

How Does the United States Economy Work?

1. What are the characteristics of a market economy?
2. How does a market economy work?
3. How does specialization and division of labor increase productivity?
4. How do changes in the U.S. economy impact levels of employment?
5. How does global competition affect the national economy?

What is Economics?

QUESTIONS TO GUIDE INQUIRY

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2. How does a market economy work?
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TERMS, PLACES, PEOPLE

economics - the study of how individuals and societies use resources to produce goods and services

goods - an item that is traded in an economy

services - an activity that a business or person trades for payment

producer - the person or business that creates, sells or offers the good or service

consumer - a person purchasing the good or service.

What is Economics?

In previous grades you've learned a little about economics and that economics deals with choices. We all make choices every day. We make choices about what to buy. We make choices about whether to save or spend money. You will learn in this chapter that economics is about more than just choices. **Economics** is the study of how individuals and societies use resources to produce goods and services. It is about competition and prices and trade. As you learn you will be working as an economist, someone who studies economics.

A resource is a supply of something that can be useful such as money. To study economics we must talk about resources, goods and services. A **good** is an item that is

produced in an economy. If you go to a store and buy an apple, the apple is the good. You traded or exchanged money in order to get it. A **service** is an activity that a business or person trades for payment. If you've ever gotten your hair cut by a professional and given them money to do it, they've provided you a service.

Interactive 2.1 Goods or Services?



*Is each picture showing a GOOD or a SERVICE?
See if you can pass this 6 question quiz!*



What other goods and services can you think of?

Economists ask many questions to help them study their area of social studies. There are many more than the ones listed here. These are

simply to introduce you to economics as a whole.

- What is produced?
- How is it produced?
- How much is produced?
- Who gets what is produced?
- What role does the government play in the economy?

Producers and Consumers

Pretend for a moment that you're going to open a lemonade stand. What resources will you need to open one? You may need lemons, sugar, cups and chairs to sit on. What other resources might you need?

Interactive 2.2 Bartering



Learn more about the exchange of goods and services in this video from School House Rock

At your lemonade stand, you are the producer. A **producer** is the person or business that creates, sells or offers the good or service. Simply put, you produced the lemonade and offered it for sale to others. Your neighbors who purchased the lemonade were the consumers. A **consumer** is a person purchasing the good or service.

Three Kinds of Resources

In building your lemonade stand you'll be using three kinds of resources: human, natural, and capital. You probably learned about these in a previous grade. You are the human resource - you'll probably be making the lemonade that you sell. You'll also have to set up and take down your lemonade stand. You will probably be the person selling the lemonade. The natural resources you'll be using include the lemons, the sugar and the water. These are resources that

grow and are harvested. Finally, you'll also be using capital resources. You might not want to stand all day, so you'll bring a chair with you. That chair was probably purchased by your parents, so it cost money at one point. The pitcher you pour the lemonade from and the cups you pour the lemonade into are also capital resources, products purchased for use in your lemonade stand.

Interactive 2.3 How To Run Your Own Lemonade Stand



Here's a video on how to start a lemonade stand. What resources did these children use to create their lemonade stand?



What is another resource that might be used to set up and run a lemonade stand?

What are the Characteristics of a Market Economy?

QUESTIONS TO GUIDE INQUIRY

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TERMS, PLACES, PEOPLE

demand - the extent to which consumers want a certain good or service

supply - the amount of a product or service in the market

incentives - something offered by a producer that makes consumers more likely to purchase what they are selling

economic system - the system a society uses to answer the basic economic questions

market economy - an economic system where the consumer drives many economic decisions

Scarcity and Choice

In previous grades you learned that scarcity occurs when there is not enough of something. Scarcity leads people to make choices. In the previous section you read about opening a lemonade stand. Imagine however that lemons are scarce this year. What do you do when you have a problem like this? You have to make a choice. Maybe you choose not to sell lemonade because the price of lemons is simply too high. You could decide that a glass of fresh squeezed orange juice is just as refreshing on a hot day. People make choices like this every day.

This short example dealing with lemonade is a scenario that both businesses and people in the United States encounter. Scarcity forces people and businesses to make choices about

what is produced based on what is (or isn't) available. Resources in a society are limited, but people's wants are not.

When making an economic choice, people try to answer three important questions: What should be produced, how do we produce it, and who gets what is produced? People develop economic systems when they answer these three important questions. An **economic system** is the system a society uses to answer the three basic economic questions.

What Is an Economic System?

Countries all over the world have different types of economies. In the United States, we have a certain type of economy called a market economy. A **market economy** is an economic

system where the consumer drives many economic decisions. In fact, in the U.S. it is often said that "the consumer is king." This concept has the fancy name of consumer sovereignty (a sovereign is a supreme ruler such as a king or queen.)

