

Promoting Growth and Stability



Macroeconomics

- The study of behavior and decision making of entire economies



Microeconomics

- The study of the economic behavior and decision making of small units, such as individuals, families, and businesses



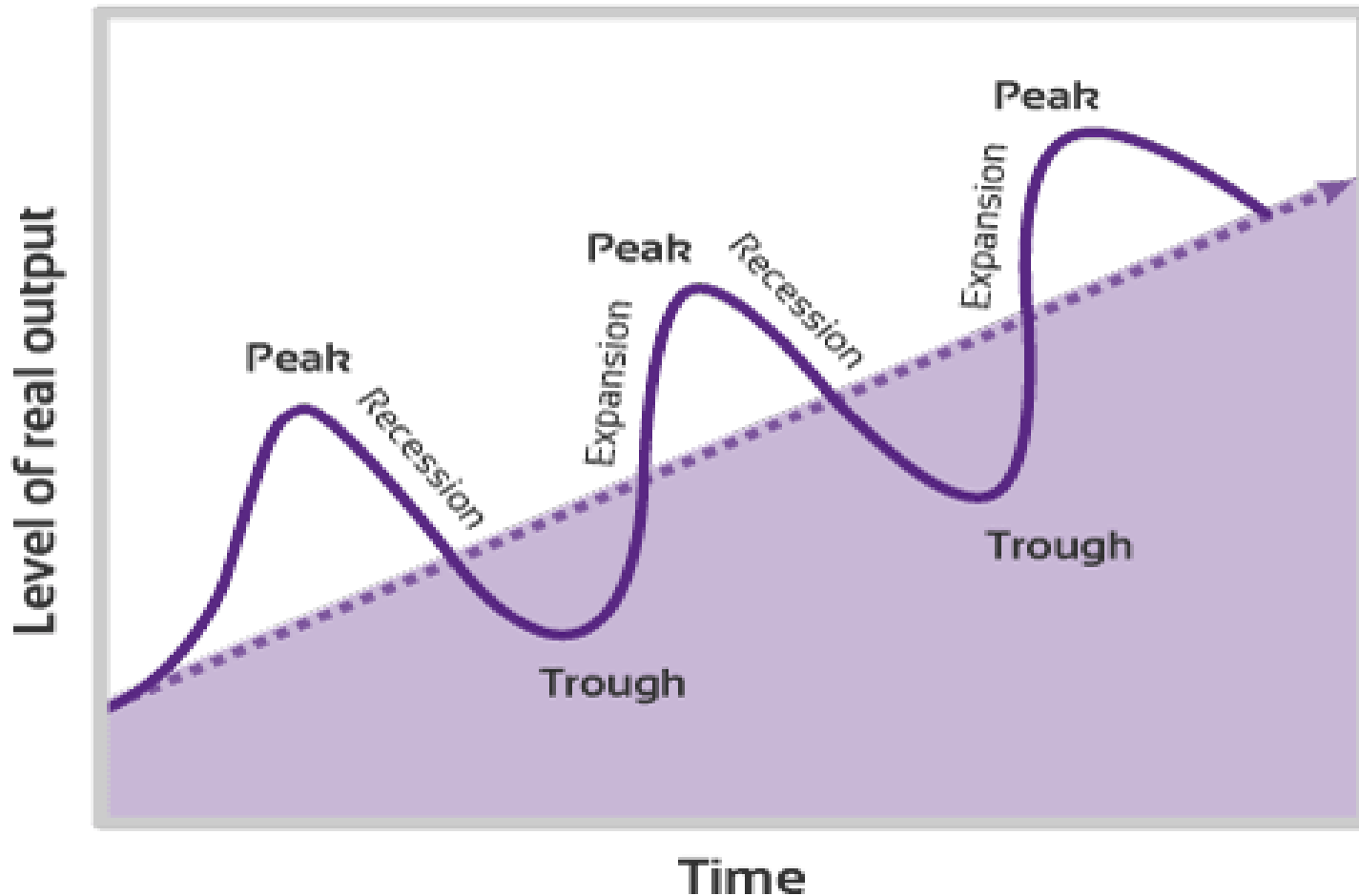
Gross Domestic Product (GDP)

- The total value of all final goods and services produced in a particular economy



A period of macroeconomic expansion followed by a period of contraction

The Business Cycle



Public Good

- A shared good or service for which it would be impractical to make consumers pay individually and to exclude nonpayers.



