to be about 420 million people.

Future Population Growth

Most of the demographic factors examined in this section point to a population that is likely to grow more slowly in the future. While this may seem like a matter for concern, it is important to note that increases in productivity can easily offset the negative effects of declining population

growth. If slightly fewer people produce significantly more on average, then total output will continue to grow.

The larger concern is the age composition of the future population. As the population matures, a greater percentage of people reach retirement age. This will cause an increase in the demand for medicines, medical facilities, retirement homes, and other products that are needed for the retired and the elderly. At the same time, there may be a declining need for schools, playgrounds, and other facilities as the young become a smaller percentage of the population.

These changes tend to be gradual, and their impact on the economy can be anticipated with some degree of certainty. As you learned in Chapter 2, one of the major advantages of a market economy is that it accommodates change with the least amount of disruption of daily life.

✓Reading Check **Summarizing** Why is the rate of population growth declining?

Skills Handbook

See page R47 to learn about **Making Predictions**.

CHAPTER 12, SECTION 2

C Critical Thinking

Predicting Have students predict and explain possible factors that would change the expected low population growth of the United States over the next 50 years. (Possible answer: a higher immigration rate due to ecological, economic, or social chaos in other countries) **OL**

✓Reading Check **Answer:** Life expectancy is increasing, and net immigration is not as high as at some periods in the past.

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 2, and then assign the Section 2 Review as homework or as an in-class activity.

Close

Evaluating Have students identify the population trend that they feel will have the greatest effect on the nation and on your community over the next 25 years. **OL**

SECTION

2

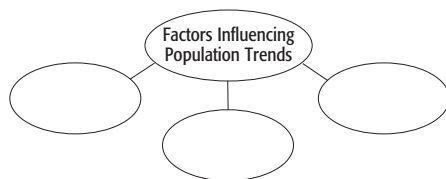
Review

Vocabulary

- 1. Explain** the significance of census, urban population, rural population, center of population, infrastructure, baby boom, population pyramid, dependency ratio, demographers, fertility rate, life expectancy, and net immigration.

Main Ideas

- 2. Explaining** How does the rate of population growth affect economic growth?
- 3. Listing** Use a graphic organizer like the one below to list the three most important factors that determine future population.



Critical Thinking

- 4. The BIG Idea** How can the projection of population trends help determine the direction of economic development?
- 5. Drawing Conclusions** How will the retirement of baby boomers affect your generation? How do you think the baby boomers will feel about this?
- 6. Determining Cause and Effect** What special demands does a high birthrate put on a nation's economy?
- 7. Analyzing Visuals** Look at the photograph of traffic congestion on page 332. What effect does urban sprawl have on the city of Atlanta? What could the city do to alleviate the problem?

Applying Economics

- 8. Population Growth** Search your local newspaper for articles related to population issues. Summarize the population-related problems affecting your community, and assess the local or state government's solutions.

Review

SECTION

2

Answers

- All definitions can be found in the section and the Glossary.
- A growing population means more available labor and consumers, resulting in increased economic growth. A declining population means a decrease in consumers and available workers, leading to reduced production and slower economic growth.
- fertility rate, life expectancy, and net immigration
- It helps businesses determine the best locations for future plants, where they can find enough workers, and the best types of products to advertise and sell in particular areas. Governments might use the information to determine where new roads, schools, and other infrastructure will be needed in the future.
- Answers will vary but may include the increasing costs of providing Social Security payments and Medicare.
- A high birthrate may mean that population is growing faster than output, which could mean the nation cannot feed its population.
- freeways are congested, more must be spent on roads, the air quality drops; improve public transportation to decrease congestion, or encourage businesses to stagger working hours or locate in less-busy areas
- Answers will vary but should include your local government's response to population issues.



CASE STUDY

Focus

C Critical Thinking

Evaluating Ask: **What kind of shopping do you prefer: one big store with everything or smaller specialty stores? Why?** (Answers will vary.) **OL**

Teach

W Writing Support

Expository Writing Have students write a business memo to the manager of a store in your community proposing several ideas about incentives that would encourage students to shop there. List suggestions on the board. **OL**

Analyzing the Impact

Answers:

1. travel services, insurance, home improvement, super stores, a bank, a credit card
2. **Possible answers:** met customers' needs better; provided one-stop convenience

Additional Support



CASE STUDY

Falabella Flourishes

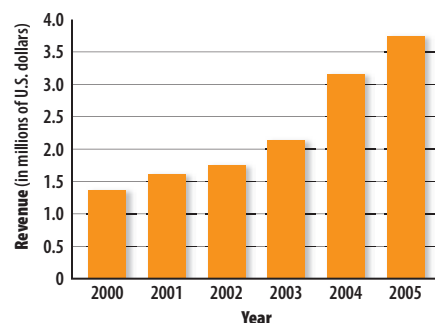
Chilean Retail Giant

Latin American countries have experienced tremendous population growth. Yet this alone does not guarantee business success, because it is hard to get people to buy your products when they have very little money to spend. Big-name foreign companies, such as Sears and J.C. Penney, have called it quits in Chile because of this roadblock. A domestic retail company, however, has found a highly successful way around it.

Tailored to Consumers

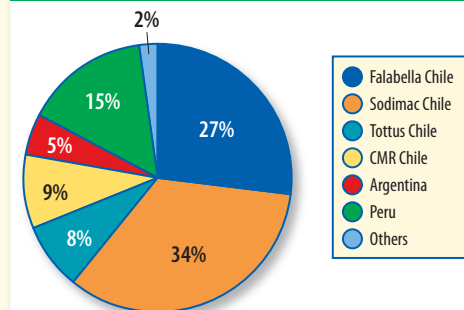
Chile's S.A.C.I. Falabella began in 1889 as a small tailor shop and has since grown to become the largest department store chain in Chile and one of the largest in South America. Falabella's strategy for growth is simple: find a way to satisfy consumers' needs. In 1980, Falabella created CMR—its own credit card. Today, the CMR card, issued to more than 4 million people in Chile, Peru, Argentina, and Colombia, is the most widely used credit card in Chile. As an added incentive for frequent CMR users, Falabella offers rewards in the form of cellular phone minutes. Customers can even charge a cellular account directly to their card.

FALABELLA REVENUE



Source: Falabella

REVENUE COMPOSITION



Source: Falabella

Diversify, Diversify

Despite great success with the CMR card, the department store did not realize its potential for growth until it expanded and diversified. Falabella opened stores in neighboring Argentina and Peru, acquired a large share of ownership in The Home Depot Chile, and purchased the home improvement chain Sodimac. Building on these successes, it created a travel agency and an insurance brokerage, then built a chain of Tottus super stores called hypermarkets.

To help all financial aspects of the company work together smoothly, the company added a financial division with the new Banco Falabella (Falabella Bank). This explosive growth has nearly tripled the number of Falabella-owned stores, and they all accept the CMR card.

Analyzing the Impact

1. **Summarizing** What services does Falabella provide?
2. **Making Inferences** Why has Falabella succeeded where others have failed?