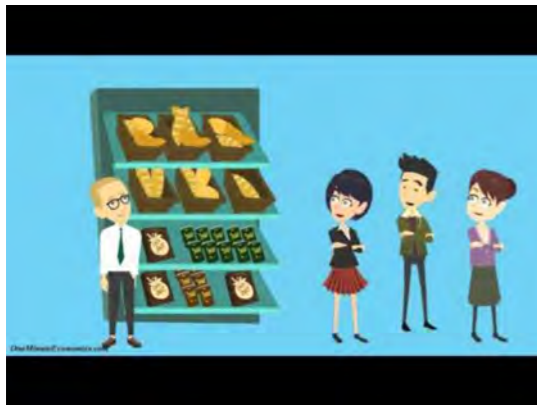
In a market economy, almost all businesses are privately owned by individuals or corporations, not the government. Therefore, businesses are free to make choices as long as they follow the law.

You may not realize it, but even kids help make many economic decisions. You have probably contributed to our market economy and its economic decisions many times.

The Silly Case of Silly Bands

If a market system is a system where the consumer drives many economic decisions, you might understand how this works by looking at an example like Silly Bandz. Silly Bandz were colorful bracelets that were shaped like animals. Silly Bandz were so popular that when many kids got to the store to buy them, the shelves were empty. There was a lot of demand for them.

Interactive 2.4 Supply and Demand in One Minute



Confused about Supply and Demand? Check out this video to learn more.

Demand is the amount of a consumer's desire to pay a price for a good or service. When demand is high, sometimes supply is low. **Supply** is the amount of a product or service in the market.

When demand is high for a good or service and the supply is low, the price goes up. Silly Bandz were expensive and did not usually go on sale. Many companies wanted to make things that looked like Silly Bandz so that they could make a lot of money.

Soon, every store had more than enough Silly Bandz to go around. Soon after, Silly Bandz weren't as popular so kids weren't saving their money to purchase them. When that happened, can you guess what happened to the price of them? The price went way down. Kids were no longer buying (or asking their parents to buy) the



https://upload.wikimedia.org/wikipedia/commons/9/9a/Shaped_Rubber_Bands.JPG



What other products can you think of that have a similar outcome as the story of Silly Bandz?

product and as such, factories stopped producing them. Kids demands in the case of Silly Bandz played a huge part in factories producing more when the demand was high, and producing less when they were no longer popular.

How do Positive and Negative Incentives Influence Behavior in a Market Economy?

You have learned that in a market economy like we have in the United States, that the actions of consumers drive the decisions. This includes what is produced, how much is produced, and the price of the good or service. Can consumer decisions be swayed? What are some of the

things that encourage you to purchase a certain good?



Your team has just won the league championship! To celebrate you are all going out to have a pop. How will you decide where to go and buy your pop?

You may have thought about the taste, size of portions, variety of flavors and price. Incentives could greatly influence your decision of where to purchase your pop and what flavor you buy. Positive **incentives** are things offered by businesses to increase the chance that a good or service will be purchased.

You may decide to go to McDonalds because they are running a special sale (incentive) and for \$1.00 (price) you can get any size you want. You may decide to go to the grocery store because you have a coupon (incentive) for fifty cents off a \$1.00 purchase (price). Or, you might go to the candy store because even though the price is high, they have a wide variety of unusual flavors and they come in glass bottles (incentive).

Examples of Incentives

An incentive is something offered by a producer that makes consumers more likely to purchase what they are selling. Use the browser interactive to look at the listed incentives and think about how or why each incentive encourages consumers to use their business.

We have talked about positive incentives, but do businesses ever provide negative incentives?



https://upload.wikimedia.org/wikipedia/commons/3/36/Ice_cream_shop.JPG What incentives would encourage you to buy some of the home-made ice cream pictured above?

The answer is – absolutely! Businesses and the government often provide negative incentives to encourage you to behave in a certain way. For example, many

Interactive 2.5 Incentives



Select one of the incentives shown on the first three pages of this online document and answer the questions that follow.

credit card companies charge you a late fee if you do not pay your bill on time. Your public library will charge you a late fee if you do not return your books on time. When you join a gym to work out, you usually sign a contract. If you choose to cancel your contract before the year is up, you may have to pay a large penalty. These are all examples of negative incentives that were created to encourage you to pay your bills on time, return your library book when it is due, or keep your commitment to pay the gym for a full year.

Competition

Competition can drive incentives. If there are many places in town to purchase the same item, such as pop, businesses are likely to start offering incentives such as coupons, additional rare flavors, or larger sizes in order to attract

more customers from their competition. You'll learn more about competition in the next section. In this case, McDonalds, the grocery store, and the candy store are all competitors. They are competing for your purchase!

What is Competition?

