



The US Economy: A Global View Part II

So the American economy needs the world,
and the world needs the American economy.

Rodrigo Rato



Comparative Advantage

International trade allows countries to produce and export the goods they do best and import goods they don't produce as efficiently.



Comparative Advantage

Comparative advantage is the ability of a country to produce a specific good at a lower opportunity cost than its trading partners.



How America Produces

All goods and service included in GDP are produced within the borders of the United States.



Factors of Production

Factors of production are the resource inputs used to produce goods and services, such as land, labor, capital and entrepreneurship.



Productivity

- Productivity is output per unit of input such as output per labor hour.
- The productivity of workers is more important than sheer numbers.



Factors of Production

The high productivity of the US economy results from highly educated workers using capital-intensive production processes.



Capital Stock

- A capital-intensive production process is one that uses a high ratio of capital to labor inputs.
- American production tends to be capital-intensive.



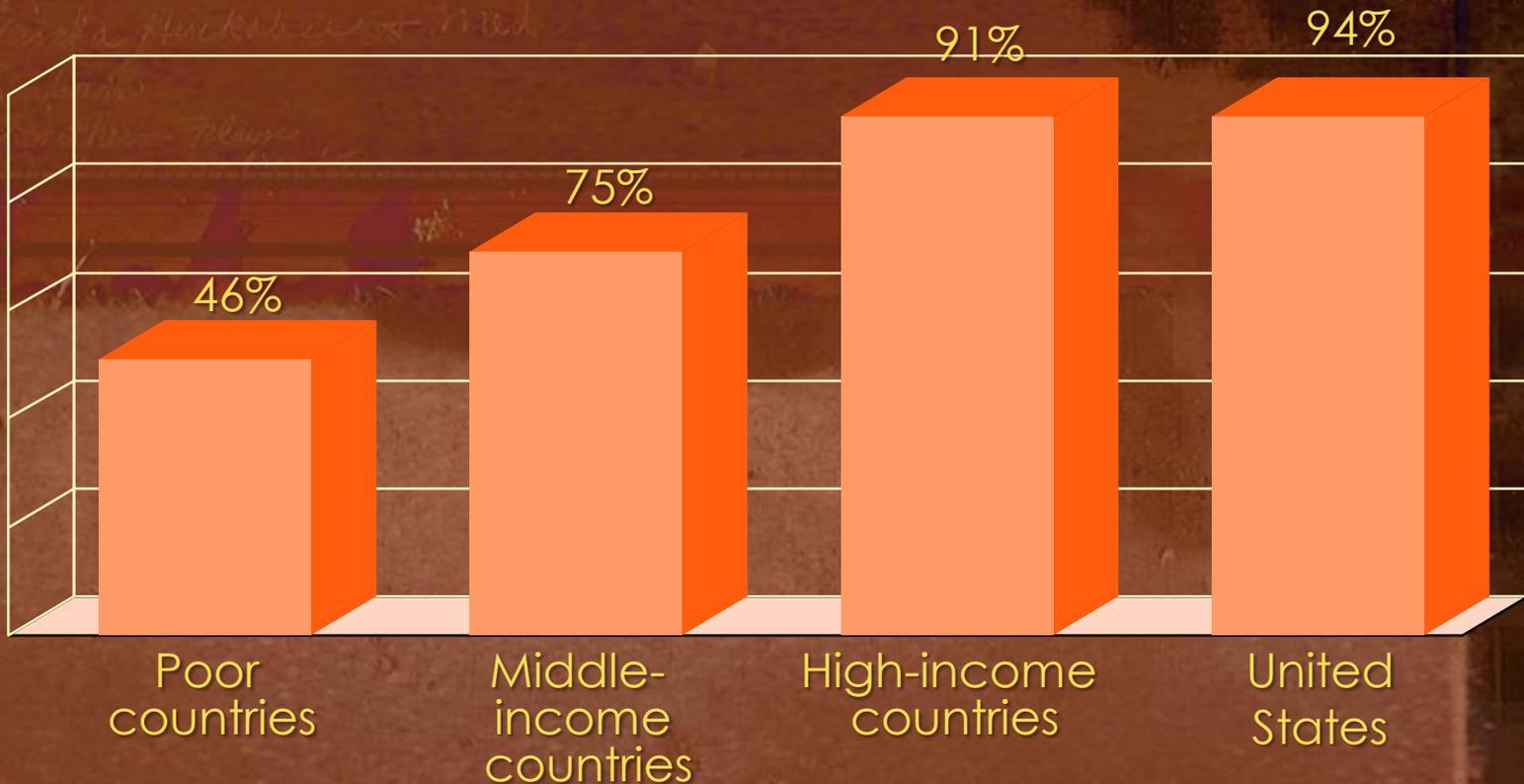
Human Capital

- Human capital is the knowledge and skills possessed by the workforce.
- The high productivity of the US economy results from using highly educated workers in capital-intensive production processes.



