

CHAPTER 4

The 21st Century Global Economy

CHAPTER PREVIEW

TERMS

global marketplace, trade, colony, commerce, mercantilism, tariff, mass production, free trade, NAFTA, Gross Domestic Product, demographics, unemployment, e-commerce, extractive industries, broadband, entrepreneur, credit, interest, budget, income, expenses, checking account, savings account, certificate of deposit, money market account, invest

PEOPLE

Marco Polo, Ronald Reagan, Bill Clinton, George W. Bush

PLACES

Silk Road, Canada, Mexico, High Tech Corridor

Trade has evolved from a primitive barter system to a complex global network of nations on every continent. One of the earliest examples of international trade took place along the Silk Road from Asia to the Mediterranean region. International trade between Europe and Asia became global trade in the sixteenth century when the voyages of Christopher Columbus and Vasco da Gama brought trade opportunities to North America, South America, and Africa.

The United States did not actually assume a leading role in global trade until after World War I, more than one hundred years after it got its independence. The first indication of West Virginia's interest in global trade came in 1986, when the state explored setting up an overseas office to attract foreign investors.

When we think of global trade, we usually think of nations and states. But individuals also play a critical role in determining the success of the global economy. Individuals must know how the economy works. They must also learn to make good economic decisions, including managing their own money. Individuals who manage their finances well become productive consumers, who affect the well-being of the state and the national economy.



Right: Asian marketplaces support a growing economy.



Background: Advances in transportation—by land, sea, and air—have led to the expansion of global trade.



SIGNS of the TIMES

VITAL STATISTICS

West Virginia's exports are sent to a number of free trade markets. The largest are NAFTA, Korea, Morocco, and Singapore.

In 2017, West Virginia's exports to U.S. free trade partners totaled \$2.4 billion. This accounted for 33 percent of all West Virginia exports.

West Virginia has two overseas offices: Nagoya, Japan, and Zurich, Switzerland.

In 2016, 25,883 U.S. jobs were supported by goods exported from West Virginia. Seventy percent of those jobs were supported by manufactured goods exports.

In 2016, foreign-owned companies employed 29,300 West Virginia workers.

In 2016, West Virginia University opened an Office of Global Affairs to foster international educational partnerships. In 2017, partnerships had been formed with more than sixty institutions of higher learning on six continents.

West Virginia's 2018 Roads to Prosperity bill is designed to improve infrastructure to attract new businesses.

Population growth is projected between 2018 and 2023 for north central West Virginia and the eastern panhandle.

Most of West Virginia's job growth is projected for the northern part of the state.

The state's unemployment rate is expected to stay around 4 percent but will begin to decline through the early 2020s.



Reading Graphs

DEFINING THE SKILL

Using graphs to obtain information may be quicker and easier than drawing conclusions or making comparisons from written text. Graphs can make learning more meaningful and actually increase comprehension. Textbooks sometimes contain a variety of graphs, including line, bar, and circle.

When you read a graph, you should notice

- the title, which tells you the subject of the graph;
- the general parts of the graph;
- any trends;
- any information that you can develop into questions or use to answer questions.

PRACTICING THE SKILL

Look at Figure 4.4 on page 160, which shows the countries to which West Virginia exports goods. Use the information to answer these questions.

1. What is the title of the graph?
2. What type of graph is it: line, bar, or circle?
3. Could the information be displayed effectively on another type of graph? If so, which type(s)?
4. To which country does West Virginia export the greatest amount of goods?
5. To which country on the graph does West Virginia export the least amount of goods?
6. What is the total amount of money West Virginia receives from its exports to these countries?



Below: Global trade is part of everyday life in all areas of the world.

SECTION 1

A History of a Global Economy

As you read, look for

- examples of international trade before the Age of Exploration;
- the role of the Age of Exploration in expanding global trade;
- the importance of colonies to global trade;
- the attitude of the newly created United States toward global trade;
- the impact of the Industrial Revolution on global trade;
- the role of the United States in global trade after World War I and World War II;
- the reasons for the free trade movement;
- the role of small companies in the export trade;
- the importance of foreign investment in West Virginia;
- the objectives of the West Virginia Development Office;
- West Virginia's largest exports and the top foreign markets for West Virginia goods;
- terms: **global marketplace, trade, colony, commerce, mercantilism, tariff, mass production, free trade, NAFTA, Gross Domestic Product.**

What do you think of when you hear the term *globalization*? To some, it represents the coming together of all the people of the world to form a single society. To most, however, it represents the bringing together of nations throughout the world through international trade, foreign investment, migration, and technology. Global trade is a part of everyday life

in the twenty-first century. You only have to look at the labels on your clothing, food, and household items to see that we are indeed a part of a **global marketplace** (an international system for the buying and selling of goods and services). Today's global trade, however, did not always exist. In fact, it has only been in the last one hundred years that the United States has played a role in global trade. To better understand how trade has affected our lives, we must examine the historical factors that have affected the development of today's global economy.



Trade (the voluntary exchange of goods and services) has existed since prehistoric cultures first bartered (traded goods and services without money) to obtain things they needed or wanted. Prehistoric people moved from place to place. As they traveled, they came into contact with people who had goods that they themselves did not have. Because they wanted some of those goods, they developed a system of trade. Prehistoric trade even existed in West Virginia. We know this because historians discovered that the Adena people left behind jewelry made from shells that were not native to the state.

For centuries, international trade existed between Asia and Europe, using such Mediterranean ports as Venice and Constantinople, as well as a land route known as the Silk Road. The Silk Road was an international trade route of more than 5,000 miles that connected China to the countries in the Mediterranean region. Travelers along the Silk Road encountered middlemen (traders who buy goods from producers and sell them to other traders and consumers at a higher price). These middlemen drove up the prices of such luxury items as dyes, silk, perfumes, drugs, gold, jewels, and spices such as pepper, cinnamon, nutmeg, and cloves.