Have you ever played a game or a sport with someone? What was the major goal? If you answered "to win" you've just described a

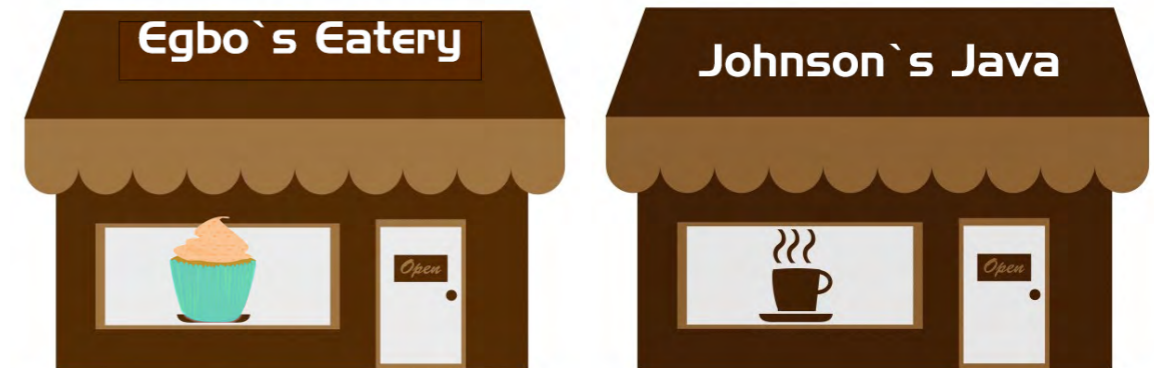


competition. Competition exists in economics as well. Consider this story:

You love to bake. You're really good at it, and everyone loves your chocolate chip cookies when you make them. You decide to open up a bakery in the downtown area. Your small bakery, which you called Egbo's Eatery (named after the relative who originally taught you how to bake) soon becomes a hit with people all over town. Because there aren't any bakeries in town you've fulfilled a need that the community had - a great place to come together and eat delicious baked goods.

Egbo's Eatery is a hit. After a year or so, however, a large company purchases the building next to you. Within a few months a new store has opened: "Johnson's Java" a coffee shop. Initially you're not worried because you sell

baked goods and they sell coffee. The entire town loves your store!



Unfortunately, on the day it opens you decide to walk in and support the new business. You are shocked to discover that they don't just sell coffee. They sell a wide variety of cookies, muffins, and sandwiches - just like your small shop! Even worse, you charge \$1.00 for one large chocolate chip cookie. They charge .75 cents. For TWO!

You walk away from the store without buying anything and immediately rush to your kitchen to begin planning. How are you going to compete

with the coffee shop next door if they sell the same products at lower prices? Will your beloved recipe be enough?

How does Competition Work?

Egbo's Eatery enjoyed a short period of time where your baked goods could sell at any price you wanted. If the people of the town had nowhere else to go to get homemade bread, muffins, and cookies you were able to sell your cookies at almost any reasonable price and still make a profit. Unfortunately, the coffee shop forced you to change your game plan.

Because economics is about choices, you have some decisions to make. What might you do to compete against the new business next door?



What could you do to compete against the new business next door?

There are many things you could choose to do to compete against the business next door. You might choose to:

1. Sell your cookies at the same price as the competition.
2. Sell your cookies at a lower price than the competition.
3. Add additional items to your menu (like coffee which you never sold before but the other store sells)
4. Admit defeat and close your business.

You probably shouldn't choose to admit defeat and close your business at this stage of the game, and there are many other potential options you might come up with beside the ones listed above. All of them are part of competition in economics.

If you chose to sell your cookies at the same price as the competition it is possible that you won't notice any difference in the number of people that come to Egbo's Eatery. People like to make the fewest number of stops possible however, so the fact that Johnson's Java sells coffee AND baked goods might make customers choose the store next door rather than yours.

Selling your cookies at a lower price sounds like a great idea but you didn't just pick the price of \$1.00 per cookie out of thin air. When you figured out how much it cost you to make a cookie, you set the price so you'd be sure to make a profit. The consequence of selling your cookies for a lower price means you might attract people to your building but you might not make as much money.

Adding additional menu items could be a good idea. If people are attracted to Johnson's Java for the great coffee they have there, and then they stay for the baked goods, you might be able to win some of those customers by making a mean cup of coffee yourself. The equipment to do that however will require money, and you may also need to hire another worker to help you run your business - you have a hard enough time baking all the bread and cookies and keeping up with the food orders as they come in.

Putting It All Together

Lets pretend that your family owns an ice cream shop in your hometown.

1. What resources would you need to run your ice cream shop?

2. What types of incentives might your business offer to increase your sales?

3. What time of year would there be the highest demand for ice cream? Why? How might this affect your business plan?

Now you can see it isn't easy running your own business!



Section 3

How does Specialization and Division of Labor Increase Productivity?

QUESTIONS TO GUIDE INQUIRY

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TERMS, PLACES, PEOPLE

specialization - When people concentrate their efforts on producing a limited variety of goods or services.

division of labor - the breaking down of the production of a good into many small jobs.

productivity - the rate of production of a good or service. If productivity is high lots is being produced. If it is low, it can mean that less is produced.

What is Specialization?

