<u>Economics Review Sheet Test #3</u>

I. Gross Domestic Product

1. **Gross Domestic Product (GDP)** is: The monetary value of all final goods and services produced within a nation in a specific time period.

2. The gross domestic product (GDP) is one the primary indicators used to **<u>gauge the health and size of a country's economy.</u>**

3. A nation's GDP production is measured in dollars, and measures **<u>the total production and sales</u>** of **<u>goods</u>** and **<u>services</u>** as well.

4. **<u>Final Good or Service</u>**: Those goods or services that are sold to their final owners. (Ex: A hamburger sold)
<u>Intermediate Good</u>: A product that becomes part of a final good or service, or is used in the production process. (Ex: The separate ingredients used to make a hamburger)
- To **<u>measure GDP</u>**, we include **only the final goods & services.**

5. **<u>Inflation</u>**: A **sustained increase in the price** of goods and services in an economy over a period of time.

6. **<u>Deflation</u>**: A **sustained decrease in the price** of goods and services in an economy over a period of time.

7. **<u>Nominal GDP</u>** Measures: A nation's total production of goods and services that has not been adjusted for price changes including inflation & deflation.

8. **<u>Real GDP</u>** Measures: A nation's total production of goods and services at a given time that has been adjusted for price changes including inflation & deflation.

9. **<u>Real GDP</u>** is considered a **more accurate measure of an economy's gross domestic product** because it take**s into account inflation/deflation and other changes** in the economy's price level.

10. **<u>Per-Capita GDP</u>** = **<u>GDP *per person*</u>**
    - **How to find it**: GDP divided by Population
    - Beneficial to smaller countries with healthy and productive economies (Luxembourg)

11. **<u>GDP Formula</u>**
    - The formula for GDP is: **GDP = C + I + G + (Ex - Im)**
    - "C" = spending by consumers (2/3 of US GDP)
    - "I" = total investments (spending on goods/services) by businesses (15% of US GDP)
    - "G" = government spending (20% of US GDP)
    - "(Ex - Im)" = exports minus imports.

II. The Business Cycle

12. **<u>Business Cycles</u>** show the fluctuations in economic activity that an economy experiences over a period of time.
    - A business cycle is displayed by showing **<u>rising</u>** and **<u>falling</u>** points of the **real GDP**.

13. A business cycle is defined in terms of periods of **<u>expansion</u>** or **<u>recession</u>**. And also feature **<u>peaks</u>** and **<u>troughs</u>**.

14. During **<u>expansions</u>**, the economy shows growth in the real GDP as evidenced by increases in certain **indicators** such as:
    - Higher Employment
    - Higher Industrial Production and Sales
    - Higher Personal Incomes

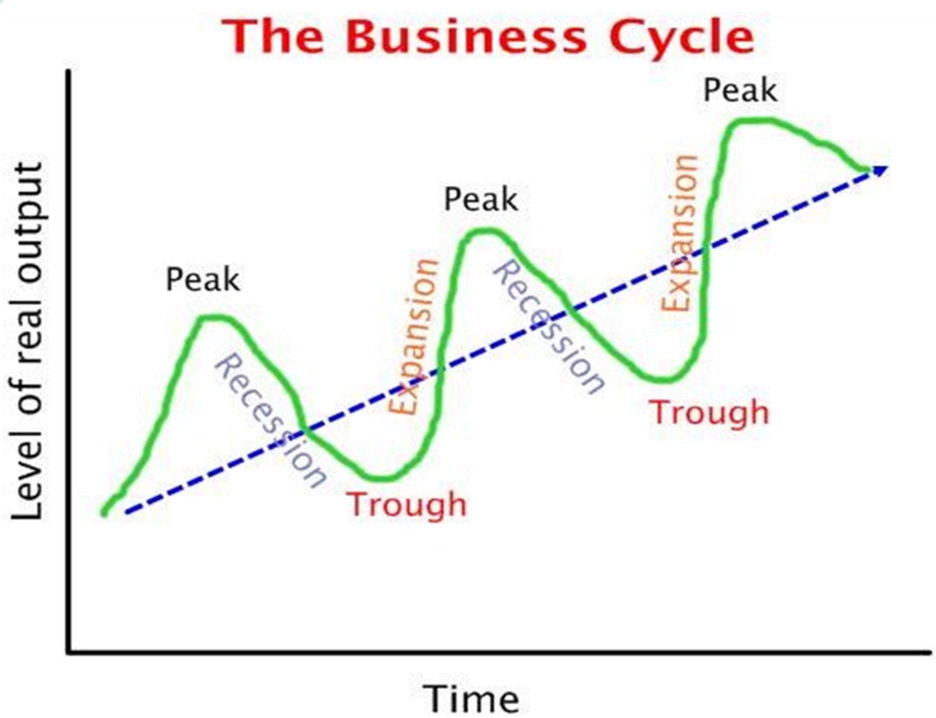
15. During **<u>recessions</u>**, the economy is contracting, or shrinking, as measured by decreases in certain **indicators** such as:
    - Lower Employment
    - Lower Industrial Production and Sales
    - Lower Personal Incomes
    -