Chart: The Education Gap Between Rich and Poor Nations

Enrollment in Secondary School





Factor Mobility

Our continuing ability to produce the goods and services that consumers demand depends on our ability in **reallocating** resources from one industry to another.



Technological Advance

Whenever technology advances, an economy can produce more output with existing resources.



Outsourcing and Trade

- Technology facilitates global resource use.
- Outsourcing allows US workers to pursue their comparative advantage in high-skill, capital-intensive jobs.



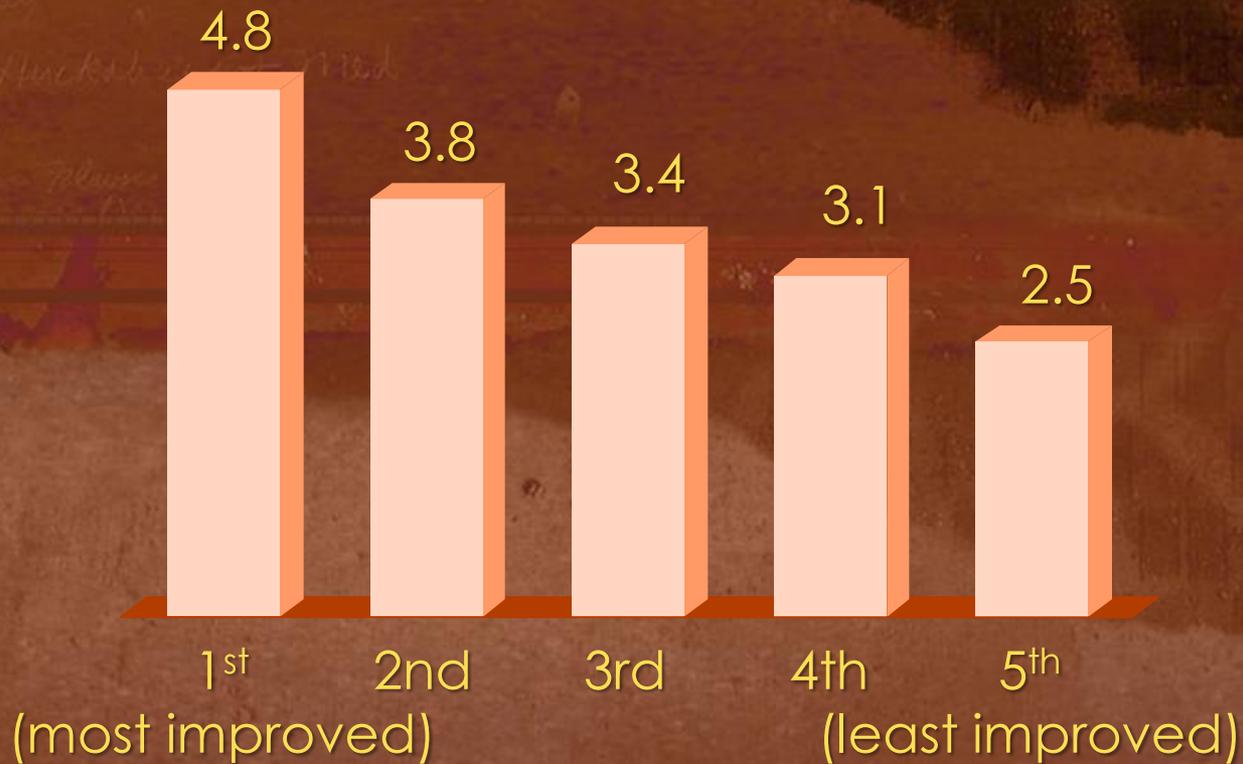
Role of Government

Government plays a critical role in establishing a framework in which private business can operate.