In other grades you've already learned a little bit about the term scarcity. Scarcity is an economic problem that occurs because people have unlimited wants but resources are limited. Because some things are scarce, people have to make choices. One of the choices people have to make relates to what goods or services they will produce. Based on the resources they have, some people choose to be farmers. Other people choose to be teachers. In economics, **specialization** is when people or places produce certain kinds of goods or services.

Different parts of the United States specialize in different things. In the previous chapter you learned about the Plains region. Wheat grows well in the Plains region but there is not

a lot of wood. It would probably be difficult for the Plains region to specialize in producing furniture for the rest of the nation (unless it was made out of wheat!)

What Is Division Of Labor?

A great example of people specializing deals with a product made right here in Michigan! It happened a long time ago when people began making cars in the Detroit area. Henry Ford, a car maker, improved upon the idea of an assembly line, and it allowed the people who worked for him to specialize in certain aspects of making cars. The assembly line is a great example of **division of labor** which is breaking down the production of a good into many small jobs. Each of these jobs is done by different workers.

How Does Specialization and Division of Labor Increase Productivity?

In the assembly line example, each person was responsible for one part of the car making process, often working in small groups on a single task. A small number of people would be responsible for the bumper of the car. Another small group might be in charge of placing the headlights on the vehicle. Yet another might be in charge of tightening bolts on the wheels. While it might seem like a boring task to do the same thing over and over again, for the car manufacturers it was great!

If you were a person who specialized in making the bumpers for a car and you had to stay home sick, others also knew how to complete the task. When workers specialize in a particular part of a job the overall productivity increases. One person isn't responsible for doing everything!

Overall both specialization and the division of labor increases productivity in a company.

“Drawing” Conclusions - A Colorful Example

Imagine for a moment that you’ve got a big, beautiful box of crayons in front of you. How were they made? If you were to go to the company that made them and take a tour, you might see all of this in action. Here’s how a crayon is created.

At a crayon factory, the first step is collecting the supplies. Wax is delivered (by truck or train) to the factory and heated so that it becomes a liquid. It is then brought into the plant where one set of workers add the colorful dyes that make the colors so bright and beautiful!

Next, workers transfer the colored wax over to a special mold which rotates and cools the mixture

while pressing it into that shape you’re probably familiar with. The cooled crayons are taken (sometimes by machine, sometimes by people) to the next phase in the production process.

Next, the crayons are moved through a special machine which puts the labels on the crayons.



https://upload.wikimedia.org/wikipedia/commons/4/4d/Crayones_cera.jpg

While this is usually done quickly by machines, people are trained to use the machine. They switch labels when a different color comes

through and help inspect the crayons to make sure the labels are put on properly and that there are no broken tips or crayons. The same people also pick up large stacks of the crayons and place them in boxes which are transferred to the next stage in the process.



<https://upload.wikimedia.org/wikipedia/commons/8/80/Retired13.jpg>

People transfer the large boxes of a single color into a new room. Many different colors are brought to this same place. Several people then feed the different colors into another machine. This machine has the important job of putting one of every color into each box.

Other people make certain that the machine that sorts the colors is loaded with the right boxes. The machine loads them up into boxes which it then closes and moves to the next step in the process.

Another machine bundles the crayon boxes up and transports them to a final set of people who take the crayon bundles and place them in boxes to be shipped out to stores.

Why is it important that both the factory workers and machines are broken out into steps? All of these things are happening at the same time. If one person were responsible for all of the steps it's quite possible something could go wrong somewhere along the way. If the machine that labels the crayons gets jammed (and you're

the only one working) you'd have to shut down the other machines while you worked on fixing the problem.

In a place where division of labor such as this takes place, if the label machine breaks down, the people boxing up crayons are still able to do their jobs. The people who transfer the wax are still able to transfer it. It not only increases **productivity** by having people work at a limited number of stations, but it also ensures that production can continue even if one step of the process has to stop.

Interactive 2.6 Crayon Factory



See the production of crayons in action! How do you see division of labor practiced in this video?

How Does A Market Economy Work?

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TERMS, PLACES, PEOPLE

circular flow - a diagram used to represent the movement of money throughout an economy.

When studying the market economy in the United States, it is helpful to understand how money is moved around within the system. The dictionary defines a model as “a standard or example for comparison.” Economists use a **circular flow** model to help explain how goods and services are exchanged for money. Take a look at this video that helps explain how goods and services flow from producers to consumers.

