When Sales Shift

Trace how changes in spending spread through the economy.

E.5.4 "Explain the causes and effects of business cycles in a market economy."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two causes of changes in economic activity and circle two effects on jobs or spending. Number three linked steps in one cause-and-effect chain from 1 to 3.

A Bike Shop in the Business Cycle

1 At Harbor Bike Works, orders rise when more families feel secure about their incomes. Across the country, strong consumer spending and easier access to loans encourage many businesses to expand at once. Bike stores order more inventory, and factories hire workers to make it. Those workers earn paychecks and spend some of their earnings at other businesses. As total spending, production, and employment rise, the economy enters an expansion. A business cycle is this economy-wide pattern of rising and falling activity, not simply a bike shop's usual busy spring. Expansions can last different lengths of time.

2 Then a surge in borrowing costs makes new loans expensive for households and businesses. Fewer customers finance bikes, while stores delay plans to open new locations. Harbor Bike Works cuts orders, so its factory needs fewer shifts. Some workers lose income and reduce spending at restaurants and other stores. Falling spending, production, and employment across many industries mark a contraction. Businesses may cut back further when they expect weak sales, reinforcing the decline. The high point before a contraction is a peak. A contraction does not mean every business shrinks, but widespread losses can raise unemployment.

3 Eventually, loan costs fall and customers begin buying again. As inventories clear, Harbor Bike Works places new orders; the factory restores shifts and hires workers. Their pay adds to spending elsewhere, supporting a recovery. The low point before activity starts rising is a trough. A recovery can follow lower borrowing costs, renewed confidence, or new investment, but it is not guaranteed to begin on a set date. During a contraction, people who keep their jobs may still worry about future income, while lost wages strain families. During an expansion, more openings and stronger sales create opportunities, though prices can also rise.

2 ANSWER WITH EVIDENCE

Use the passage

1. How can easier access to loans help an expansion spread from shoppers to workers at other businesses?

2. Trace how higher borrowing costs can lead from fewer bike purchases to lower spending at restaurants and other stores.

3. Why can businesses' expectations of weak sales deepen a contraction, and what economy-wide effects can follow?

4. How can lower borrowing costs support a recovery, and how might that recovery spread beyond the bike shop?

3 YOUR TURN

Your own words

Imagine a new medical technology lowers costs for hospitals nationwide. Later, a sharp fall in household wealth makes people cut purchases across many industries. In four or five sentences, explain how each event could change production and jobs, identify the likely cycle phases, and describe one feedback effect.

ANSWER KEY

When Sales Shift

PART 1 · READ AND MARK

Underline two causes of changes in economic activity and circle two effects on jobs or spending. Number three linked steps in one cause-and-effect chain from 1 to 3. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How can easier access to loans help an expansion spread from shoppers to workers at other businesses?	**Easier loans support purchases and business expansion. Stores order more, factories hire workers, and those workers spend earnings at other businesses.**
2	Trace how higher borrowing costs can lead from fewer bike purchases to lower spending at restaurants and other stores.	**Higher borrowing costs make bike loans expensive. Fewer purchases lead the shop to cut factory orders, reducing shifts and workers' incomes, so workers spend less elsewhere.**
3	Why can businesses' expectations of weak sales deepen a contraction, and what economy-wide effects can follow?	**Businesses expecting weak sales may cut back further. Across many industries, spending, production, and employment can fall.**
4	How can lower borrowing costs support a recovery, and how might that recovery spread beyond the bike shop?	**Lower borrowing costs can help customers begin buying again. The shop places orders, the factory restores shifts and hires workers, and their pay supports spending elsewhere.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Lower hospital costs could allow hospitals to provide more care and hire more staff. Higher incomes for those workers could increase spending at other businesses, supporting an expansion. Later, a fall in household wealth could reduce purchases across many industries. Businesses facing weaker sales might cut production and jobs, beginning a contraction. Workers who lose income might spend less, deepening the decline.

Accept other plausible chains that connect each event to economy-wide production and employment. Responses should treat expansion and contraction as likely outcomes, not guaranteed results.