Chart: Economic Freedom and Growth

GDP Growth Rate 1995-2002 (percent per year)



Quintiles of Improvement in Economic Freedom (1997-2004)



Providing a Legal Framework

One of the most basic functions of government is to establish and enforce the rules of the game.



Protecting the Environment

- Externalities are the costs (or benefits) of a market activity borne by a third party.
- To reduce the external costs of production, the government limits air, water and noise pollution and regulates environmental use.



Protecting Consumers

- The government protects consumers by preventing individual business firms from becoming too powerful.
- A **monopoly** is a firm that produces the entire market supply of a particular good or service.



Protecting Labor

The government regulates how labor resources are use in the production process.



Striking a Balance

- Government interventions are designed to change the way in which resources are used.
- Government failure might replace market failure, leaving us no better off – possibly worse off.



For Whom America Produces

How many goods and services you get,
largely depends on your income.



Income Distribution

An income quintile is one-fifth of the population, rank-ordered by income (for example, top fifth).



Income Distribution

- The top 20% (quintile) of US households gets nearly half of all US income.
- The poorest 20% (quintile) gets less than 4% of all income.

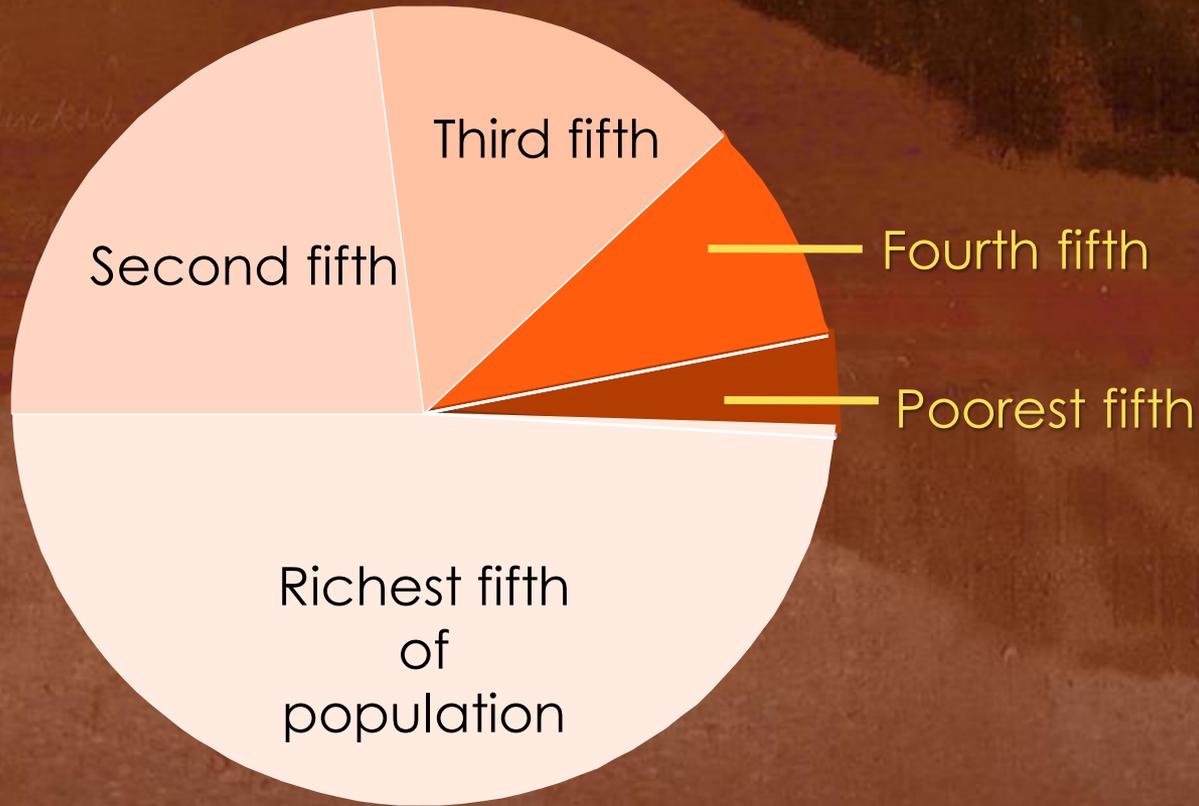


Table: The US Distribution of Income

Income Quintile	2003 Income	Average Income	Share of Total Income (percent)
Lowest fifth	0 – 18,000	10,000	3.4
Fourth fifth	18,000 – 34,000	26,000	8.7
Third fifth	33,000 – 54,000	44,000	14.8
Second fifth	54,000 – 87,000	69,000	23.4
Highest fifth	above 87,000	147,000	49.8