Activity: Technology Connection

Hunting for a Bargain Point out that many "big box" stores such as Target, Kohl's, Wal-Mart, Best Buy, and Home Depot now offer extensive Internet shopping possibilities. Services include rapid inventory information, delivery or pick-up at a specific store, and sometimes better prices for online shoppers. Point out that comparing prices at Web sites saves time and energy—and often money—for shoppers. Have students choose a durable

good, such as a TV, music player, appliance, or other product and research its price and availability at three different "big box" stores. Have students share the results of their searches. Discuss their impressions of Internet shopping at super stores. **OL**

GUIDE TO READING

Section Preview

In this section, you will learn about the factors that contribute to income inequality and the programs that have been implemented to reduce poverty.

Content Vocabulary

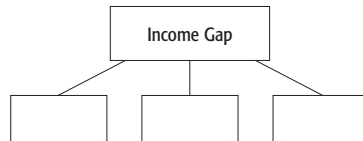
- poverty threshold (p. 338)
- poverty guidelines (p. 338)
- Lorenz curve (p. 339)
- welfare (p. 342)
- food stamps (p. 342)
- Medicaid (p. 343)
- Earned Income Tax Credit (EITC) (p. 343)
- enterprise zone (p. 344)
- workfare (p. 344)
- negative income tax (p. 344)

Academic Vocabulary

- impact (p. 340)
- uniform (p. 342)

Reading Strategy

Outlining As you read the section, complete a graphic organizer similar to the one below by outlining three explanations for a growing income gap.



ISSUES IN THE NEWS

—Toledo Blade

Need for Food Help Is Growing

Once believed to affect only the homeless or unemployed, hunger in America has taken on a new face: the working poor. According to a new nationwide study, more than 25 million Americans seek emergency food assistance each year. In the Toledo area, nearly 297,000 visits were made by people seeking help from a local food distribution agency last year. Nearly 26 percent of those local clients had at least one adult working in the family.

The study, called “Hunger in America 2006,” shows hunger has become an issue for even those with jobs. “What is really telling about this study is that such a large number of clients we’re serving have at least one adult working,” said Maura Daly, director of the study. “It’s difficult to imagine that people who have a job are coming home at the end of the day and have to make choices between food and other basic necessities like rent, utilities, or medicine.” ■



In the world today, poverty can be viewed as an indicator of macroeconomic performance. Unfortunately, about one person in eight in the United States lives in poverty despite several years of solid economic growth. As you can read in the news story, this number includes people who hold jobs

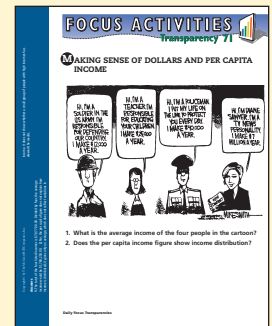
but do not earn enough money to fully support their families.

Governments on all levels have initiated programs to reduce poverty. Before we discuss these programs, however, we must first understand how poverty is defined and measured.

Focus

Bellringer

Daily Focus Transparency 71



GUIDE TO READING

Possible Answers to Graphic: growing gap between well-educated and poorly educated workers; service jobs that pay poorly are increasing; changing structure of families

Resource
ManagerR Reading
Strategies

Teacher Edition

- Analyzing Text Structure, p. 338
- Summarizing, p. 339

Additional Resources

- Guid. Read. Act., p. 36
- Read. Ess. & Note-Taking Guide, p. 106

C Critical
Thinking

Teacher Edition

- Problem-Solving, p. 341
- Drawing Con., p. 342
- Evaluating, p. 343
- Analyzing, p. 345
- Predicting, p. 346

Additional Resources

- Graph. Org. Trans., p. 23

D Differentiated
Instruction

Teacher Edition

- Visual/Spatial, p. 340
- Interpersonal, p. 344
- Verbal/Linguistic, p. 350

Additional Resources

- Econ. Content Vocab. Act., p. 12

W Writing
Support

Teacher Edition

- Expository Writing, pp. 340, 343
- Descriptive Writing, p. 341
- Persuasive Writing, p. 342

Additional Resources

- High School Reading in the Content Area Strat. and Act.

S Skill
Practice

Teacher Edition

- Using Bar and Circle Graphs, p. 339
- Problems and Solutions, p. 344
- Using Tables and Charts, p. 351

Additional Resources

- Reteach. Act., p. 12

Teach

Reading Strategy

Analyzing Text Structure

Refer students to the first paragraph in the text on this page. Point out the word *relative* in the first sentence. Then “think out loud” in this way to demonstrate how the text first uses a term and then explains its meaning: “The text says poverty is a relative measure. I’m not sure what that means, but as I continue reading, I find out. *Relative* means something like ‘different things to different people.’ The text is saying that a certain amount of money could make someone well off in one country, but leave him or her poor in another.” Have students look for more examples of this text structure as they read this subsection. **BL**

Economic Analysis

Answer: to determine eligibility for federal programs like food stamps and Head Start

Additional Support

poverty threshold
annual dollar income used to determine the number of people in poverty

poverty guidelines
administrative guidelines used to determine eligibility for certain federal programs

Poverty

MAIN Idea A portion of the U.S. population lives in poverty, and the gap in the distribution of income is widening every year.

Economics and You Have you ever thought about what it would be like to be either very rich or very poor? Read on to find out how income is distributed in the United States.

Poverty is a relative measure that depends on prices, the standard of living, and the incomes that others earn. What may seem like poverty to one person may seem like riches to another, so we first need to understand how poverty is defined.

Defining Poverty

People are classified as living in poverty if their incomes fall below a predetermined level, or threshold. The **poverty threshold** is the benchmark used to evaluate the income that people receive. If they have incomes below the threshold, they are considered to be in poverty even if they have supplements such as food stamps, subsidized housing, and Medicaid.

The Social Security Administration developed the thresholds in 1964 using two studies done by the U.S. Department of Agriculture in the 1950s. The first study developed four alternative but nutritionally adequate food plans for individuals and families of different sizes. The least expensive food plan was then selected as the food budget that would keep people out of poverty.

The second study found that families typically spend one-third of their total income on food. To obtain the threshold, the Social Security Administration simply took the least expensive food budget of the four food plans and multiplied it by three. Today the thresholds are adjusted upward every year by an amount just enough to offset increases in inflation.

For administrative purposes, the poverty thresholds are then simplified to appear as **poverty guidelines**, or administrative guides used to determine eligibility for certain federal programs such as the Food Stamps Program and Head Start. **Figure 12.7** shows the guidelines that had been established for two recent years.

Figure 12.7 Poverty Guidelines

► The table lists the poverty guidelines for families of different sizes for two recent years. Families and households with incomes below the official poverty guidelines are eligible for certain federal programs.

Economic Analysis How are the poverty guidelines used today?

Persons in Family or Household	2005	2006
1	\$9,570	\$9,800
2	12,830	13,200
3	16,090	16,600
4	19,350	20,000
5	22,610	23,400
6	25,870	26,800
7	29,130	30,200
8	32,390	33,600
For each additional person, add	3,260	3,400

Source: Federal Register

Activity: Collaborative Learning

Making a Budget Organize students into groups of four. Explain that each group represents a family of four living on the 2006 poverty threshold—an annual income of \$20,000, or about \$385 a week. Have each group develop a detailed family budget, making certain that their budget is balanced.