In the thirteenth century, Marco Polo traveled with his father and uncle to China along the Silk Road. They spent the next seventeen years visiting with Chinese leader Kublai Khan. When they returned home, Marco wrote a book describing their travels and detailing the fabulous things they found in Asia. The riches of the East Indies, Polo said, were “something wonderful, whether in gold or precious stones, or in all manner of spicery.” Nearly two hundred years later, in 1477, the publication of Marco Polo’s *Travels* led many Europeans to hope that China’s fabulous riches could be reached by ship. First, however, Europeans had to find a shorter trade route to the Orient before they could make these items more available to the people.

Below: The desire for spices resulted in a global trade that continues today.

something
extra!

In the Middle Ages, spices were used not only to flavor foods but also as medicine.



Below: Along with the voyages of Christopher Columbus, the establishment of a trading route from Portugal around the Cape of Good Hope to India is credited with providing the first actual global trading opportunity. Today, the Gateway of India in Mumbai overlooks India's major ports, where it welcomes visitors from throughout the world.

The Age of Exploration and Global Trade

The search for shorter trade routes gave rise to what was called the "Age of Exploration." European rulers sent explorers to search for new trade routes to the Far East. Sometimes, while searching for those trade routes, the explorers discovered new lands—more specifically, North and South America. Many of these newfound lands became colonies of the European nations whose explorers claimed them for their mother countries. (A **colony** is a geographic area politically controlled by a distant country.) The colonies, which had resources that were not found in Europe, became a source of both raw materials and markets for European industries. During this time, the voyages of Christopher Columbus from Spain to the Americas and Vasco da Gama's travels from Portugal around the Cape of Good Hope to India are credited with establishing the first actual global trading opportunities. By the end of the sixteenth century, Spain dominated trade with the Americas, while Portugal dominated trade with Africa, Asia, and Brazil. After the discovery of silver and gold in the Americas, precious metals began to be used as a medium of exchange for goods. This form of payment replaced the barter system.



Colonization and Global Trade

In the seventeenth century, Great Britain encouraged its colonies to develop an economy based on agriculture and **commerce** (the buying and selling of goods). The British government believed the colonies existed to serve the needs of the mother country. That is, the government practiced **mercantilism**. For a country to be economically successful under this trade policy, it had to export more than it imported. Great Britain required its colonies to produce raw materials and ship them to England. There, British workers used the raw materials to make finished goods, such as furniture, clothing, tools, and sugar. Those finished items were then exported and sold to other nations, strengthening the British economy.

The British government also promoted growing cotton in the American colonies in order to avoid importing cotton textiles from India. The southern colonies proved to be a good location for growing cotton. However, the production of cotton required a large number of workers. To fill the need for workers, African slaves were brought in to work in the cotton fields. This resulted in the creation of a “triangular trade route” between the North American colonies, Great Britain, and Africa. The colonies sent raw materials, such as sugar or molasses, tobacco, and cotton, to Great Britain; England sent textiles and manufactured goods to Africa; Africa sent slaves to the North American colonies.

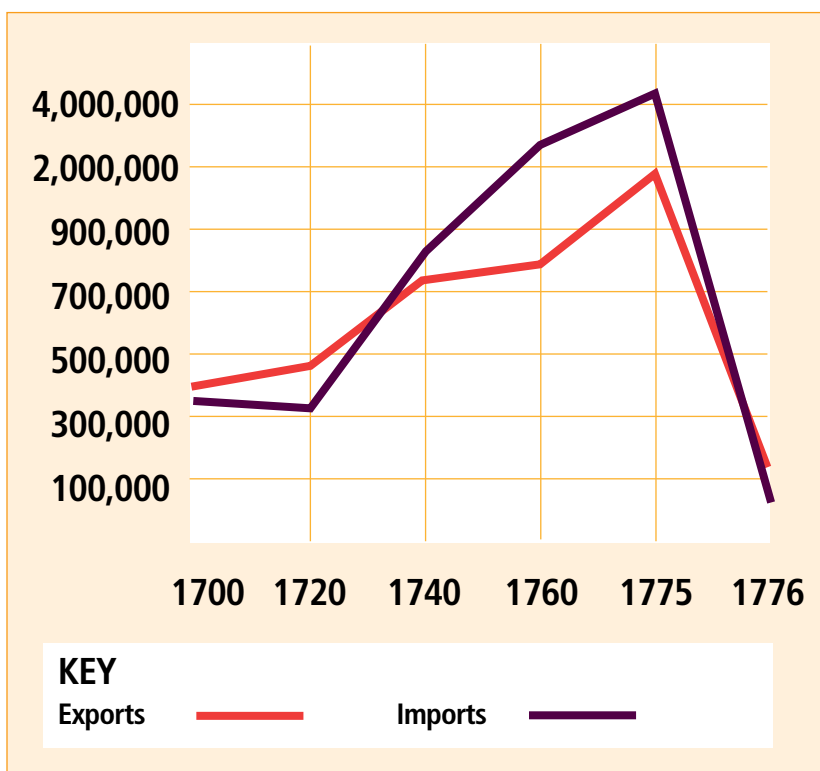
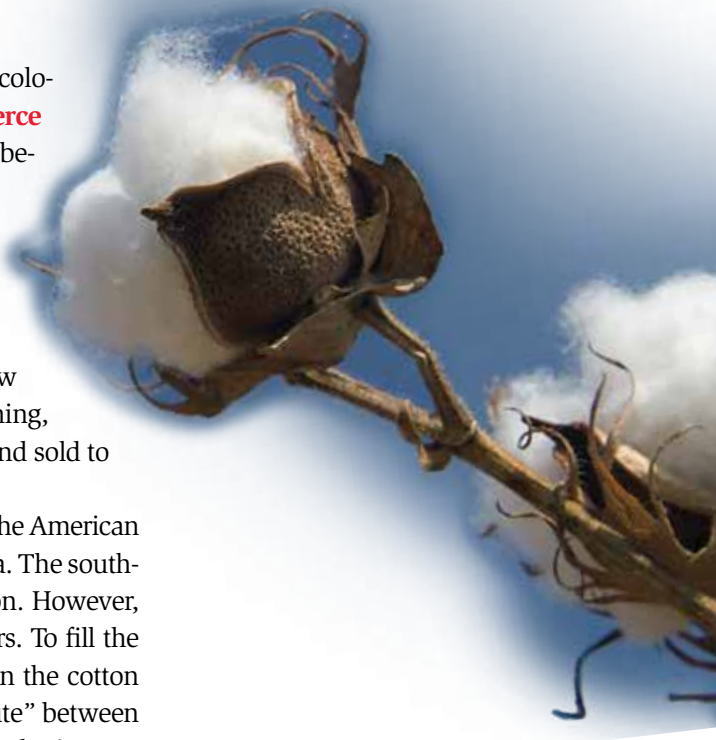