Chart: The US Distribution of Income





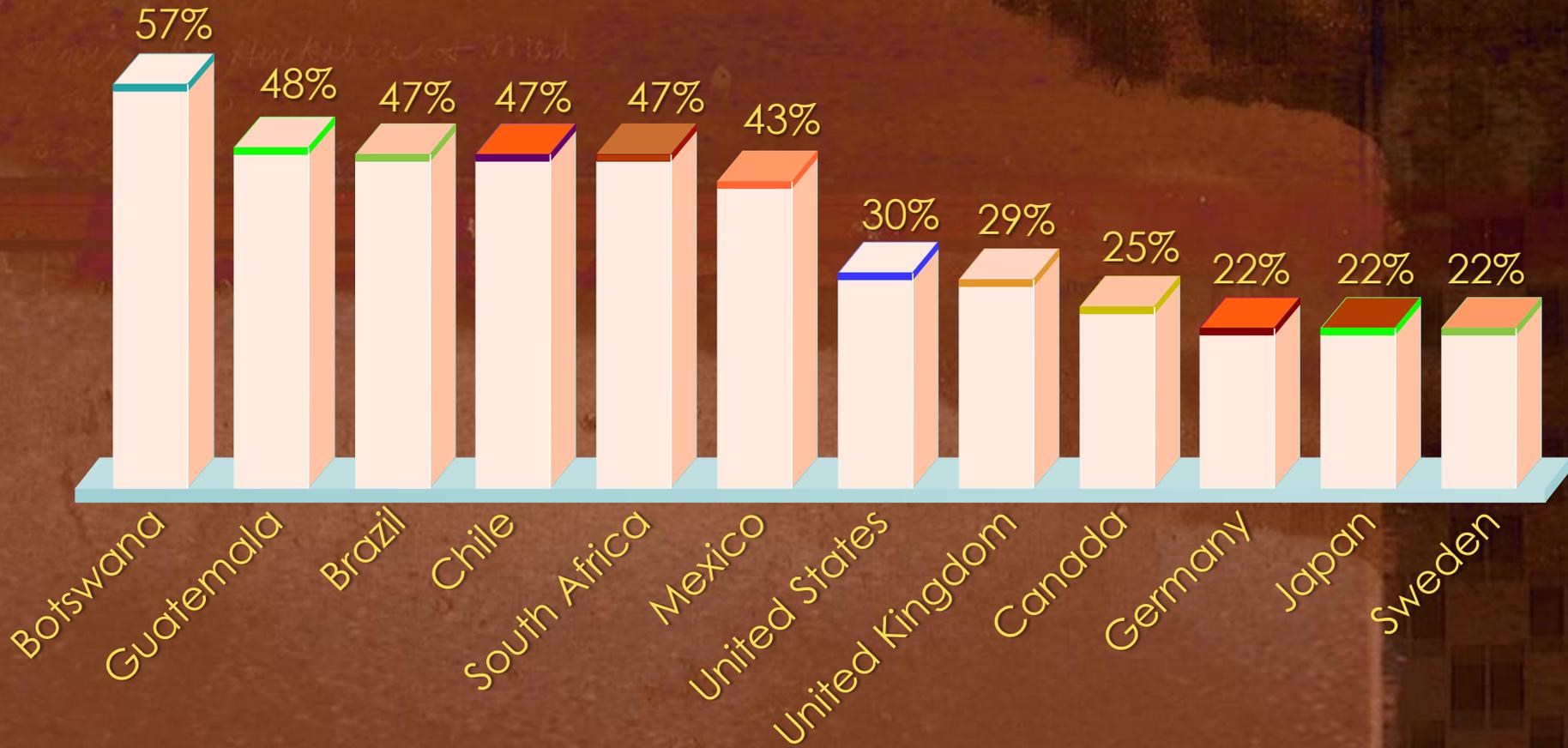
Global Inequality

- Income disparities are greater in many other countries.
- Poor people in the United States receive more goods and services than the average household in most low-income countries.



Chart: Income Share of the Rich

Share of Total Income Received by Top 10th





THE END