When Orders Change

Trace how spending, jobs, and production move through the business cycle.

GE.3.7 "Explain the business cycle and the factors that influence it."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline the first mention of each phase of the business cycle and number the phases in order. Circle two factors that could help shift the economy from one phase toward another.

The Bicycle Factory and the Bigger Economy

1 At a bicycle factory in Millhaven, orders rise as families and delivery companies buy more bikes. The factory adds a shift, workers earn more, and nearby restaurants see more customers. Similar changes across many industries signal an **expansion**: total production, employment, and spending tend to increase. Economists call these repeated rises and falls in overall economic activity the **business cycle**. Eventually, factories may struggle to keep up with orders, and the economy reaches a **peak**, the high point before activity begins to fall. A peak is easier to identify after the decline has begun.

2 Then banks raise interest rates on loans. Monthly payments on new cars and factory equipment become more expensive, so some families and businesses delay purchases. At the same time, news of possible layoffs makes other shoppers cautious. Millhaven's bicycle orders shrink, and the factory cuts hours, leaving workers with less money to spend at nearby stores. If falling production, employment, and spending spread across the economy, it enters a **contraction**. The cycle's **trough** is its low point before activity begins to rise again. A single factory's slowdown, however, does not prove the whole economy is contracting.

3 Suppose borrowing rates later fall and a government hires companies to repair aging water pipes. Lower loan costs can encourage businesses to buy equipment, while repair projects pay workers and suppliers. As incomes rise, households may make purchases they postponed, giving factories reason to increase production and hiring. When this increase spreads across the economy, **recovery** begins and a new expansion takes shape. Neither government spending nor cheaper loans guarantees a quick turnaround: businesses may still hesitate if they expect weak sales. The timing and length of each phase vary, and a growing economy can face setbacks before its next peak.

2 ANSWER WITH EVIDENCE

Use the passage

1. How could rising bicycle orders contribute to an expansion beyond the factory?

2. Why could higher interest rates help move the economy from a peak into a contraction?

3. How could news of possible layoffs deepen a contraction before more workers lose their jobs?

4. How could lower borrowing rates and water pipe repairs help move the economy from a trough into recovery?

3 YOUR TURN

Your own words

Across the country, stores gain new online customers, but a prolonged shortage later raises the cost of materials. In four or five sentences, explain how each change could affect spending, production, and jobs, and how the economy's phase might change.

ANSWER KEY

When Orders Change

HIGH SCHOOL · GE.3.7

PART 1 · READ AND MARK

Underline the first mention of each phase of the business cycle and number the phases in order. Circle two factors that could help shift the economy from one phase toward another. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How could rising bicycle orders contribute to an expansion beyond the factory?	**The factory adds a shift and pays more wages. Workers then spend at nearby businesses, helping increase spending and employment.**
2	Why could higher interest rates help move the economy from a peak into a contraction?	**Higher rates make loans more expensive, so families and businesses may delay purchases. Lower demand can reduce production and jobs.**
3	How could news of possible layoffs deepen a contraction before more workers lose their jobs?	**Worried shoppers may spend less. Falling sales can cause businesses to cut hours or jobs, reducing spending further.**
4	How could lower borrowing rates and water pipe repairs help move the economy from a trough into recovery?	**Cheaper loans can encourage equipment purchases, while repairs pay workers and suppliers. Rising incomes and orders can lead to more production and hiring across the economy.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

New online customers could raise sales across many industries and lead firms to produce more goods. To fill those orders, firms might hire workers, whose wages could support more spending during an expansion. Later, a prolonged materials shortage could raise production costs and force firms to increase prices or reduce output. If higher prices cut household spending and firms lay off workers across the economy, the expansion could give way to a contraction. These changes are possible, not certain, because businesses and households may respond differently.

For the marking task, accept expansion, peak, contraction, trough, and recovery in that order. Accept circled factors such as interest rates, shoppers' concerns about layoffs, government repair spending, or expectations of weak sales.