After several groups have shared their budgets, have students discuss what they felt were difficult choices, how much discretionary income they had left, and other issues related to the difficulty of living at the poverty threshold. **OL**

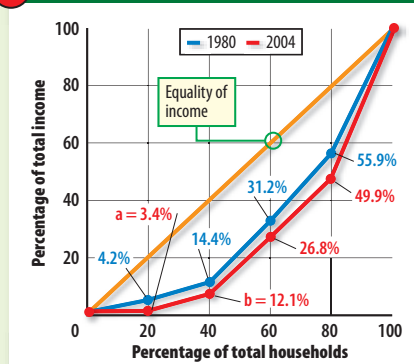
- Panel A shows the rankings of all household income for two separate years. When the 2004 data are plotted in Panel B, the curve shows the cumulative income from the lowest to the highest quintiles. Because incomes are not distributed evenly among households, the Lorenz curve is not a diagonal line.

Economic Analysis What percentage of income is received by the richest quintile in 1980? In 2004?

A HOUSEHOLD INCOME RANKED BY QUINTILES

	1980	2004	
	Quintiles	Quintiles	Cumulative
Lowest fifth	4.2%	3.4%	3.4%
Second fifth	10.2%	8.7%	12.1%
Third fifth	16.8%	14.7%	26.8%
Fourth fifth	24.7%	23.1%	49.9%
Highest fifth	44.1%	50.1%	100.0%
Top 5 percent	16.5%	21.8%	

B THE LORENZ CURVE



Source: U.S. Census Bureau.

Distribution of Income

In addition to determining the actual number of people in poverty, economists are interested in finding out how income is distributed among households. To do so, the incomes of all households are ranked from highest to lowest, and the ranking is then divided into quintiles, or fifths, for examination. Then the total amount of the nation's income earned by each quintile is calculated.

The table in **Panel A** of **Figure 12.8** shows household income quintiles for two different years. As before, only money income is counted, while other aid such as Medicaid, food stamps, or subsidized housing is excluded. Using the most recent year in the figure as our example, the percentage of income earned by each quintile is added to the other quintiles. These incomes are plotted as a Lorenz curve. The **Lorenz curve**, which shows how the actual distribution of income varies from an equal distribution, appears in **Panel B**.

To illustrate, in 2004 the 3.4 percent of total income received by the lowest quintile is plotted in Panel B as point **a**. This amount is added to the 8.7 percent the next quintile earns and plotted as point **b**. This process continues until the cumulative amounts of all quintiles are plotted.

If all households received exactly the same income—so that 40 percent of the households earn 40 percent of the total income and so on—the Lorenz curve would appear as a diagonal line running from one corner of the graph to the other. Because all households do not receive the same income, however, the Lorenz curve is not a diagonal. As you can see in the figure, the distribution of income recently has become more unequal than it was in 1980.

A Lorenz curve can also be shown for groups other than households. These would include Lorenz curves for individuals, families, or occupations.

✓Reading Check **Describing** How were poverty thresholds developed?

Lorenz curve
graph showing how the actual distribution of income differs from an equal distribution

R Reading Strategy

Summarizing Have students write a paragraph summarizing the information in Figure 12.8, Panel A. Then ask them why the information was presented in a table, rather than as text. (*A graphic presentation saves space and is easier to read.*)

BL

S Skill Practice

Using Bar and Circle Graphs

Have students analyze the graphs in Figure 12.8 and use the data to formulate statements.

(Possible statement: The income gap between the richest and poorest citizens of the United States is widening.) **OL**

Economic Analysis

Answer: 44.1%; 50.1%

✓Reading Check **Answer:** by determining the cost of the least expensive nutritionally adequate food plan and multiplying it by three

Additional Support

Activity: Technology Connection

Using Graphing Software Have students use a computer software graphing program like Microsoft Excel to present the information in Panel A of Figure 12.8 in graph form. Have them analyze the information in the table, choose the most suitable format for a graph, and input the data. Then have

volunteers present their graphs to the class, as well as offer tips on choosing and using the graphing software. (*Students could create line graphs for each quintile, pie charts for each year, or bar graphs that show both years' quintile information.*) **OL**

Teacher Tip

Creating Graphs One popular spreadsheet program, Microsoft Excel, can create line, bar, and circle graphs from data entered into spreadsheet cells. You may want to ask computer-savvy students to help others create graphs with the program.

See pages R16–R19 for information on getting an education.

W Writing Support

Expository Writing Have students write an essay addressing the problem of a lack of education among many poor people and proposing a solution the government could take to address the problem. Have volunteers share their solutions. **OL**

D Differentiated Instruction

Visual/Spatial Have students create a cause-and-effect chart about the influence of wealth on life choices. Ask volunteers to re-create their charts on the board. *(Charts should illustrate that wealth, as distinct from income, allows people to send children to expensive schools, start businesses for children, choose not to work, and live off investments.)* **OL**

Caption Answer: education, wealth, tax law changes, decline of unions, more service jobs, monopoly power, discrimination, changing family structure

Reasons for Income Inequality

MAIN Idea Lack of education and uneven distribution of wealth are among the reasons for poverty.

Economics and You Have you ever considered how your education could affect your income? Read on to find out about the way income is distributed in the United States.

There are at least eight, if not more, reasons why incomes vary. Education and wealth are among the most important of these reasons.

Education

One of the most important reasons for income inequality is the difference in individuals' educational levels. People's income normally goes up as they get more education. However, in the last 30 years, the gap between well-educated and poorly educated workers has widened. This has caused wages for highly skilled workers to soar, while wages for the less skilled have remained about the same.

You saw proof of the importance of education earlier in Figure 1.4 on page 16. This figure shows that someone who has earned a college degree makes about three times more on average than someone without a high school diploma. Likewise, someone with a college degree makes nearly twice as much as someone with a high school diploma.

Wealth

Income also varies because some people hold more wealth than others, and the distribution of wealth is even more unequal than the distribution of income. When wealth holders are ranked from highest to lowest, the top fifth holds about 75 percent of all the wealth in the country. The bottom two-fifths, or 40 percent of the people in the country, have less than 2 percent of the total wealth.

This inequality has a dramatic **impact** on people's ability to earn income. Wealthy families can send their children to expensive colleges and universities. The wealthy also can afford to set their children up in businesses where they can earn a better

Inequality of Income Some Americans live in mansions, while others cannot afford to pay rent and are homeless. *What are the major reasons for varying incomes?*



340 UNIT 4 Macroeconomics: Performance and Stabilization

Evaluating an Economy

Step 3: Analyzing Poverty. Student groups will create a United Nations report that describes poverty in their fictional nation.

Directions: Have students return to the groups established for the first two steps of this project. Ask each student group to create a short report, including statistics and graphs like those on pages 339 and 342, on the problem of poverty in their nation. Point out that the statistics for the A and, to a lesser extent, B nations will

resemble those for the United States, while those for the C, D, and F nations will be significantly different. The UN report should include several recommendations on how the nation should address poverty. Remind students to review and use the information in the section on the causes of poverty and types of programs available to alleviate it. **OL**

(Chapter Project continued in Visual Summary.)

Hands-On Chapter Project

Step 3

income. Even if the very wealthy choose not to work, they can make investments that will earn additional income.

Tax Law Changes

In recent years, Congress has changed many tax laws, reducing taxes for almost all Americans. Marginal tax rates on high incomes, however, have been reduced more than rates on lower incomes, thereby adding to the growing inequality of income.

