

The structure of the U.S. economy

Principles of Macroeconomics // Spring 2025

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Readings

Recommended readings

Required readings:

- *Macroeconomics in Context*, 4th ed.
→ Chapter 6.

Recommended readings:

 Structural transformation: How did today's rich countries become 'deindustrialized'? (Our World in Data)

Words of the day

- Value added;
- Labor productivity;
- Deindustrialization.

The three sectors

The three sectors

 U.S. GDP by economic sector

Return to GDP

Suppose a simple, **closed** economy with **no** government.

The only *final* product available is **orange juice**.

The *productive process* goes as follows:

1. A farmer grows oranges at **no cost**;
2. A **manufacturer** takes the oranges and makes orange juice;
3. A distributor takes the orange juice from the manufacturer and **transports** it to the local grocery store;
4. The grocery store **sells** orange juice to final consumers.

Return to GDP

AN “ORANGE” ECONOMY

ACTIVITY	INPUT COSTS (\$)	OUTPUT PRICE (\$)	VALUE ADDED (\$)
Growing oranges	0	1,000	
Producing orange juice	1,000	1,500	
Transportation & distribution	1,500	2,250	
Orange juice sales	2,250	3,500	

- What **contribution** to the final value of orange juice is *each step/activity* making?

Return to GDP

Computing GDP by the *value-added approach* takes into account how much **each sector** contributes to the final value of goods and services at **each stage** of the productive process.

The three sectors

Output **sectors**:

- *Primary sector*;
- *Secondary sector*;
- *Tertiary sector*.

The three sectors

Output **sectors**:

→ *Primary sector*: Harvesting and extraction of **natural resources** and rudimentary *processing* of these raw materials.

→ *Secondary sector*: **Converts** the outputs of the primary sector into products suitable for *use or consumption*.

→ *Tertiary sector*: Provides **services** rather than *tangible* goods.

The three sectors

Output **sectors**:

- *Primary sector*: agriculture, (commercial) fishing, mining, timber.
- *Secondary sector*: automobile, chemical, pharmaceutical, ...
- *Tertiary sector*: education, health, real estate, insurance, banking, finance, ...

The primary sector

The primary sector

Questions to think about:

- Why do all nations start as an **agrarian** economy?
- Why does total farm population tend to **decline** over time?

The secondary sector

The secondary sector

U.S. employment by output sector

- Why do we see a **falling** employment in the secondary sector over time?

The tertiary sector

The tertiary sector

- Contrary to the other two sectors, why do we see a **rise** of employment/output due to the *services* sector?

Next time: (Un)employment