Interactive 2.7 The Circular Flow Model

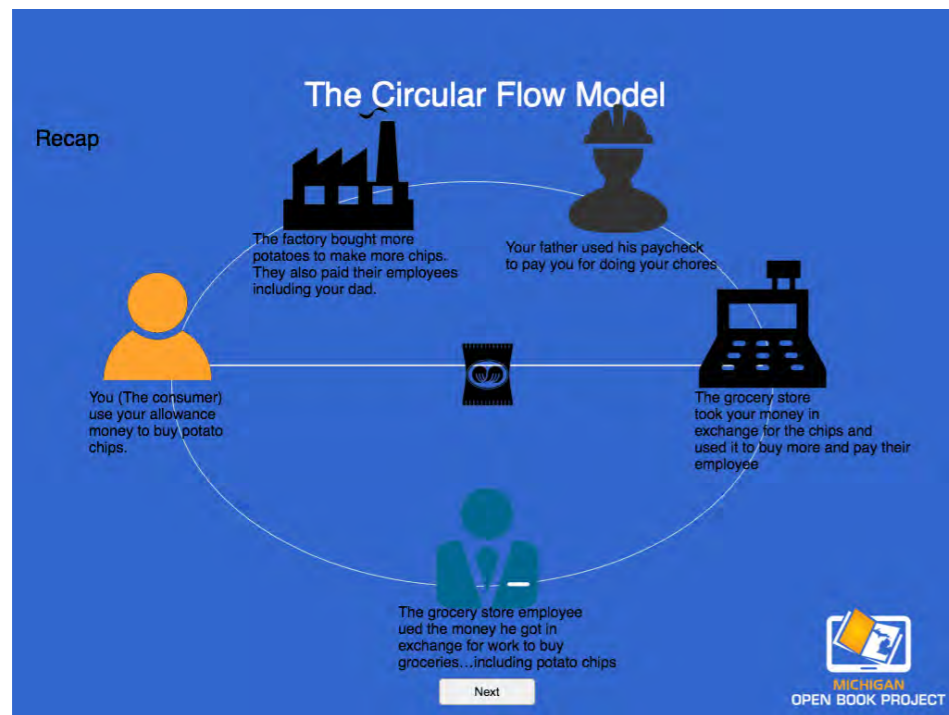


Learn more about the Circular Flow Model in this video from the Economic Lowdown Video Series. The first half of the video is the most important.

The video you watched used Alice's Diner as an example to describe how producers and consumers behaved in the circular flow model.

Your turn: Use the interactive below to go through a simple simulation of the circular flow model.

Interactive 2.8 Circular Flow Model



Still a little confused about the Circular Flow Model? This simple animation will break it down into simple terms. You'll continue to learn more about this economics concept in later grades.

We can explore the circular flow model using a variety of businesses. For example, using a toy store in our circular flow model, workers there sell their labor to the store owner. In turn, the owner pays his/her employees money for their labor. The employees then take the money they earn and uses it to buy goods and services in the market, perhaps buying the newest video game.

Each sector of the economy feeds into another. Households provide businesses with payments in exchange for goods and services (think back to the diner example from the video!)

Now it is your turn to design a circular flow model based on a business in your community. Choose one business or store in your town such as an ice cream shop, clothes store, or pet shop, and create a simple model of circular flow. Trace what happens from when you spend money at

the store. Can you complete the cycle and get the money back to you?

If you're having a hard time coming up with an idea for this, do something simple like a video rental store or a restaurant.

How do Changes in the U.S. Economy Impact Levels of Employment?

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TERMS, PLACES, PEOPLE

employment - having a job

unemployment - being without a job

Change is a fact of life. You change your clothes every day. You change the channel when you don't like what you're watching. Your tastes change. Over time you may have even seen your school change. Do your parents have a smart phone? It might surprise you to know that in 2007 very few people had these. Now they're in the hands of many middle and high school students!

Change can be exciting and challenging. If you've ever stayed home sick from school before you might appreciate the ability to use the internet and your phone to get some medical services. No one likes leaving the house when they don't feel well! Today, some people have access to doctors online and over the phone. A doctor is able to listen to you describe your symptoms, run some simple tests (or refer you out for more) and give you a diagnosis right there without you

ever having to leave your living room. A long time ago a doctor may have made house calls. That largely went by the wayside. This is a new, growing opportunity for the medical field.

Change is all around us. It shouldn't be surprising that economies change as well.

Changes in the economy can be just as exciting and challenging as changes in our daily lives.

Changes in technology, demand for natural resources, and competition can lead to changes in the economy which can lead to employment and unemployment. If people are employed, it means they have a job. If they are unemployed, it means they do NOT have a job. To illustrate this point we're going to take a look at certain changes in the economy and how it has affected both employment and unemployment numbers.

What Causes Economic Change?

There are many factors that cause an economy to change. Three of the biggest are changes in technology, changes in demand for natural resources, and changes in competition. You will learn about changes in technology and competition in this section.



Stop and Think: How might a change in technology lead to unemployment?

Changes in Technology

If your teacher has been teaching for a long time, they may remember keeping a paper grade book. (Maybe they still do!) At the end of a marking period they would have to total up all the grades for each student individually and turn a report in

to the office. Now it's all done on the computer. This is one example of how changes in technology have made the lives of teachers easier. (Some would argue it hasn't!) Digital grade books have not led to teachers losing their jobs. It may have caused people at companies who make paper grade books to lose theirs! At the same time, companies that make the digital grade books may need to hire more people to keep the software up to date.