The 15 percent tax rate that applies to corporate dividend payments and capital gains, for example, is the same as the second-lowest rates that apply to the poorest Americans. This means that a millionaire who receives tens of thousands of dollars in corporate dividends pays the same percentage rate on those dividends as someone who only earns \$20,000 a year.

Decline of Unions

As heavy manufacturing has declined in the United States, union membership has fallen, especially among less-skilled workers, adding to the growing income gap. High school graduates who once followed their parents into high-paying factory jobs can no longer do so. This leaves them to find other work, often for much less pay.

More Service Jobs

A structural change in the U.S. economy saw industry convert from goods production to service production. This event widened the income differential. Because wages are typically lower in service industries such as restaurants, movie theaters, and clothing stores, annual incomes also tend to be lower.

Monopoly Power

Another factor is the degree of monopoly power that some groups have. You learned in Chapter 8 that unions have been able to obtain higher wages for their members. Some white-collar workers—clerical,

Did You Know?

Income Gap The rising inequality of income is a worldwide phenomenon, especially for the developing countries of Asia. A major reason for this trend is the lack of jobs for the growing population. The widening income gaps have troubling results. More and more countries experience public complaints, protests, and political crises. In one year alone, China was faced with tens of thousands of protests, often in rural areas where people's earnings are a small fraction of the average income their fellow citizens in cities and coastal regions receive.

business, or professional workers who generally are salaried—also hold a degree of monopoly power. The American Medical Association, for example, has successfully limited the number of people entering the profession by restricting medical school certifications. This has been a major factor in driving up the incomes of doctors.

Discrimination

Discrimination also affects the distribution of income. Women may not be promoted to executive positions because male executives simply are not accustomed to women in roles of power. Some unions may deny membership to immigrants or ethnic minorities.

Although workplace discrimination is illegal, it still occurs. When it does, it causes women and minority groups to be crowded into other labor markets where oversupply drives wages down.

Changing Family Structure

A final reason for the growing income gap concerns the changing structure of the American family. The shift from two-parent families to single-parent families and other household living arrangements tends to decrease the average family income. This and the other factors mentioned above contribute to the trend of the rich getting richer and the poor getting poorer.

✓Reading Check **Synthesizing** Which factors are most important in unequal income distribution? Why?

C Critical Thinking

Problem-Solving **Ask:** Do you think having more doctors might slow the rise in health care costs? Why or why not? (Answers will vary. Students saying “yes” may cite the law of supply and demand, arguing that raising the supply of doctors would lower their cost; students saying “no” might claim that most of the expense in health care is not due to a lack of doctors but to expensive drugs, equipment, and other factors.) **AL**

W Writing Support

Descriptive Writing Have students write a short story about the effect of one of these eight factors (education, wealth, tax law changes, decline of unions, more service jobs, monopoly power, discrimination, and changing family structure) on a family living in poverty. **OL**

✓Reading Check **Answer:** Answers will vary, although many students will probably choose education or wealth; these factors give children a head start over their peers.

Additional Support

Activity: Interdisciplinary Connection

Art Have a group of students create a mural about the income gap and rising economic inequality, either in the United States or in the world. Suggest they begin by brainstorming visual ideas that represent the gap between rich and poor. Then have

them paint their murals and show them to the class. Ask groups to be prepared to answer questions about their ideas and their work. **OL**

Teacher Tip

Finding Inspiration To help students get started, you might show them images of artwork that portrays social issues, such as the work of Jack Levine, Diego Rivera, and Jacob Lawrence.

W Writing Support

Persuasive Writing Have students write a persuasive essay taking and supporting a position on this statement: *The government has a responsibility to help needy people through activities such as income and general assistance, and social service programs.* Have volunteers read their essays. When a variety of opinions have been presented, discuss issues raised. **OL**

C Critical Thinking

Drawing Conclusions
Ask: *Why do you think it has been so difficult to eliminate poverty?* Have students discuss their opinions on this question. Remind them to review the eight reasons for income variation explained on the previous pages. **OL**

Economic Analysis

Answer: mid-1970s; early 1960s

welfare
government or private agency programs that provide general economic and social assistance to needy individuals

food stamps
government-issued coupons that can be exchanged for food

Skills Handbook

See page R48 to learn about **Problems and Solutions**.

Antipoverty Programs

MAIN Idea Since the 1960s, the government has experienced modest success with a number of anti-poverty programs.

Economics and You Did you know there are programs designed to help people escape or avoid poverty? Read on to find out about these programs.

Over the years, the federal government has tried a number of programs to help the needy. Most come under the general heading of **welfare**—economic and social assistance from the government or private agencies because of need.

Reducing poverty has been difficult. As **Figure 12.9** shows, even the record economic expansions of the 1980s and 1990s failed to make a significant dent in the percentage of Americans living in poverty. In fact, the proportion of the population living in poverty today is about the same as it was in the 1970s—and it might have been worse without some of the following programs.

Income Assistance

Programs that provide direct cash assistance to those in need fall into the category of income assistance. One such program is

the Temporary Assistance for Needy Families (TANF), which began in 1997. Although provisions and benefits vary from state to state, many families qualify for modest cash payments because of the death, continuous absence, or permanent disability of a parent. More recently, Congress voted to tighten provisions of the law and toughen work standards for two-parent households.

Another income assistance program is the Supplemental Security Income (SSI), which makes cash payments to blind or disabled persons or to people age 65 and older. Originally, the states administered the program, but because benefits varied so much from state to state, the federal government took it over to assure more **uniform** coverage.

General Assistance

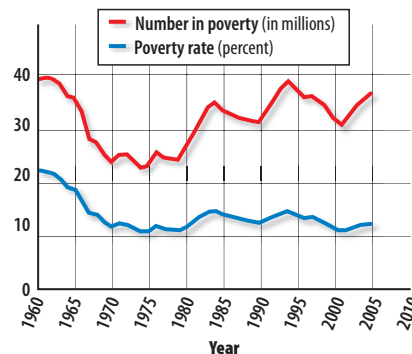
Programs that assist poor people but do not provide direct cash assistance fall into the category of general assistance. One example is the food stamp program that serves millions of Americans. **Food stamps** are government-issued coupons that can be redeemed for food. They may be given or sold to eligible low-income persons.

Figure 12.9 Poverty in the United States: Total Number and Rate

► Since the mid-1960s, the poverty rate has hovered between 10 and 15 percent of the population. In that same time span, the number of people in poverty has increased.

Economic Analysis When was the poverty rate lowest? When did it reach the highest numbers?

POVERTY IN THE UNITED STATES

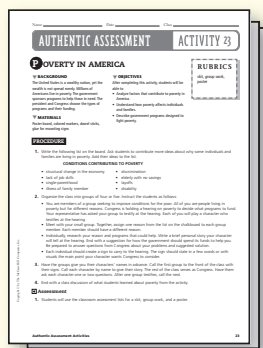


Source: U.S. Census Bureau

Graphs in Motion

See StudentWorks™ Plus or glencoe.com.

Differentiated Instruction



Authentic Assessment Strategies and Activities, p. 23

Poverty in America

Objective: Understand the causes of poverty and the variety of government responses to it.

Focus/Teach: Ask students to describe Congressional committee meetings they have seen or read about. Then have students complete the activity.

Assess: Use the rubrics at the back of the booklet.