Figure 4.1

British Colonial Exports and Imports, 1700-1776 (in pounds sterling)

Top: Cotton, grown in the American colonies, was exported to Great Britain.

something extra!



Before the Tea Act of 1773, tea was a very popular beverage in the American colonies. When the act was passed, the colonists reacted by not drinking tea!

As time went on, Great Britain began to place a number of restrictions on colonial trade in order to increase its profit. The American colonies resented those laws. One of the laws, the Tea Act of 1773, allowed the British East India Company to sell tea for less than colonial merchants could sell it. This law, which hurt the colonial economy, was one of the main causes of the American Revolution.

The Growth of Global Trade

After the creation of the United States, the new nation had to establish its own economic policies. Because the United States wanted to concentrate on building its own industrial base, global trade was not a priority. Alexander Hamilton, the first U.S. secretary of the treasury, proposed high **tariffs** (taxes imposed on goods that are imported into a country) to protect the growing American businesses.

In the eighteenth century, the Industrial Revolution drove global trade. Global manufacturing moved from the poorer countries to the richer European ones. New inventions, including the steam engine and the spinning jenny, boosted Great Britain's textile industry but caused a decline in the textile industry in India.

The nineteenth century brought new inventions, better roads and ports, and **mass production** (the manufacture of large quantities of similar goods). The advent of steam power revolutionized the way goods were shipped to market. Steamships and railroads made it easier to trade with foreign countries. Steamships were faster, and they could travel in any weather. Railroads made it possible to move goods from coastal towns and cities inland, opening up job and industrial opportunities in new locations.

Below: The invention of the steam engine opened up new trade opportunities.



Global Trade in the Twentieth Century

World War I devastated many European nations. As a result, the United States and Japan became the dominant countries in global trade. At the same time, the United States became more protective toward its own industries. The passage of tariffs again reduced international trade. Total world trade went down by 66 percent between 1929 and 1934.

Global trade again took center stage after World War II. World leaders looked at increasing foreign trade as a way to bring foreign nations closer and reduce the chance of war. In 1948, a trade agreement known as the General Agreement on Tariffs and Trade (GATT) was created. It was intended to prevent national trade barriers that limit **free trade** (international trade free of government intervention). Many believed that the lack of free trade was a major cause of the Great Depression and World War II.

Global Trade since 1980

Since 1980, U.S. presidents have promoted the concept of free trade. When Ronald Reagan became president, the United States-Canada Free Trade Agreement was passed. Reagan promoted free trade as a means of achieving progress and peace.