Could a factory employee who helped make paper grade books get a job writing software for digital grade books? Why or why not?

Advances in technology always change our economy. Sometimes those changes are good. Sometimes they are not. In the last section you

read about a crayon factory and learned that many of the jobs in the factory are done by people. Review the video here if you need to. How much of the work is being done by people, and how much of it is being done by machines? A long time ago, very few machines did the work. That meant the crayon factory may have employed more people to work there than they do now.

Over the last 100 years in particular, many factories have increased productivity by bringing in new machines to replace certain steps in the process. Those crayons in the previous section were once made entirely by hand. Over time it became apparent that machines could do certain parts of the process faster. If you were the

Interactive 2.9 Crayon Factory



See the production of crayons in action! How do you see division of labor practiced in this video?

person who used to pour the wax into the mold by hand, the machines may have caused you to lose your job. At the very least you might have had to specialize in a different step in the process.

The crayon factory still relies on people to do much of the work however. The machines don't load themselves. The machines cannot easily check and make sure the crayons don't come to you broken or mislabeled. While people are needed to run the machines, fewer people are needed in the factory overall. That means that some who worked in the factory doing certain kinds of work remained employed, while others may have ended up unemployed. The same thing happened in the car industry. As the technology has changed and more jobs can be automated by machines, people lose certain jobs

at the factory that have traditionally been done by people.

The factory system is one place where technology has changed our economy. Other jobs have also begun to feel the effects of technological advances. The Internet has made it easy for people to sell things online. Many people appreciate how easy it is to shop online. People in rural areas who may not have access to some of their favorite stores can go to a place like Amazon, an online store, buy something they want or need, and have it delivered to their door the next day!

This is great for the consumer, but it is sometimes bad for stores. Over the years, Amazon has become a powerhouse in the world of online sales. You can buy everything from books to electronic devices to clothing here. As

more people buy products here, the physical store you had to go to in order buy them in the past has had a harder time competing. In some cases, like the case of Borders Books (which began as a small bookstore in Ann Arbor) online stores like Amazon have led to physical stores closing, which once again creates unemployment. Borders (the company) finally went out of business a few years ago. How would that affect jobs?

Amazon still uses people in some of its factories, but more and more of the process has become automated by machines. In the past, most factory work was completed by unskilled workers. People could come in with little advanced education and be trained to work in a certain part of a factory job. Skilled labor has increased over the last few decades. Skilled labor often involves operating machines and

getting highly specialized training in how to keep it working and running.

There are fewer unskilled factory jobs all over the world today (and not just at Amazon). Much of this is to work on special equipment that does much of the work that used to be done by the unskilled workers.

Interactive 2.10 The Assembly Line Turns 100



See some of the changes in how cars are produced in factories over time.

Changes in Competition

Another way that an economy can change is through competition. A great example of this is to look at the United States automotive industry over time.

The United States led the way in development of cars for a long time. For the longest time the "Big

Three" (Ford, GM, and Chrysler) dominated the industry.

Automakers began to make cars bigger which wasn't a problem in the 50s and 60s. At the time gas prices were very low, and the people buying cars didn't mind that a bigger car often used more gasoline. While some Americans did buy smaller cars that were imported from other countries, many Americans continued buying large, gas guzzling cars through the 1950s and 1960s.

This became a problem in the 1970s. Because of some events going on around the world, the price of a gallon of gas in the United States almost doubled. It also led to shortages, where people could drive up to gas stations hoping to fill their tanks only to be turned away because there wasn't any left.

Meanwhile, most of the cars imported from other countries were smaller, weighed less, and used less gasoline. As people began to look at replacing their cars, they began to look at smaller, more fuel efficient cars. As people bought more imported cars and fewer American-made vehicles, the Big 3 had to make their labor force smaller several times in the 70s and 80s. People were not buying enough of their cars because they couldn't afford to put gas in them!

Interactive 2.11 The Oil Crisis



Learn more about the Oil Crisis from the 70s in this video.

Interactive 2.12 Cars of the 50s and 60s



As you view this video showing cars from the 50s, 60s, and 70s, what do you notice about their sizes over time?