Close: Have students discuss what they learned from the skits.

Differentiated Instruction Strategies

BL Have students review relevant sections of the text before choosing a cause and writing their stories.

AL Have students write a newspaper account or create a video film report of the hearing.

ELL Have students write and practice their stories together.

D Differentiated Instruction

Interpersonal Have small groups of students review the discussion of workfare programs. Then have them suggest underlying assumptions that support the idea. You may want to spur discussion by suggesting one: *People who receive welfare from the government should earn it by performing work that benefits society.* Write each group's suggestions on the board and discuss them. **OL**

S Skill Practice

Problems and Solutions Ask students to identify a possible objection to the idea of the negative income tax. *(Possible answer: Giving poor people cash means there is no government control over how they spend it; some might spend their cash payment on nonessentials while ignoring needs for food, health care, or other necessities.)* Then have them suggest solutions to this problem. **OL**

Additional Support

enterprise zone area free of tax laws and other operating restrictions

workfare program requiring welfare recipients to work in exchange for benefits

negative income tax tax system that would make cash payments to individuals with incomes below certain levels

Enterprise Zones

Special **enterprise zones** are areas where companies can locate free of some local, state, and federal tax laws and other operating restrictions. Many enterprise zones are established in run-down or depressed areas. This benefits area residents because they can find work without worrying about transportation. Enterprise zones thus help depressed areas to grow again in several different ways.

Nearly everyone agrees that a healthy and growing economy helps alleviate poverty.

The enterprise zone concept is an attempt to focus some of that growth directly in the areas that need it most by making more employment opportunities available.

Workfare Programs

Because of rising welfare costs, many state and local governments require individuals who receive welfare to provide labor in exchange for benefits. **Workfare** is a program in which welfare recipients work for their benefits. People on workfare often assist law enforcement officials or sanitation and highway crews, work in schools or hospitals, or perform other types of community service work.

Most states that have workfare programs require almost everyone except for the disabled, the elderly, and those with very young children to work. If the workfare assignments are well designed, then recipients have a valuable opportunity to learn new skills that will eventually help them get other jobs.

Many welfare-to-work programs have had promising results. In some cases, companies can even earn federal tax credits when they hire workers directly from the welfare rolls. Under these circumstances, the employment is a win-win situation for both employer and employee.

Negative Income Tax

The **negative income tax** is a proposed type of tax that would make cash payments to certain groups below the poverty line. While the program is not in use today, the proposal is attractive because cash payments would take the place of existing welfare programs rather than supplementing them. Also, everyone would qualify for the program, not just working people as with the EITC.

Under the negative income tax, the federal government would set an income level below which people would not have to pay taxes. Then the government would pay a certain amount of money to anyone who earned less than that amount.

CAREERS

Actuary

The Work

- * Help businesses assess risks and formulate policies
- * Gather and analyze statistics on death, sickness, injury, disability, retirement, and property loss
- * Design insurance and pension plans and calculate premium rates that are high enough to cover any claims and expenses



Qualifications

- * Strong background in mathematics, statistics, probability, finance, and business
- * Knowledge of economic, social, health, and legislative trends
- * Ability to develop and use spreadsheets, databases, and statistical analysis software
- * Bachelor's degree in mathematics or statistics
- * Must pass a series of actuarial examinations

Earnings

- * Median annual earnings: \$76,340

Job Growth Outlook

- * Faster than average

Source: *Occupational Outlook Handbook*, 2006–2007 Edition

Activity: Interdisciplinary Connection

Geography Poverty is not evenly distributed across the United States. Share the following information with students. In 2005 these states and the District of Columbia had the highest per capita personal income:

District of Columbia	\$54,985
Connecticut	\$47,819
Massachusetts	\$44,289

New Jersey	\$43,771
Maryland	\$41,760
New York	\$40,507

In contrast, the lowest per capita personal incomes were in these states:

Louisiana	\$24,820
Mississippi	\$25,318
Arkansas	\$26,874

West Virginia	\$27,215
New Mexico	\$27,644
Utah	\$28,061

Ask students to make generalizations about this set of poverty data. *(The richest states are in the Northeast and East; the poorest ones are in the South and West, except for West Virginia.)* **OL**

For example, suppose that an individual's tax liability was computed using the following formula:

$$\text{taxes} = (25\% \text{ of income}) - \$8,000$$

Under this formula, a person with no income would have a tax of minus \$8,000—which is another way of saying that the person will receive \$8,000 from the government. If the person earned exactly \$12,000, then the taxes would be \$3,000 minus \$8,000, so they would receive \$5,000 for a total of \$17,000 (or \$5,000 from the tax formula plus the \$12,000 in earned income). Under this formula, a person would have to make \$32,000 before he or she actually paid any taxes.

The negative income tax differs from other antipoverty programs in two respects. First, it is a market-based program designed to encourage people to work. The objective is to make the minimum payment large enough to be of some assistance, yet small enough so that people are better off working. Then, when people do go to work, the taxes they pay need to be low enough to not discourage them from working.

Second, the negative income tax would be cost-effective because it would take the place of other, more costly, welfare programs. In addition, government would save on administrative costs.

A Difficult Problem

We might ask how the U.S. economy has done as a result of all these programs with the strong economic growth since the 1980s. The answer, unfortunately, is that poverty has been a remarkably difficult problem to solve. Economic growth is important, of course, but by itself it is not sufficient to reduce poverty.

Even so, there are sound reasons to try to improve the problem of poverty. Not only would millions of Americans be better off, but everyone else in the economy would be better off as well. After all, if too many people find themselves without the capacity to earn and spend, there will be fewer people to purchase the products that our economy produces.

✓Reading Check **Summarizing** What are the benefits of the EITC to a working person?

SECTION

3

Review

Vocabulary

- 1. Explain** the significance of poverty threshold, poverty guidelines, Lorenz curve, welfare, food stamps, Medicaid, Earned Income Tax Credit (EITC), enterprise zone, workfare, and negative income tax.

Main Ideas

- 2. Defining** How is poverty defined?
- 3. Describing** What are reasons for income inequality?
- 4. Identifying** Use a graphic organizer like the one below to identify the major programs and proposals designed to alleviate the problem of poverty

Alleviating the problem of poverty	
1.	
2.	

Critical Thinking

- 5. The BIG Idea** Which of the factors that contribute to income inequality do you feel has the most impact? Explain your answer.
- 6. Drawing Conclusions** Do you think that a workfare program is the best way to address income inequalities within our economy? Explain your answers.
- 7. Analyzing Visuals** Look at Figure 12.9 on page 342. How do the lines for the number of people in poverty and the poverty rate compare? Why are the lines not more similar?

Applying Economics

- 8. Distribution of Income** What would happen to the Lorenz curve if nonfinancial aid such as food stamps and Medicaid were treated as income? Explain why this would occur.

C Critical Thinking

Analyzing Have students review the last paragraph in the section. **Ask:** Do you agree that everyone would be better off if the United States could improve the problem of poverty? Why or why not? **OL**

✓Reading Check

Answer: It provides benefits to the working poor and sets a limit below which people would not have to pay taxes.

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 3, and then assign the Section 3 Review as homework or as an in-class activity.