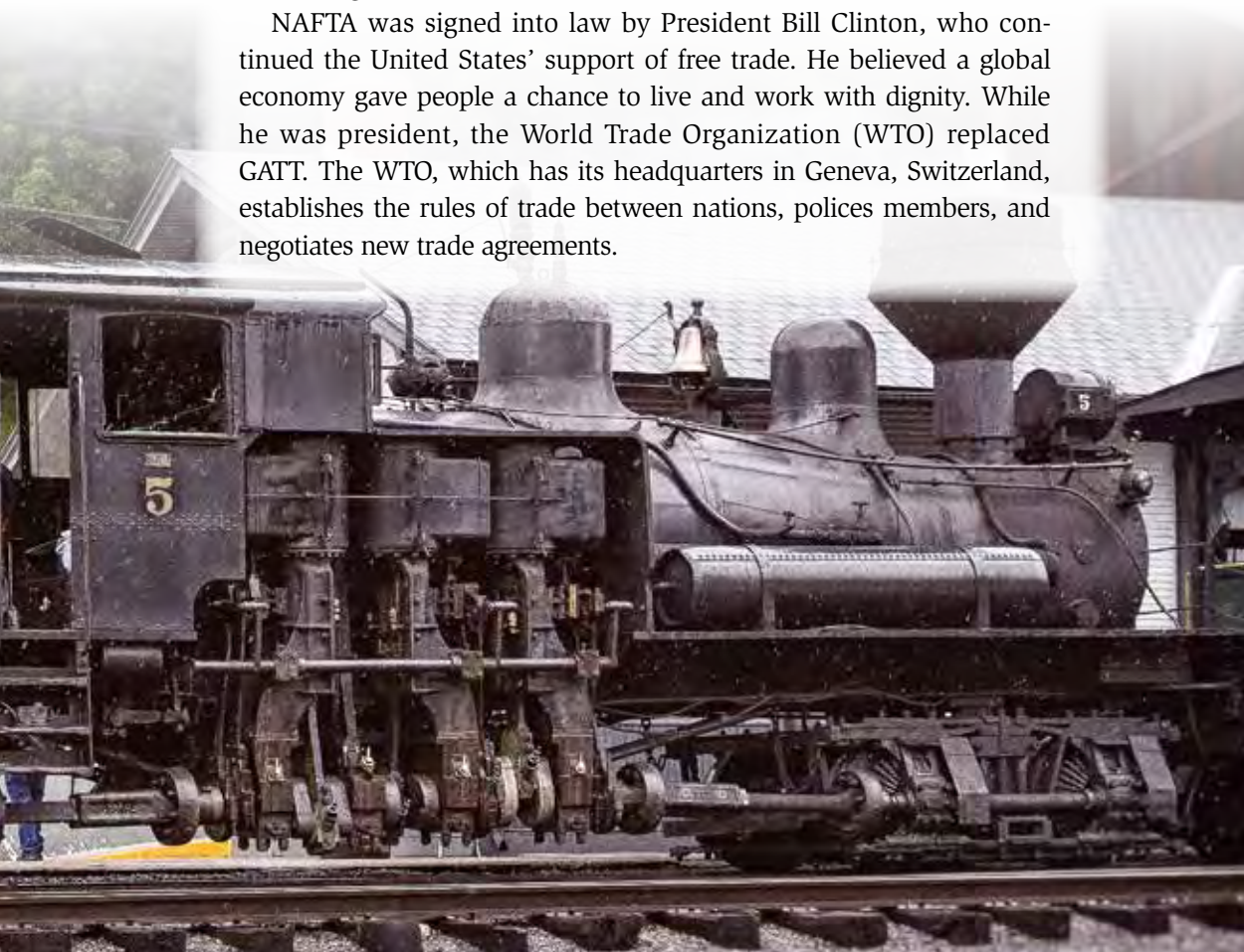
President George H. W. Bush led negotiations to establish **NAFTA** (North American Free Trade Agreement). This treaty eliminated tariffs on products traded among the United States, Canada, and Mexico. Although Bush originated the bill to establish NAFTA, it did not become law during his presidency.

NAFTA was signed into law by President Bill Clinton, who continued the United States' support of free trade. He believed a global economy gave people a chance to live and work with dignity. While he was president, the World Trade Organization (WTO) replaced GATT. The WTO, which has its headquarters in Geneva, Switzerland, establishes the rules of trade between nations, polices members, and negotiates new trade agreements.



something
extra!

In 2019, there were 164 members of the World Trade Organization.



West Virginia's "New" Immigrants and Their Impact on the Economy

West Virginia's immigrant population has been inconsistent over time. When there was a need for immigrants (foreign-born individuals) to work in the state's early industries, they were actively recruited. When the need was not there, few immigrants came to the Mountain State. Between 2010 and 2016, West Virginia's foreign-born residents grew by 33.7 percent. The majority of the "new" immigrants came from Germany, India, China, Iran, and the Philippines. The immigrants who came to West Virginia during that six-year period helped to balance the number of native West Virginians who left the state at the same time. In 2018, more than 30,000 immigrants lived in West Virginia. Although that is only 1.7 percent of the state's total population, these "new" immigrants have proven to be a valued asset. They contribute to the state as taxpayers, consumers, and members of the workforce.

Economically, approximately 10,000 workers in West Virginia are employed at businesses owned by immigrants. Another 2 percent are self-employed. Nationwide, immigrants own more than half of the grocery stores and 48 percent of the nail shops in the country. Research shows that immigrants are twice as likely to start new businesses and are proven entrepreneurs. In 2018, there were more than 1,400 immigrant entrepreneurs in the state. In 2016, immigrant-led households in West Virginia earned nearly \$960 million and paid \$263.6 million in state and federal taxes. This left them with \$697.3 million in spending power that they used to purchase goods and services that favorably impacted West Virginia's overall economy. Additionally, 2.8 percent of all students enrolled in West Virginia's colleges and universities



are international students. They have contributed \$116.2 million to the state's economy in tuition, fees, and living expenses. Additionally, the goods and services these students require generate funds to support 1,071 jobs.

West Virginia's native workforce is shrinking because of the state's aging population. (West Virginia has the largest number of older residents of any state in the nation.) Immigrants, on the other hand, make up the largest group of working-age residents.



Seventy-seven percent of foreign-born potential workers living in the state fit that category. While immigrants are more likely to lack a high school diploma, 22.4 percent of those in West Virginia have a graduate degree from a college or university. Many of those workers are employed as college professors and health care providers; others work in STEM (science, technology, engineering, and mathematics)-related occupations. West Virginia is among the top ten states nationally to rely on foreign-educated physicians.

West Virginia's immigrants have consistently been loyal to the state and nation. Over fifty percent have become naturalized citizens; and by 2020, more than 12,000 are expected to be registered voters. These rising numbers may impact the political climate of the state. Although the numbers may not be large enough to have a great effect on a national or statewide election, the numbers can definitely affect the outcome of local elections, giving the "new" immigrants an opportunity to share their knowledge on a larger scale.





President George W. Bush continued U.S. support of free trade. However, he did impose high tariffs on imported foreign steel in 2002 as a way to protect the American steel industry. Twenty months later, in order to avoid a trade war, he repealed the tariffs, with disastrous consequences for the steel industry in the United States.

President Trump's Tariff Policies

President Donald Trump, who campaigned on making changes in trade agreements with foreign nations, made a major change when he withdrew from the TPP (Trans-Pacific Partnership) a few days after becoming president. In the spring of 2018, he made other changes when he imposed high tariffs on aluminum from Canada, the European Union, and Mexico. He also imposed high tariffs on goods coming from China. Some believed that these policies would result in a trade war.