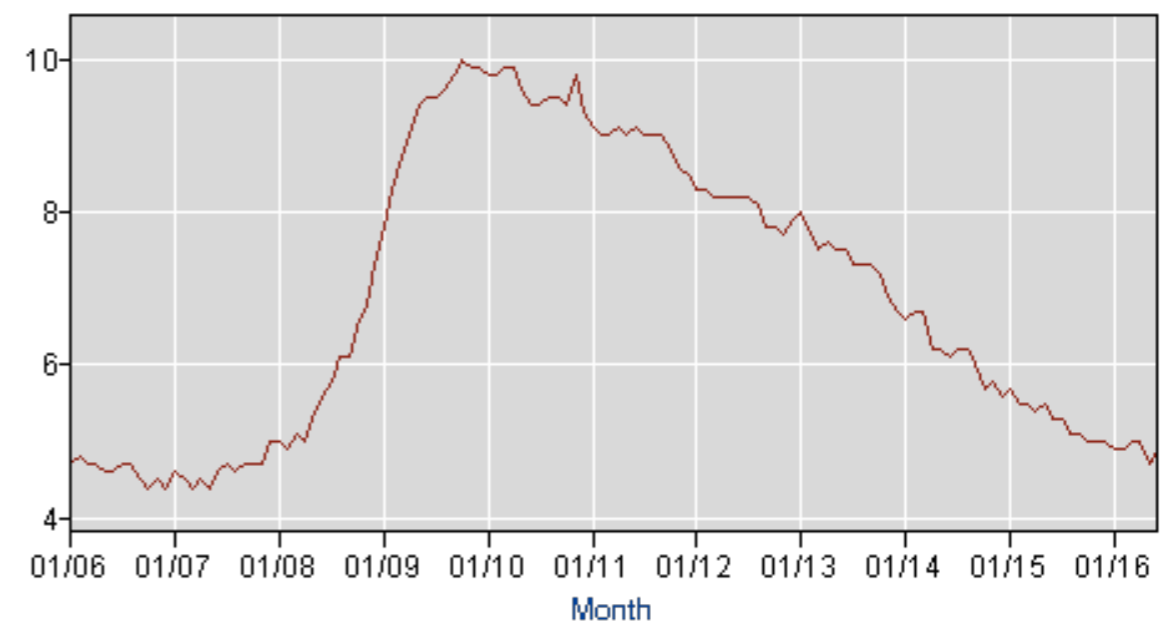
The Big 3 automakers had to quickly work to redesign their models to make them smaller and more fuel efficient. It took time. It led to many great advances in the technology that made cars run as well. By the late 70s production of the larger vehicles that had been the standard in the 50s and 60s had slowed considerably.

This competition continues today. While cars that consume gas are still the most purchased vehicles in the world, just a few years ago gas prices edged over \$4 a gallon. Because of this, some automakers have investigated cars that run on renewable sources like hydrogen. Others continue to investigate hybrid and electric vehicles. As you've already learned however, changes in both competition AND technology have replaced many of the unskilled jobs that the big three used to offer.

Unemployment Today

Unemployment can be a tricky problem to understand. It can happen across the country and can be studied from the local, state, and national levels. National unemployment trends rise and fall based on a variety of factors. The graph on this page shows a 10 year period of time beginning in 2006 and ending in 2016. It covers the unemployment rate of the United States. The higher the number on the graph, the higher the percentage of people who are able to work but don't have a job. This gives you the unemployment rate. If you look at January of 2006, you'll see that the unemployment rate is between four and six percent. As you look at this graph, what do you notice? How does the number change in 2007? 2008? 2009?

Image 2.1 National Unemployment Data



<http://data.bls.gov/timeseries/LNS14000000>

You probably noticed on the previous graph that unemployment was relatively low in 2006 and 2007. During 2008 it began to rise. It rose to one of its highest points in 2009 before beginning a slow trend downward.

As you learned in the geography chapter, Michigan can be classified as being part of the region labeled "Midwest". The Bureau of Labor Statistics includes the states of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin as all being part of the Midwest. This new graph shows you the unemployment rate of the entire Midwest region for the same

period of time. As you look at unemployment in the Midwest and compare it to the national unemployment levels, what do you notice about the graphs? Are the trends similar or different?

Image 2.2 Midwestern Region Unemployment Data



http://data.bls.gov/timeseries/LASRD92000000000006?data_tool=XGtable

When looking at unemployment trends you can also look at trends at a smaller level. This graph shows Michigan's unemployment rate for the same 10 year period of time. In looking at all three graphs, what do you notice? Are the trends similar or different? How so? What might be the reason for any differences you noticed?

Image 2.3 Michigan Unemployment Data



You may have noticed that the graph for Michigan looks similar to the graph for the nation and our region. There is one key difference. Look at the numbers on the side. The numbers indicating unemployment percentages go higher on this graph. From the years 2006-2016, Michigan had a higher unemployment rate than

the country overall. The first graph shows that the whole nation was affected by something in 2008 and 2009 when the unemployment rate began to soar. In Michigan, the unemployment rate was above the national average.

During this period of time, the big three automakers once again faced a big crisis. As gas prices rose (much like

they did in the 70s) the demand for big vehicles decreased. In addition, other problems around the country led to higher unemployment rates. It also became more difficult to get a loan for a new vehicle. If people aren't working they probably aren't buying new cars!

As demand for vehicles fell, factories began cutting back on production which meant fewer workers. While this happened in many industries for a variety of reasons at the time, it does help explain one of the reasons why Michigan's unemployment rate was much higher.

What About the Future?