Close

Making Decisions Tell students that they are deciding what to include in a time capsule, to be opened in the year 2100. Have them select 10 items that would tell people about U.S. poverty in the early twenty-first century. **OL**

Review

SECTION

3

Answers

- All definitions can be found in the section and the Glossary.
- People are living in poverty if their incomes fall below a certain threshold.
- education, wealth, monopoly power, decline of unions, increase in service jobs, discrimination, changes in tax laws and changing family structures
- federal programs: Temporary Assistance for Needy Families, Supplemental Security Income, food stamps, Medicaid; state/local programs: foster care, family planning, job training, child welfare, child abuse prevention, and day care
- The factors are education, wealth, monopoly power, decline of unions, increase in service jobs, discrimination, changes in tax laws, and changing family structures. The student may select any one of these, but the explanation should demonstrate a clear understanding of the factors and sound economic reasoning.
- Answers will vary but should demonstrate understanding of the effects of the workfare program.
- They are similar in that they generally go up and down at the same time; they are not more similar because of the effects of inflation, unemployment, number of workers, wage levels, and other factors.
- The Lorenz curve would move closer to the "equal distribution" curve if nonfinancial aid was counted as income since this would increase income figures.

Teach

C Critical Thinking

Predicting Have students contribute to a class list of predictions about (1) whether the income gap will continue to grow, stay the same, or lessen, and (2) how a continuing or growing gap between rich and poor will affect the U.S. society and economy. **OL**

BusinessWeek ONLINE

To find up-to-date news and analysis on the economy, business, technology, markets, entrepreneurs, investments, and finance, have students search feature articles and special reports on the BusinessWeek Web site, www.businessweek.com.

Examining the Newsclip

Answers:

- Possible answers include *shame on us*, *chimera*, *chasm*, *Great Depression*, *sorry situation*, *sadly*, and *gulf*.
- Both; most students will detect disapproval of income inequality.

Additional Support

A gap in income between high- and low-paid workers has always existed. Some people argue that income inequality today is as high as before the Great Depression.

The Rich Get (Much) Richer

Shame on . . . us, passive witnesses to the emergence of a second Gilded Age, another Roaring Twenties, in which the fruits of economic success have gone not to the broad populace but to a slim sliver at the top. For this handful, life is a sweet mélange [mix] of megafortunes, grand houses, and massive yachts. Meanwhile, the bottom 80% endures economic stagnation. . . .

Much of the recent commentary has focused on class mobility, the opportunity for individuals to move up the ladder. But trumpeting mobility as a reason for ignoring growing income inequality is a chimera [illusion]. Even if mobility is high—a questionable assertion—it is hardly a consolation for those who remain at the bottom, gazing across a growing distance at the more successful.

We can debate a lot of economic data but not income inequality. Every serious study shows that the U.S. income gap has become a chasm [gulf]. Over the past 30 years, the share of income going to the highest-earning Americans has risen steadily

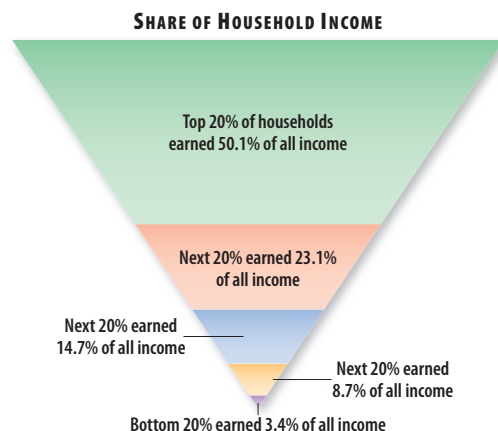
to levels not seen since shortly before the Great Depression. . . .

What's to blame for this sorry situation? Certainly globalization has taken its toll. Cheaper labor in emerging markets means relentless wage pressure on U.S. workers. Meanwhile, the fruits of American success in fast-growing services and technology remain available only to the slice of our workforce with the necessary skills. Other factors, such as an increasingly regressive tax code, have also played a role.

Growing inequality helps explain why so many Americans feel so vulnerable even as the overall economy continues to expand. Moods understandably darken when many have to take second jobs and go into debt to improve their living standards. . . .

Sadly, there is no magic bullet. We need to provide more education and training to fix our problem of too many low-skilled workers. We don't need to become tax-code Robin Hoods, but we can be vigilant about tax plans . . . that widen the gulf between haves and have-nots. Finally, we can provide more protection for those at risk, such as better wage insurance to cushion the effects of globalization.

—Reprinted from *BusinessWeek*



346 UNIT 4 Macroeconomics: Performance and Stabilization

Examining the Newsclip

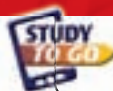
- Identifying Points of View** What words and phrases can you identify in the article that help reveal the author's point of view?
- Detecting Bias** Does the author state opinions or facts? What bias might be evident in these statements?

Extending the Content

The Income Gap in Other Countries

The income gap varies considerably in countries around the world. These statistics show the percentage of the national average income that is earned by people in the lowest 10 percent (decile) of the population. Data is from the year 2000, unless otherwise noted.

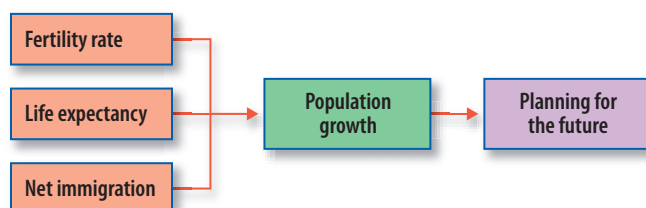
Luxembourg	66%
Sweden	57%
Germany	54%
Poland (1999)	52%
Canada	48%
Italy	44%
United States	39%
Russia	33%
Mexico (1998)	28%



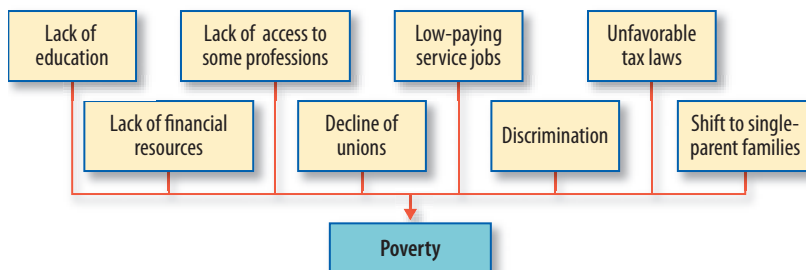
- ▶ **National Output and Income** Gross domestic product (GDP) measures the nation's output, while gross national product (GNP) measures the nation's income.

GDP	GNP
<ul style="list-style-type: none"> Market value of all final goods, services, and structures produced within a country's national borders in a year Indicator of the condition of the nation's economy Includes output of foreign-owned firms located in the United States Includes only final products 	<ul style="list-style-type: none"> Market value of all final goods, services, and structures produced in one year with labor and property supplied by a country's residents Includes all payments to citizens, regardless of where the production takes place Excludes income earned by foreign-owned resources in the country

- ▶ **Population** Governments count the population and project population trends to plan the use of resources and to prepare infrastructure.



- ▶ **Poverty** People are described as living in poverty if they live below an income level called the poverty threshold. Poverty has a number of causes, and governments have established some programs to reduce it.