16. The stage of the economy's business cycle that marks the end of a period of declining business activity and transitions to expansion is known as: **<u>TROUGH</u>**

The stage of the economy's business cycle where economic expansion is at its highest level, spending and employment have all reached their top points and recession is the next likely stage is known as: **<u>PEAK</u>**

The stage of the economy's business cycle where there is significant decline in activity across the board lasting longer than a few months and there is usually negative economy growth is known as: **<u>RECESSION</u>**

The stage of the economy's business cycle where there is a period of increasing business activity and growth signaling the end of the recession. Like recession, economists generally need to see several months of this trend. This is known as: **<u>EXPANSION</u>**



III. Types of Businesses

17. Most businesses within the United States are organized into three types:
   - Sole Proprietorship
   - Partnership
   - Corporation

18. **Sole Proprietorship:** A business owned by **one person** (who is known as the **proprietor**)
   - All **profits** and **losses** are the possession of the **individual owner**
   - **7** out of **10** US businesses are organized as a sole proprietorship
   - Most **small businesses** are organized as sole proprietorships

Advantages of Sole Proprietorships	***Disadvantages of Sole Proprietorships***
1. Easy & Cheap Start-Up	1. Burden of Responsibility
2. You Are The Decision Maker	2. Raising Funds
3. Full Ownership of Profits	3. Unlimited Liability
4. Tax Benefits	
5. Personal Rewards/Satisfaction	

19. **Partnership:** A business owned by two or more people, called partners, who share responsibility and financial profits/losses.
   - Most partnerships are small firms (**Ex: restaurants, contractors, etc.**), but many larger businesses are organized as partnerships too (**Ex: law firms, medical offices, etc.**)

Advantages of Partnerships	***Disadvantages of Partnerships***
1. More Money Available	1. Disagreements among Partners
2. Shared Decision Making	2. Shared Profits

20. **Corporation**: An independent legal business owned by shareholders. This means that the corporation itself, not the shareholders, is held legally liable for its actions.

- Most **complex** form of business ownership.
- Corporations allow consumers to purchase **shares of stock**, which represent **partial ownership**.

21. Corporations are split into two groups:

1. **Private Corporation-** When one person or small group owns all of a corporation's shares.

2. **Public Corporation-** When shares of a corporation are held by many people and can be freely bought and sold.

Advantages of Corporations	***Disadvantages of Corporations***
1. Limited Liability for Stockholders	1. Expensive Start-Up Costs
2. Easy to Raise Funds By Issuing Shares	2. Delays in Decision-Making
3. Can Raise $ By Issuing Corporate Bonds ***Corporate Bond:*** People can purchase a bond, which loans money to a company, and they promise to pay you back in full, with interest (like an IOU)	3. Divided Ownership of Profits
4. Rapid Growth	4. More in Taxes
	5. More Legal Requirements