Changes occur over time, and we might never see a day where the unemployment rate hits "zero". Changes in technology and competition mean that people in some industries may need to seek other employment opportunities. Like the

crayon factory however, there will always be the need for some people! These people will need the skills to perform the factory work of the future.

It may be a long, long time before machines perform surgery on people without any assistance from humans, but the invention and growth of the "Dial a Doc" has the potential to impact the medical field as well. There is no substitute for reviewing your health with an actual person who can do things like take your temperature and check your heart rate. As the service becomes available to more and more people however, it might mean fewer people heading in to see the family doctor when they're sick. Will this mean there will be fewer jobs for doctors?

The more people are employed, the more likely they are to be using money to purchase their needs and wants. As more people purchase goods, the likelihood that employment will also rise, as stores hire people and purchase goods themselves to meet demand will. As unemployment rises however, the likelihood of people using money to get the goods they need and want falls. People will stick to the basics. This will mean that businesses and producers may have to cut their workforce which again... leads to more unemployment.

How Does Global Competition Affect the National Economy?

QUESTIONS TO GUIDE INQUIRY

1. What are the characteristics of a market economy?
2. How does a market economy work?
3. How does specialization and division of labor increase productivity?
4. How do changes in the U.S. economy impact levels of employment?
5. How does global competition affect the national economy?

TERMS, PLACES, PEOPLE

global economy - the economy of the world; the exchange of goods and services that take place worldwide.

In this section, you will be accessing your basic knowledge of economics and putting it to good use. Using that knowledge will help you to think like a businessperson and answer the inquiry question below at the end of this section:

How does global competition affect the national economy?

Global Economy

The **global economy** is the economy of the world and the exchange of goods and services that take place worldwide.

When you think of imports you know those are the goods that are brought into our country. The exported



Look at clothing tags either from your own clothes or by looking at the tags on a classmate's shirt. Record your discoveries about where articles of clothing were made here.

goods are the goods that we ship to other countries.

To help you understand this concept a little more, do a little investigating in your classroom or at your house. Check the labels on things like your shirt, a box of markers, etc to find out where they came from.

What did you notice? What did you find interesting? Were your clothes made in the United States? Were they made in another country? Did you share your results with your classmates? Were there places in the world where lots of clothing items were coming from?

You possibly noticed that the some of the brands your friends are wearing are typically from another country. Other countries are providing many of the articles of clothing we wear every day.

Clothing isn't the only thing that we import from other countries. Take a minute to jot down some other items that you know are imported. You learned about specialization in the previous section. Individuals and businesses, and states specialize. Many electronic devices (like the one you may be reading this on!) are often designed in the United States but built in other countries. That is because the cost to produce them in some countries is often cheaper.

Impact of Global Trade

How does being involved in global trade impact the variety of goods available to consumers in our country?

If we make clothes in the U.S., then why do we still import clothing from other countries?

What do you think would happen if we stopped all global trading?

These questions really get you thinking, don't they?

Now that you have had a chance to look at some of the things that we import from other countries, let's discuss an item that Michigan exports out to others.

Did you know that Michigan exports a lot of car parts all over the world? Our state makes a lot of money from this export. Of course we have to compete with other companies that sell car parts.

What would happen when companies in other countries began selling what we make in Michigan? Would it affect our economy? Would

it affect our employment in the state of Michigan?

If businesses in Michigan that made car parts closed because car companies were choosing to get their parts somewhere else, a lot of people in Michigan would become unemployed, or lose their jobs. That is what competition is all about.

Businesses are competing with each other every day, and not just here in the United States!

Lets take an even closer look at some of our trading partners.

- Do some research and choose one country that the U.S. trades with. You might choose to look at this article to get an idea of what we export and what we import. <http://useconomy.about.com/od/tradepolicy/p/Imports-Exports-Components.htm>

- On a separate sheet of paper, list that country, along with three items that the U.S. exports to the country; then list three items that the U.S. imports from that country.
- While you are doing your research, continuously think of our inquiry question: How does global competition affect the national economy?
- When your research is complete, share your inquiry process and your findings with your classmates.

Culminating Activity

Now it is your turn to prove you really understand the effects of global competition. Read and reflect on the scenarios below; then, create a chart like the one on this page.

Country M doesn't inspect their products for quality assurance (how well they are made), which allows them to keep production costs down by using cheap materials. They are successful and sell many goods to the U.S.

Country P has a huge population and many people need jobs. They choose to pay very low wages because they know people are desperate for any job they can find.



How does global trade affect the United States?

Create an argument for or against global trade by using this chapter as a resource.

Scenario	Country	What are the possible effects on the U.S. Jobs:	What are the possible effects on quality of goods:	What are the possible effects on price of goods:
Scenario #1:	Country M	What are the possible effects on the U.S. Jobs:	What are the possible effects on quality of goods:	What are the possible effects on price of goods:
Scenario #2:	Country P	What are the possible effects on the U.S.: Jobs	What are the possible effects on quality of goods:	What are the possible effects on price of goods?