Designing Refer students to the middle chart on this page. Review the three factors that influence population growth. Then have students write a paragraph describing a business they could start, based on one of the factors as it affects today's society and the future. Have volunteers share their business descriptions and explain why they made their particular choice. You may also want to have students discuss businesses they expect would not be successful, based on current trends in fertility, life expectancy, and immigration. **OL**

Categorizing Refer students to the chart at the bottom of this page and review each cause, if necessary. **Ask:** Which of the causes of poverty do you feel could best be solved by government? By the private sector? By a government-private sector combination? Explain your answers. (Answers will vary but should be logical and well supported.) **OL**

Evaluating an Economy

Step 4: Complete the Analysis. Student teams will summarize what they learned in Steps 1–3.

Directions: Have the students on each team collaborate to write an “economic status report” of their assigned nation. Students should include concepts learned at each of the previous steps in describing the current status of their nation's economy.

Encourage students to also provide a history section that explains how their country's economy came to be in its current state. Have students make a copy of their report for the four other groups. As the students review the different reports, direct them to consider the effectiveness of the methods economists use to measure an economy's performance. Finally, discuss each report as a class. **OL**

Hands-On Chapter Project

Step 4: Wrap Up

ExamView®

Assessment Suite

This easy-to-use software includes extensive question banks and allows you to create fully customized tests that can be administered in print or online.

Review Content Vocabulary

- 1–9. Students' sentences will vary but should demonstrate understanding of the relationship between the terms.

Review Academic Vocabulary

10. d 11. a
12. f 13. e
14. b 15. c

Review the Main Ideas

16. all the final goods, services, and structures produced within a country's borders during one year
17. GDP: add payments to Americans from overseas; subtract payments to foreign-owned resources in the United States. GNP: subtract depreciation. NNP: subtract all taxes except corporate profits tax. NI: add Social Security retirement checks; subtract Social Security withholding taxes. PI: subtract income taxes paid.
18. consumer sector: disposable personal income; investment sector: retained earnings; government sector: indirect business taxes, corporate income taxes, Social Security contributions, and personal income taxes from the consumer sector; foreign sector: does not have a source of income specific to it

Review Content Vocabulary

Examine the pairs of words below. Then write a sentence explaining what each pair has in common.

- food stamps, Medicaid
- gross national product, net national product
- household, unrelated individuals
- intermediate products, secondhand sales
- underground economy, nonmarket transactions
- workfare, welfare
- life expectancy, dependency ratio
- demographer, center of population
- baby boom, population pyramid

Review Academic Vocabulary

Identify which of the following terms correctly complete the sentences below.

- | | |
|---------------|--------------|
| a. excluded | d. projected |
| b. components | e. impact |
| c. residence | f. uniform |
- The Census Bureau has ____ the most likely U.S. fertility rate as 2.119 births per woman.
 - Nonmarket transactions are ____ from GDP.
 - The federal government now administers the Supplemental Security Income program to assure more ____ coverage across the nation.
 - The unequal distribution of wealth has an enormous ____ on people's ability to earn income.
 - The sectors of our economy receive various ____ of the national income, which they then use to purchase the total output.
 - Every ten years the U.S. government takes an official count of all people, including their place of ____.

Review the Main Ideas

Section 1 (pages 319–327)

16. **Describe** what goods and services are included in the GDP.
17. **Explain** the connections between the various measures of income using a graphic organizer like the one below.

Begin with . . .	Add	Subtract	Equals
GDP			GNP
GNP			NDP
NDP			NI
NI			PI
PI			DPI

18. **Identify** the source of income for the four sectors of the economy.
19. **Identify** the components of GDP by decoding the formula $GDP = C + I + G + (X - M)$.

Section 2 (pages 329–335)

20. **Describe** the historical growth of population in the United States.
21. **Identify** the political and economic importance of the census.
22. **Explain** how the age composition of the future population might impact our economy.

Section 3 (pages 337–345)

23. **Explain** what is meant by the term *distribution of income*.
24. **Identify** the major reasons for inequality in the distribution of income.
25. **Explain** how enterprise zones benefit residents of run-down or depressed areas.

19. C for consumers, I for investments, G for government or public sector, and $(X - M)$ for the foreign sector or net exports
20. 1790–1860: 3.0 percent a year; Civil War–1900: 2.2 percent; 1900–World War II: 1.4 percent; post World War II: slow decline; today: less than 1.0 percent annually
21. political: basis for determining the number of representatives allotted to each state; economic: for predicting population trends
22. **Possible answer:** Younger workers will carry a heavy burden as “baby boomers” begin to collect pensions, Social Security, and Medicare benefits.
23. how income is distributed among a country's households
24. education, wealth, monopoly power, decline of unions, increase in service jobs, discrimination, changes in tax laws and changing family structures
25. Residents can find work without worrying about transportation, thereby helping depressed areas to grow again.

Critical Thinking

26. **The BIG Idea** How do the different measures of output and income allow us to assess the economy of a nation?
27. **Comparing and Contrasting** Which program do you think is more effective, workfare or welfare? Why?
28. **Determining Cause and Effect** Which of the factors affecting population growth will have the greatest impact on the United States in the next 50 years? Why?
29. **Synthesizing** Under what circumstances might you prefer economic security to a better standard of living?
30. **Synthesizing** Suppose you were told that you would earn \$95,000 in 2020. Explain why this information would say little about the standard of living you might enjoy. What other information would you need before you could evaluate how well you could live in 2020?

Applying Economic Concepts

31. **Economic Sectors** Imagine you must teach a younger class the differences among the four sectors that make up our economy. Then take the following steps:
 - a. For one week, clip articles from newspapers that refer to expenditures by one or more of the economic sectors. Log the expenditures in a graphic organizer similar to the one below.
 - b. Prepare a poster or computer presentation that explains how the sectors work together.

Consumer sector	Investment sector	Government sector	Foreign sector

Analyzing Visuals

32. **Critical Thinking** Look at Figure 12.5 on page 333. How can you use this figure to help you plan expenditures for education?

Math Practice

33. Based on the information in the table below, determine the percentage of total expenditures that consumers spend on durable goods, nondurable goods, and services.

Personal Consumption Expenditures	Amount (in billions)	Percentage
Total expenditures	\$9,081.7	100%
Durable goods	1,047.6	
Motor vehicles and parts	432.3	
Furniture and household equipment	397.7	
Other	217.6	
Nondurable goods	2,687.7	
Food	1,282.4	
Clothing and shoes	358.4	
Gasoline and other energy goods	327.4	
Other	719.5	
Services	\$5,346.4	
Housing	1,318.9	
Household operation	495.2	
Transportation	337.1	
Medical care	1,578.9	
Recreation	365.2	
Other	1,251.2	

Thinking Like an Economist

34. In your own words, explain why greater life expectancies and declining birthrates make some entitlements like Social Security and Medicare more difficult to fund.

Writing About Economics

35. **Expository Writing** Research the following topic: Is there an income gap between men's and women's wages? If so, is the income gap narrowing or widening? Prepare a three-page written report. Be sure to include a list of the references you used in your report.

Economics ONLINE

Have students visit the Web site at glencoe.com to review Chapter 12 and take the **Self-Check Quiz**.

30. Students should take into account inflation, cost of living, income distribution, tax burden, and other factors that influence standard of living.

