• What is economics?
• What is driving the current global economic crisis?
• How does fiscal and monetary policy impact the economy?
• What is the free market system and the supply/demand relationship?
• What are planned market systems?
• What are mixed market systems?
• What tools are used to evaluate economic performance?
Macroeconomics
Country’s Overall Economy

Microeconomics
Consumers Families Businesses
Global Economic Crisis: How did the happen?

In late 2008:

- The banking system hovered on the edge of collapse
- Property values plummeted
- Home foreclosures soared
- Layoffs put more than a million Americans out of work
- The stock market lost more than 1/3 its value
Global Economic Crisis: How did the happen?

(Source: Based on data from S&P/Case-Shiller Home Price Indices, August 2008 data, Standard & Poor’s website, http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_csmahp/0,0,0,0,0,0,0,0,0,1,1,0,0,0,0,0.html, accessed November 6, 2008.)
A Trillion Dollars?

• If you had started spending a million dollars – every day, without fail – at the start of the Roman Empire, you still wouldn’t have spent a trillion dollars by 2010.

• One trillion dollars laid end-to-end would stretch farther than the distance from the earth to the sun.

• You could wrap your chain of bills more than 12,000 times around the earth’s equator.

• If you flew a jet at the speed of sound, spooling out a roll of dollar bills behind you, it would take you more than fourteen years to release a trillion dollars.
Managing the Economy Through Fiscal and Monetary Policy

• **Fiscal Policy** – government efforts to influence the economy:
  ✓ Taxation
  ✓ Government Spending
  ✓ Controlled by Congress/Budget Process

• **Monetary Policy** – Federal Reserve actions to shape the economy:
  ✓ Supply & Demand of Money
    ▪ Cost of Credit
  ✓ Controlled by the Federal Reserve (FED)
    ▪ Seven Member Board
    ▪ Chairman
Federal Reserve

• Conduct Monetary Policy:
  ✓ Changes in the Discount Rate
  ✓ Changes in Reserve Requirement
  ✓ Open Market Operations

• Check Clearing Process

• Banking Services for Government and other banks
### Unprecedented Action by the FED

**In addition to expanding lending and lowering interest rates, since September 2008 the FED has:**

- Pumped additional liquidity into the banking industry
- Approved the mergers of several large banks
- Introduced the Term Asset Backed Securities Loan Facility (TALF)
- Introduced the Trouble Asset Relief Program (TARP)
- Purchased mortgage backed securities
- Approved General Motors Finance Company (GMAC) to become a bank holding company
Managing the Economy Through Fiscal and Monetary Policy

**M1 Money Supply** - all currency—paper bills and metal coins—plus checking accounts and traveler’s checks.

**M2 Money Supply** - all M1 plus most savings accounts, money market accounts, and certificates of deposit.
Looking to multiply your money? Look no further than your local bank.

You deposit $5,000.
The bank loans Anne $4,500.
Anne buys a car from Jake for $4,500.
Jake deposits the $4,500.

Although you still have $5,000, the money supply has increased to $9,500.
Managing the Economy Through Fiscal and Monetary Policy

The federal government budget outlines revenue and expenses

- When revenue is higher than spending, there is a budget surplus
- When spending is higher than revenue, the government incurs a budget deficit
- The sum of all the money borrowed is the federal debt
Federal Government Revenue and Expenses

The Free Market:

- Private Ownership
- Economic Freedom
- Fair Competition
- Innovation and Hard Work

Businesses offer Value to:

- Customers
- Employees
- Suppliers

Adam Smith
Going Green: Good for the Bottom Line

• Going green is about doing right by the planet, attracting new customers, and reducing costs

• Environmental concerns have become a dominant driver of global corporations

• Wal-Mart began selling concentrated laundry detergent and in 3-years
  ✓ Saved 95 million pounds of plastic resin
  ✓ Preserved 400 million gallons of water
  ✓ Conserved 520,000 gallons of diesel gasoline
  ✓ Reduced 125 million pounds of cardboard
1. The right to own a business and keep after-tax profits.

2. The right to private property

3. The right to free choice

4. The right to fair competition
Four Degrees of Competition

- Pure Competition
- Monopolistic Competition
- Oligopoly
- Monopoly
Supply and Demand: Fundamental Principles of a Free Market

The Foundation of the Free Market

- How much can we make/sell?
- How much will consumers buy?
- At what price?

Interaction of buyers & sellers

- Impact prices
- Competition
Supply and Demand:
Fundamental Principles of a Free Market

- **Supply**: the relationship between the price of a good and the quantity sellers are willing and able to offer for sale
  - Sellers tend to supply a greater quantity as the price rises.

- **Supply curve**: a graph of the supply relationship
  - The supply curve slopes upward to the right showing that quantity supplied increases as price rises.
• **Demand**: the relationship between the price of a good and the quantity buyers are willing and can afford to buy
  - When price falls, consumers tend to buy more.

• **Demand curve**: a graph of the demand relationship
  - The demand curve slopes downward showing that quantity demanded increases as price falls.
Supply and Demand: Fundamental Principles of a Free Market

- Forces of supply and demand drive equilibrium price
- The point where supply and demand intersect
- Market price adjusts to the equilibrium price
• Coke took supply and demand too far....
• They installed thermometers in their vending machines
• Consumers balked at paying more for a cold Coke on a hot day.
Planned Economies: Socialism and Communism

Free Market  Planned Economies

Capitalism  Socialism  Communism

Mixed Economies
Planned Economies: Socialism and Communism

**Communism**
- Public Ownership of Enterprise
- Strong Central Government

**Socialism**
- Government Control Key Enterprises
- Higher Taxes
Market and Planned Economies don’t meet all needs
- Neither planned nor market economies meet all needs
- Planned Economies will not create enough value

As a market dominant economy, the U.S. government still owns/supports enterprises
- Postal Service
- Universities
- Parks
- Libraries
As Mixed Economies become The Story of the Future, how much government intervention is too much?

What industries should be regulated? Why?
Evaluating Economic Performance: What’s Working?

- Gross Domestic Product
- Unemployment Rate
- Consumer Price Index
- Producer Price Index
- Productivity
The Business Cycle
✓ After bailing out the financial industry, GM and Chrysler announced they needed a bailout.

  • Bankruptcy was in the near future
  • 2.5 million auto industry-related jobs were at risk

✓ The Treasury Department infused $700 billion in a partial auto bailout.

✓ Under the Obama Administration, an Automobile Task Force was developed to evaluate the industry.

✓ A variety of changes continue in the auto industry as the country rebuilds the economy.
Inflation

The rate of price changes across the economy is another basic measure of economic well-being

• Inflation means that prices are rising
• Hyperinflation is when average prices increase more than 50% per month
• Disinflation is when prices increases slow down
• Deflation is when average prices actually decrease.

The government measures prices using the Consumer Price Index (CPI) and the Producer Price Index (PPI)
The relationship between inputs and outputs is productivity

A high level of productivity correlates with healthy GDP.

The U.S. has experienced strong productivity growth due to technology.
Looking Back

- What is economics?
- What is driving the current global economic crisis?
- How does fiscal and monetary policy impact the economy?
- What is the free market system and the supply/demand relationship?
- What are planned market systems?
- What are mixed market systems?
- What tools are used to evaluate economic performance?