Public Sector

- The part of the economy that involves the transactions of the government



Private Sector

- The part of the economy that involves the transactions of a private investor



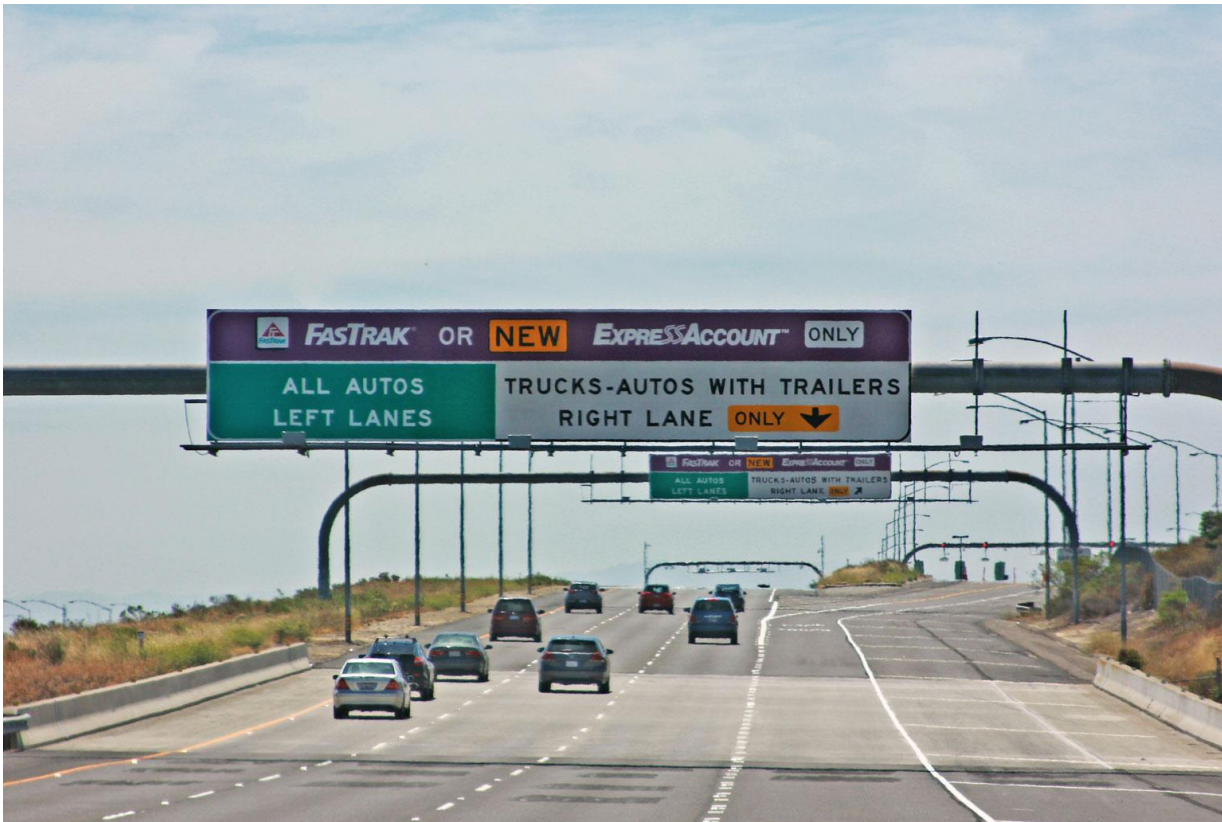
Free Rider

- Someone who would not choose to pay for a certain good or service, but who would get the benefits of it anyway if it were provided as a public good.