Applying Economic Concepts

31. Students should place expenditures in the correct column of the graphic organizer.

Analyzing Visuals

32. The chart tells how many people are in those ages that will require education expenditures.

Math Practice

33. Durable goods: 11.53%;
Nondurable goods: 29.59%;
Services: 58.87%

Thinking Like an Economist

34. Both of these programs are for older people and are paid for by the contributions of younger workers; if older people live longer and fewer workers are born to support them, these programs will become more difficult to fund.

Writing About Economics

35. Answers will vary but should demonstrate an understanding of the income gap.

Critical Thinking

26. **Possible answer:** Economists use a variety of factors because no single measurement captures the entire picture of the growth and performance of a nation's economy.
27. Both workfare and welfare are programs designed to aid those living in poverty. Workfare requires welfare recipients to exchange some of their labor for benefits. People on workfare perform types of community service work.

Welfare includes government or private agency programs that provide general economic and social assistance to needy individuals. Student assessment of effectiveness will vary.

28. Answers will vary but should demonstrate an understanding of the factors influencing population growth.
29. Answers will vary but should demonstrate an understanding of the trade-off between increased economic security and standard of living.



Focus

Have students describe foreign fruits and vegetables that they have bought or seen at the grocery store. Where did they come from? What time of year was it? How did the price compare with domestic produce? Was the produce of high quality? How did other shoppers seem to react to the imported produce?

Teach

D Differentiated Instruction

Verbal/Linguistic Have students write (and perform, if appropriate) a dialogue between a fruit grower in the United States and a fruit grower in a Latin American country. You may want to first brainstorm a list of issues the two might disagree about and address in the dialogue.

OL

Additional Support

Global Fruit

Take a stroll through the produce department of your local supermarket, and you will discover an amazing variety of fresh fruits. Americans are eating more fruit—in both quantity and variety—and these fresh fruits are available not only during the summer months. Produce that was once deemed “seasonal” can now be found year-round.

Global Goodness

Fresh fruit choices at any grocery store in the United States include the standard fare of apples, oranges, and grapes. But you also find more exotic items, such as star fruit and papaya. How do tropical fruits find their way to grocery shelves in the dead of winter? And why can we purchase a gallon of orange juice when Florida and California farmers have been hit with an early frost? We have the global economy to thank for turning the produce aisle into a perpetual smorgasbord, continuously delivering fruits from around the world.

From There to Here

For many fruits, the trip from field to market involves a specific process of packing and shipping. For example, bananas leave Costa Rica and other Central and South American countries

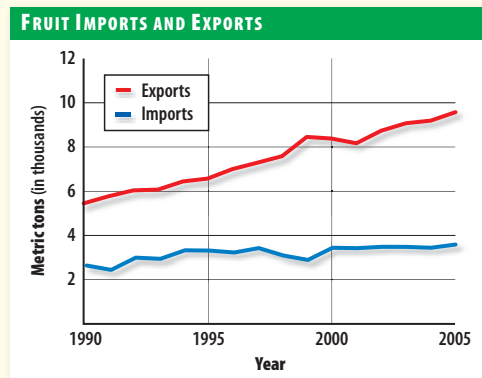


packed in boxes weighing about 40 pounds each. Roughly 970 boxes fit into a refrigerated cargo container, which is then placed aboard a ship. The bananas must remain at a temperature of around 57°F to keep them from ripening while in transit.

Bananas take two to seven days to reach U.S. ports. There the cargo containers full of not-yet-ripe bananas are taken to different warehouse locations around the country. Before the bananas can be sent to your local supermarket, however, they must spend some time in special “ripening rooms.” Considering this lengthy journey, bananas seem like quite a bargain at less than fifty cents per pound.

From Here to There

D Americans not only buy fruits—we sell them, too. The United States is the world’s fifth-largest fruit producer and the largest exporter of fresh fruit. Canada is our biggest customer, importing



Source: U.S. Department of Agriculture

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Activity: Hands-On Economics

Imported Produce—How Common?

Have student teams visit at least two local grocery stores and research the availability of imported fruits and vegetables. Have them find out the following:

- About what percentage of items seems to be imported?
- What items are most frequently imported?

- How does the quality of imported items compare with that of U.S. produce?
- How do shoppers feel about imported produce? How do managers feel?

Have teams report to the class about their findings. Discuss issues that arise. Conclude by having students decide if the availability of imported produce is an overall positive or negative for the U.S. economy. **OL**

SOURCES OF FRESH FRUIT		
Fruit	U.S. Producers	Foreign Producers
Apples	Washington, New York, California, Michigan, Pennsylvania, Virginia	Canada, New Zealand
Bananas		Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Panama, Mexico, Nicaragua
Kiwi	California	New Zealand, Chile
Mangoes	Florida	India, South America
Papaya	Florida	Jamaica, Central America
Peaches	California, South Carolina, Georgia, Michigan, Pennsylvania, New Jersey, Washington	Chile, Canada, Mexico
Pears	Washington, Oregon, California, Michigan, Pennsylvania, New York	Chile, New Zealand, Australia, Argentina, Canada
Strawberries	California, Oregon, Florida	New Zealand, Mexico

Source: Food and Agriculture Organization of the United Nations

47 percent of all U.S. fresh fruit exports. U.S. producers also export to Japan, Hong Kong, the European Union, and South Korea, among others. Yet the United States faces new competitors in the fruit trade. Mexico, China, Chile, and South Africa all impact the marketplace as they expand their reach.

What Does It Mean For You?

Global trade provides you with your favorite fruits throughout the year. While most U.S. fields and orchards lie dormant during winter, countries in the Southern Hemisphere are harvesting and shipping their summer crops. The worldwide competition also means lower prices for you and other fruit lovers. In addition, you now have more choices. The global exchange allows new and unusual fruits to make their way to U.S. stores for curious palates.

Analyzing the Issue

- Identifying** What country is the largest buyer of U.S. fruit?
- Analyzing** What are concerns about shipping fresh fruit from other countries?
- Applying** Check out the fruit section of your local grocery store. What fruit is available because of global trade?

photo: unloading containers in U.S. port



Assess/Close

S Skill Practice

Using Tables and Charts

Have students analyze the table on page 351. **Ask:** **What states might have the most to fear from imported fruits? Why?** (California, Florida, Michigan, Oregon, and Washington; these states are leading fruit producers and might fear a loss of business.) **BL**

Analyzing the Issue

Answers:

- Canada
- competition with U.S.-produced fruit; possible uncertainty about food safety
- Answers will vary but should display an understanding of global trade.

Additional Support

Extending the Content

Behind the Scenes The import and export of fruits and vegetables is affected by more than just different growing seasons. One key element in the business of trading produce is tariffs. According to a newsletter of the U.S. Department of Agriculture, tariff levels strongly influence whom we buy from and sell to. Mexico and Canada, for example, are among the largest sources

and destinations of produce because of low or no tariff barriers. The North American Free Trade Agreement, or NAFTA, made our continent a free-trade zone. In other parts of the world, however, it is a different story. The global average tariff on fruits and vegetables is over 50 percent. Most Japanese and European tariffs on fruit range from 5 to 25 percent. High tariffs discourage the importation of

U.S. produce. In contrast, U.S. tariffs on imported produce tend to be low; most are under 5 percent. The winners are American consumers, who can buy imported produce for less; the losers may be U.S. farmers, who find it harder and harder to compete with foreign produce.