West Virginia's Role in Global Trade

West Virginia does not have a long history in global trade. Perhaps pushed by increased interdependence among nations and competition in the domestic marketplace, the state began to seriously consider becoming involved in global trade in 1985 when an International Development Division of the Governor's Office of Community and Industrial Development was created. Today, the West Virginia Department of Commerce has as its objectives the promotion of West Virginia exports and the attraction of international investments. Given the fact that 95 percent of the world's consumers live outside the United States, West Virginia realized that exporting was a way to attract customers. To that end, Governor Arch Moore proposed setting up an overseas office in 1986. Although the overseas office did not materialize, the seed was planted, and West Virginia soon found itself marketing its products throughout the world. Two overseas offices, in Nagoya, Japan, and Zurich, Switzerland, supported West Virginia's export business in 2018. Improved technology has made exporting so easy that even small business owners are able to become involved.



Focus on Technology

LEARNING SKILL: COMMUNICATION

Use telecommunication tools to acquire information. Use presentation software to present information in a concise format.

TECHNOLOGY TOOL: TELECOMMUNICATION, PRESENTATION SOFTWARE

Use telecommunication tools (e.g., email, web pages, blogs, discussion groups, list servers) to gather information to use in a visual report using technology.

Look at Map 4.1, page 161, which shows foreign investment in West Virginia. Choose a flag of one of the foreign countries shown on the map. Use a search engine to find the names of companies located in that country that have established businesses in West Virginia, and find the home page of one of the companies. Research the company and send an email to the contacts listed asking one or two questions about the company's ties to West Virginia. Finally, prepare a short written report with a minimum of four PowerPoint slides to share with the class.



The Growth of West Virginia Exports

Promoting West Virginia’s exports is vital to the state’s economy. The state’s export markets have historically been driven by demand for its natural resources. In 2012, coal accounted for approximately two-thirds of the state’s export market, totaling \$8 billion. However, between 2013 and 2016, the value of coal plummeted to \$1.3 billion as nations, especially in Western Europe, began looking for other sources to fuel their energy sectors. Since 2016, the growth in global steel production in Eastern Europe and Central Asia again increased the demand for coal. Additionally, damage done by a cyclone to Australia’s rail infrastructure resulted in more West Virginia coal going to Asian Pacific markets. Other major West Virginia exports include manufactured products such as polymers, chemicals, machinery, and components for medical, automotive, and aerospace applications. In 2017, the state’s export markets generated \$7.1 billion and supported nearly 26,000 jobs. In 2016, exports were 10 percent of the state’s **Gross Domestic Product**, or GDP (the total value of all final goods and services produced in a country or state in a given year).

Small companies account for most new exporters. Some small companies have not considered exporting because they think it is too complicated. Exporting actually helps small companies grow and become competitive in all types of markets. Figure 4.2 shows the top ten West Virginia products sold throughout the world. Although these products mostly come from large companies, a complete list would include products like ready-to-drink bottled tea from Dr. B’s Beverages, LLC, which is shipped from Berkeley County to Canada.

something
extra!



More than two-thirds of exporters nationally have fewer than 20 employees.

Figure 4.2

West Virginia’s Top 10 Exported Products, 2017

	Product	Dollar Amount of Exports	Percentage of West Virginia’s Exports
1.	Coal	\$3.3 billion	45.7%
2.	Large spark-ignition engines	\$520 million	7.3%
3.	Ball or roller gears	\$226 million	3.2%
4.	Aircraft including engines, parts	\$194 million	2.7%
5.	Polyamides	\$171 million	2.4%
6.	Aluminum plates	\$145 million	2.0%
7.	Polyethers	\$119 million	1.7%
8.	Propylene copolymers	\$107 million	1.5%
9.	Polyacetals	\$98 million	1.4%
10.	Unsaturated polyesters	\$86 million	1.2%



Figure 4.3 shows the export categories and the revenue generated by each. More than 1,100 businesses in West Virginia export goods to more than 95 countries annually. In 2017, markets with free trade agreements (FTA) received 33 percent of the state's exports, which totaled some \$2.4 billion. Since 2007, exports from West Virginia to FTA markets have grown by 56 percent. West Virginia's top ten export markets have free trade agreements with Canada, Mexico, and South Korea. In West Virginia's top twenty-five export markets, Australia, Morocco, and Singapore are included. Trade agreements reduce barriers to U.S. exports and protect U.S. interests. They make it easier and cheaper for U.S. companies to export their products. It is not certain what the change in U.S. tariff policy in 2018 will have on these trade agreements. West Virginia's exports have brought more money to the state than it has spent on imports. In 2017, the state had a favorable trade balance, showing a \$3.7 billion surplus.

Below: Large oceangoing vessels transport goods from many countries to major ports throughout the world.

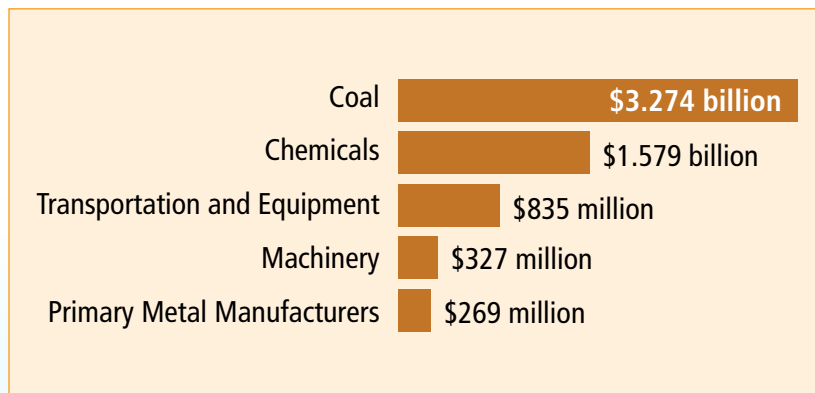


Figure 4.3
West Virginia's Top 5 Export Categories, 2017



Below: Goods are transported by rail to ports where they will then be shipped overseas.

