

Chapter 3: Economic Activity in a Changing World

I-Summary: This chapter teaches U.S. economic history and the business cycle. The United States has gone through four major economic shifts: in the 1600s, a service-based economy; in the 1700s, an agriculture-based economy; after 1850, an industry-based economy; and, in the 1900s, an information-based economy. Each change affected what goods were produced and how people were employed. Several indicators, such as unemployment and inflation, are signs of the health of a country's economy. Gross domestic product, or GDP, tells the total value of all the goods and services made within a country in a year. If a government spends more in a year than it makes, it has a deficit. If it takes in more than it spends, it has a surplus. The economic cycle includes recession, depression, recovery, and prosperity. A recession is when there is a decline in the production of goods and services. A depression is a deep recession. Unemployment is high during a depression. The U. S. has not had a depression since the 1930s. During a recovery, the economy picks up; unemployment drops and goods and services production rises. Prosperity is the peak of the economic cycle: unemployment is low and production of goods and services is high.

I-Quiz

Quiz yourself to check your understanding. For each question, you will hear four answer choices. After you hear all four answer choices, choose your answer during the pause. Then you will hear the correct answer. Let's begin.

Question 1

What brought about a shift to the information-based economy?

- a. bartering
- b. the invention of agriculture
- c. the Industrial Revolution
- d. the invention of the computer

Question 2

Which should be low during a healthy economy?

- a. the Gross Domestic Product
- b. standard of living
- c. unemployment
- d. ethics

Question 3

Which part of the business cycle is a nation in when its economy is healthiest?

- a. prosperity
- b. recession
- c. depression
- d. recovery

Question 4

Which results when a government spends more than it makes during a year?

- a. a depression
- b. a budget deficit
- c. loss of revenue
- d. a budget surplus

Question 5

What happens when an economy enjoys prosperity?

- a. the standard of living goes down
- b. inflation goes up
- c. the demand for goods goes up
- d. the demand for services goes down

Answer Key

1. The correct answer is D, the invention of the computer. Computers have changed the way goods and services are produced, delivered, and sold.

2. The correct answer is C, unemployment. If the economy is picking up, employment should be as well.

- 3.** The correct answer is A, prosperity. Unemployment is lowest and production of goods and services is highest during times of prosperity.
- 4.** The correct answer is B, a budget deficit. A government will then have national debt if it owes more than it has collected in taxes.
- 5.** The correct answer is C, the demand for goods goes up. In times of prosperity, people always spend more, creating a demand for more goods and services.