Sample Responses for Econ Short Answer #2

Response #1

If that was to happen a lot of people would be unemployed making it that money becomes very tight for them. Then since they will purchase a lot less, sellers will start losing money because less people will be buying their stuff. Everyone will get affected. It's like the food chain.

Response #2

Circular flow indicates that in order for there to be products produced and consumed, there must be workers. If there are no workers to create said products, then there will be none to distribute. If no one is working, then no one can afford the products. Also, since there are less workers, less products can be produced, and the price will have to rise to prevent a shortage. If people aren't working and making money, they cannot afford the raised price of the product.

The people who would be laid off would not be able to purchase many of the products that they need and are produced in America. Sales drops would result in companies losing money, and cut backs would be made. More people would get laid off and the cycle would continue.

Response #3

In a market economy, companies and households exchange products in what is known as the product market. Those products are created in the factor market, where companies and households exchange labor and resources. So there is a circular flow. Money flows between households and firms in one direction. Resources flow in the opposite direction.

When a company such as GM goes bankrupt and lays off thousands of workers, there will likely be an interruption in the circular flow. If thousands of households are not receiving income from jobs in the factor market, then they will not have money to spend in the product market. And without buyers, companies that sell in the product market will suffer. This will hurt not only GM and the auto industry but also companies that sell food, computers, clothing, etc.

Response #4

If GM were to go bankrupt (which it did) and lay off thousands of workers, it would leave a large portion of our citizens jobless. When these jobless citizens run out of money, they stop buying which adversely affects the economy. If no one buys then suppliers' products lose value and they are left with smaller incomes which could, if sales droppped long enough, eventually cause other companies to downsize.