In 2017, Canada continued to be the top export destination. The Ukraine has shown the most growth in providing markets for West Virginia goods, and the dollar value of export shipments to India is up five times over the previous year. The Netherlands is not actually a destination for the state's products. It is a transit point to other Northern European countries rather than an end market for West Virginia exports. Figure 4.4 shows West Virginia's top ten export markets. It is uncertain how President Donald Trump's tariffs will affect West Virginia's export trade. Canada and the European Union have denounced the tariffs and promise retaliation by placing tariffs on U.S. goods.

Figure 4.4

West Virginia's Top 10 Export Destinations, 2017



Foreign Investment in West Virginia

One of the largest foreign companies to invest in West Virginia was Toyota Motor Corporation. In 1996, it opened a factory in Buffalo, and Toyota Motor Manufacturing West Virginia (TMMWV) was begun. When it opened, the factory employed 300 workers to produce 300,000 engines for Corollas. In 2018, there were 1,600 employees working to produce 420,000 four-cylinder engines, 233,000 six-cylinder engines, and 740,000 automatic six-speed transmissions for Corollas, Camrys, Avalons, and some Lexus models.

Besides providing good jobs, Toyota has invested \$8.5 million in philanthropic (charitable) and educational initiatives. In 2016, when much of West Virginia was devastated by floods, Toyota donated \$50,000 to the American Red Cross Response Program. Additionally, 100 Toyota employees volunteered to go to Elkview to directly help those who were affected. Team members have volunteered more than 70,000 hours to support community endeavors since 2008.

Map 4.1

International Investment in West Virginia

Map Skill: What foreign countries have investments in the northern panhandle?



something extra!



Foreign-controlled companies employed about 16,500 workers in West Virginia in 2017. Nearly half of these jobs were in manufacturing.

Toyota is but one example of how foreign-owned companies have invested in West Virginia. Approximately 30 foreign countries have established 140 businesses in West Virginia. Germany, Japan, and Canada have the largest number of businesses, while Japan, the United Kingdom, Canada, Germany, and France employ the most workers. Map 4.1 shows the countries that operated companies in West Virginia in 2014, and Figure 4.5 shows West Virginia employment in foreign-owned companies of the top five countries. All of these companies have combined to create nearly 30,000 insourced jobs (jobs created by foreign-owned companies) in 2017 and have made personal and economic contributions to the communities where they are located.

Figure 4.5

West Virginia Employment in Foreign-Owned Companies, 2016



Below: Many foreign countries have built factories in West Virginia. NGK Spark Plugs is located in Sissonville.

Reviewing the Section

Reviewing the Content

1. What is trade?
2. What was the primary reason for the Age of Exploration?
3. What is the purpose of the West Virginia Development Office?

Using the Content

1. Write a letter to the president of the United States stating your opinion of global trade.
2. Design a poster to attract foreign investment in West Virginia.

Extending the Literacy Skill

Look at Figure 4.1 on page 151. Use the data on the graph to answer the following questions.

1. What is the subject of the graph?
2. In what years did exports total more than imports?
3. In what year were colonial imports the highest?



SECTION 2

West Virginia's Demographic Profile

As you read, look for

- the role of labor demographics in West Virginia's economy;
- reasons for mixed employment performance in energy, construction, manufacturing, service industries, and government;
- the different employment opportunities in West Virginia's four geographic regions;
- how West Virginia's economy is predicted to change between 2017 and 2022;
- why technology will drive the state's economy in the future;
- terms: **demographics, unemployment, e-commerce, extractive industries, broadband, entrepreneur.**

The demographics (a view of the population that can include age, gender, income, education, and employment) of a state play a huge role in the economic growth of an area. One factor that promotes economic growth is having an adequate workforce. The United States economy has been dominated by service industries over the last several decades, but growth in those areas has declined, primarily because of advances in technology and changing labor demographics. That is not true in West Virginia. In the Mountain State, growth has been slow in all areas, but service industries have dominated and continue to dominate the state's economy.

Right: Having an adequate workforce is essential for businesses like Walmart, which is one of West Virginia's top private employers.



Bottom: Population growth in the eastern and north central parts of the state brings opportunities for workers in the building trades.