Market Failure

- Situation in which the market does not distribute resources efficiently



*If the road is built by the private sector, tolls could be placed very high to make up for costs of building the road.

Externalities

- An economic side effect of a good or service that generates benefits or costs to someone other than the person deciding how much to produce or consume.



What is poverty threshold?

- An income level below that which is needed to support families or households.

U.S. Poverty Threshold

	Annual Income
One person household	\$12,082
Two person household	\$15,391
Three person household	\$18,871
Four person household	\$24,257
Five person household	\$28,741
Six person household	\$32,542

How does welfare attempt to raise poor people's standard of living?

- Welfare attempts to raise poor people's standard of living by collecting tax money from individuals and businesses and redistributing it to people with little or no income.

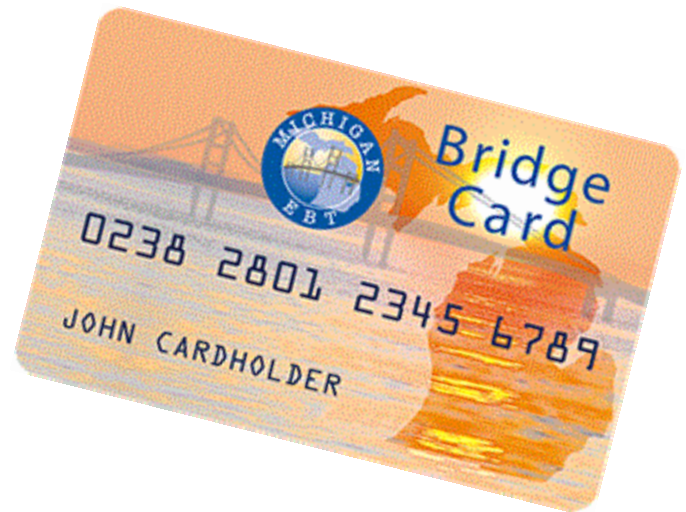


Why does poverty exist in a free market economy?

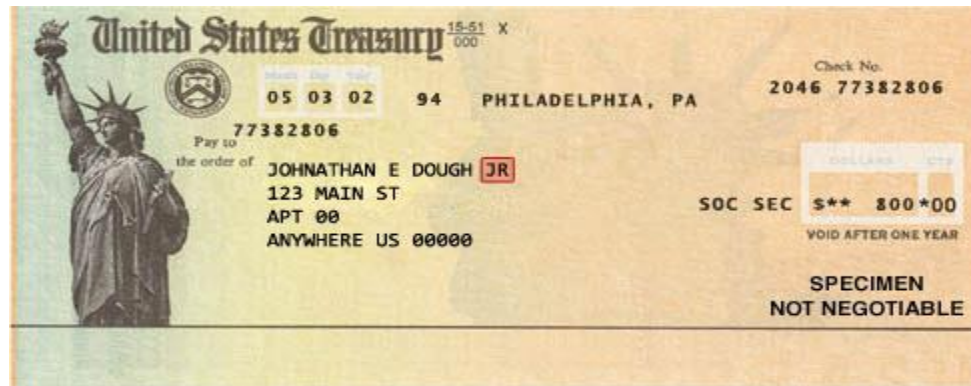
- Poverty exists because a free market economy generates wealth but does not spread it evenly throughout society. The system rewards the most productive members of society. As a result, people with fewer opportunities to be productive may suffer.

What is the difference between cash transfers and in-kind benefits?

- Cash transfers provide people with direct payments of money while in-kind benefits provide goods and services at free or reduced cost.



How is Social Security an example of income redistribution? Why might you be worried that Social Security might not be around when you need it.



- The Social Security Administration taxes a portion of citizen's income while they are working and redistributes it to the nation's elderly and the disabled.

Read page 71 in your book and answer questions 7 and 8.