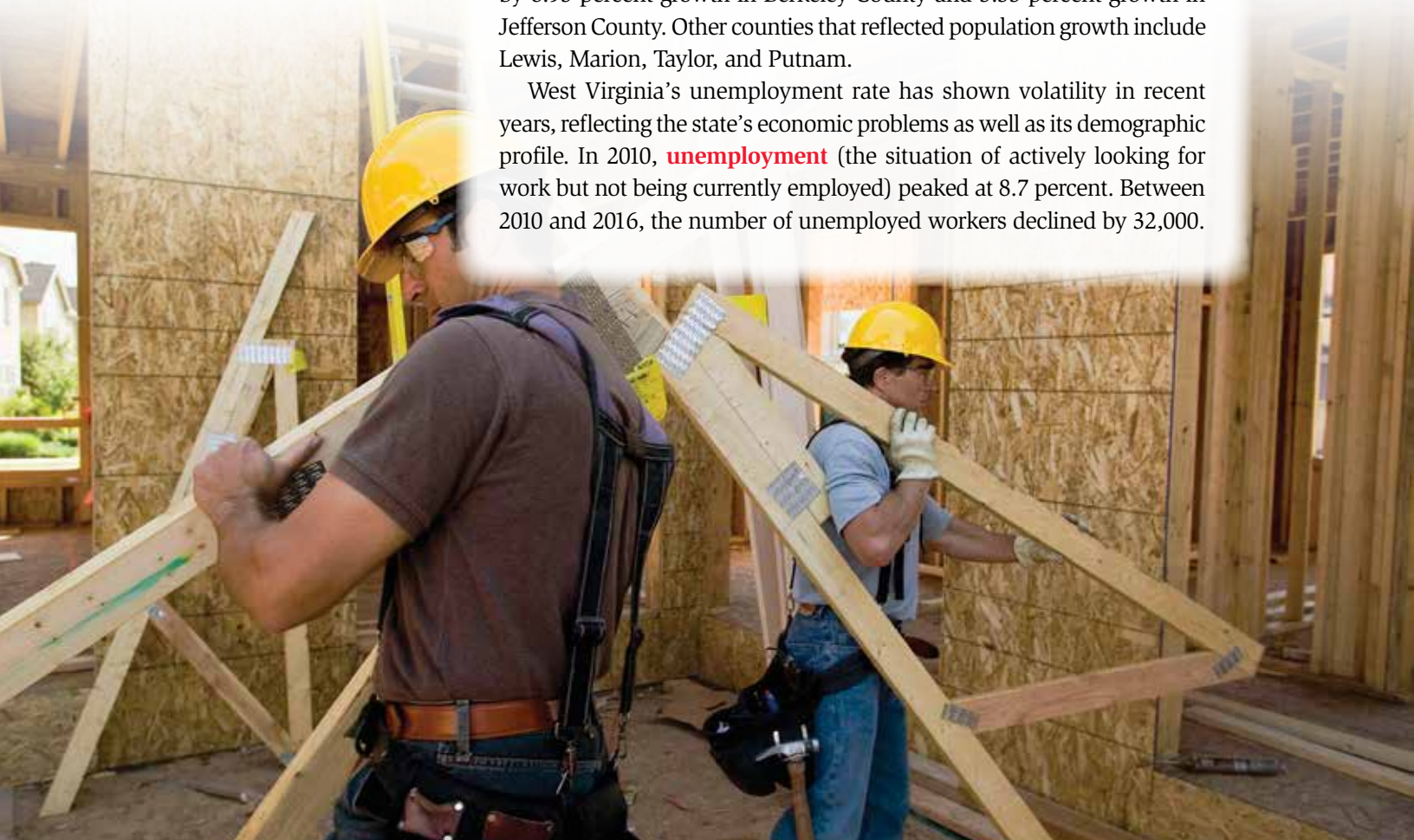
The Workforce and Unemployment

Labor demographics are a driving force in West Virginia's economy because of an increasing number of workers reaching retirement age. Additionally, the life expectancy of those retirees continues to increase while birth rates have fallen. Labor demographics have also changed because of the decline in labor force participation (eligible workers who are working or looking for a job). That number has fallen to the lowest level since the 1970s, indicating that a larger portion of people without jobs are not looking for jobs. These two factors suggest a possible decline in global economic growth due to an inadequate workforce population.

The loss of population also affects the effectiveness of an area's workforce, and West Virginia has lost 16,000 residents since mid-2016. Forty-seven of the state's fifty-five counties lost residents. Because West Virginia is mostly a rural state, many of those leaving are college-age and young working-age residents. Kanawha County lost the most residents, but Logan, McDowell, and Mingo Counties had a larger percentage of losses because they had smaller populations before the losses. The highest loss was tracked in McDowell County at 10.15 percent. Other high losses include Wyoming County's 6.61 percent loss, Pendleton County's 5.92 percent decrease, and Logan County's 5.5 percent population drop.

The eastern and north central parts of the state, including Berkeley, Jefferson, and Monongalia Counties, saw some gain. The highest growth rate was observed in Monongalia County, at 7.7 percent. This was followed by 6.93 percent growth in Berkeley County and 5.33 percent growth in Jefferson County. Other counties that reflected population growth include Lewis, Marion, Taylor, and Putnam.

West Virginia's unemployment rate has shown volatility in recent years, reflecting the state's economic problems as well as its demographic profile. In 2010, **unemployment** (the situation of actively looking for work but not being currently employed) peaked at 8.7 percent. Between 2010 and 2016, the number of unemployed workers declined by 32,000.



This statistic is a little misleading because the decline in the number of unemployed workers includes workers who have left the state as well as others exiting from the workforce, perhaps through illness or retirement. West Virginia's labor force participation rate at approximately 53 percent was the lowest in the nation.



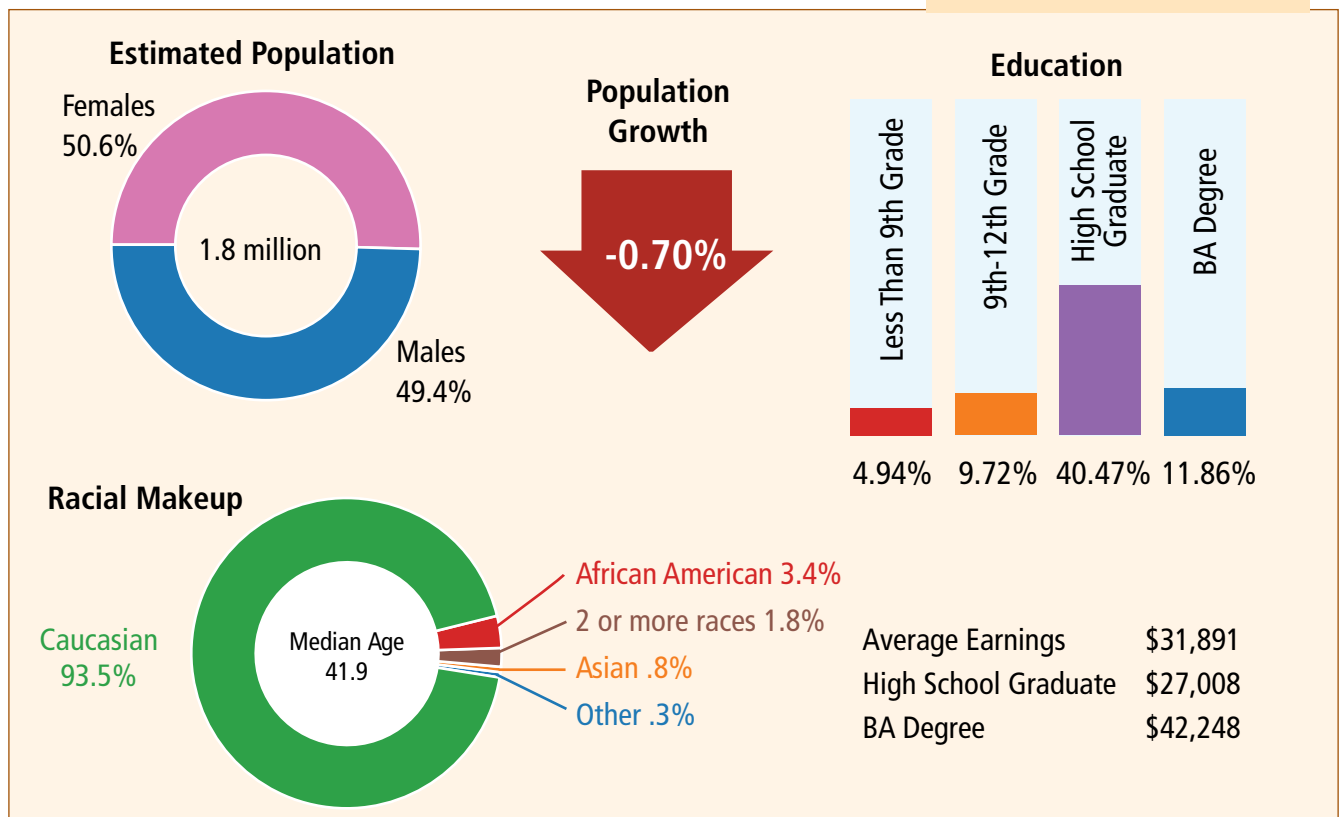
Age and Health

While West Virginia is losing younger people, it continues to have a population of older, unhealthy residents. The state has the largest percentage in the country of residents over 60 years of age. The mean age in the state is 42.2 years, which is the second highest of all states and four years higher than the national average. Additionally, the state's residents are less healthy than those in other states. West Virginia has the second-highest death rate in the country, and its residents have high rates of heart disease, cancer, and diabetes. These diseases, which may be attributed to an inactive lifestyle and unhealthy eating habits, have resulted in 36 percent of West Virginians being categorized as obese. Poor health and a high death rate may also be attributed to the fact that 60 percent of the state's population have limited access to health care because of the lack of medical facilities and/or the distance they must travel to receive treatment.

Although demographics do not determine the fate of economic growth, they are key ingredients in an economy's growth potential. Increases in productivity, for example, can lessen the impact of population losses. As the age and number of workers change, the key to success will be the kinds of jobs that are available to the workforce.

Figure 4.6

West Virginia Demographic Data, 2018



West Virginia's Economy, 2012-2016

The economy of the United States is dependent on an abundant, well-developed infrastructure and high productivity. In 2016, the United States had the second-largest industrial economy in the world. West Virginia's economic performance since 2012 has been below average. It has lagged the nation as well as its neighboring states. Its growth in real GDP only increased 0.3 percent since 2012. Every sector of the state's economy has seen a decline during the years between 2012 and 2016.

something extra!

"Clean coal" technology tries to remove the harsh environmental effects produced by burning coal.

Energy

Overall, between 2012 and 2016, West Virginia lost 26,000 jobs—1,700 of which were in the coal and gas industries. Although the coal industry accounted for most of the jobs lost, several uncontrollable factors were responsible. To protect the environment, the United States placed many restrictions on burning coal, causing states to look for new sources of energy (natural gas, wind, and hydropower). At the same time, several European countries also began looking for an alternative to using coal to produce energy. These occurrences caused the demand for coal to decline, and production fell from 158 million tons in 2008 to 80 million tons in 2016. The reduced production caused industry payrolls to plunge and workers to become unemployed.

As power plants looked for alternatives to using coal, some turned to natural gas. Between 2014 and 2016, natural gas increased its production by 11 percent. Demand for gas grew, but prices were low and the revenue that companies received was not enough to build new pipelines. Without new pipelines, gas was stuck in bottlenecks that made it impossible to be moved to areas of the country where it was in demand. The number of active gas wells fell more than 14 percent between 2014 and 2016.

Right: The growth of alternative energy sources, like solar and wind power, hydropower, and biofuels, has caused job losses in the coal industry.



Construction

Although the decline in coal and natural gas affected the construction sector of the economy, other factors contributed as well. The lack of new construction in the business and private sectors had a negative effect. Some 6,500 jobs were lost between 2012 and 2016, with one-third of those lost in 2016. A slight improvement in the housing market, several commercial developments along the I-79/I-81 corridor, and construction in the eastern panhandle—which had a major project building the Procter & Gamble manufacturing facility—prevented even more job loss.

Manufacturing

Manufacturing had a mixed performance during this time. Jobs were lost in the production of fabricated metals and machinery because those products had strong connections to energy production and the declining coal market. A number of products, including electrical equipment, apparel/textiles, and paper, continued a decline that had begun several years earlier. Although most manufacturing declined, two subsections saw growth. The production of wood products, including furniture, along with the production of automotive parts saw increases in production.

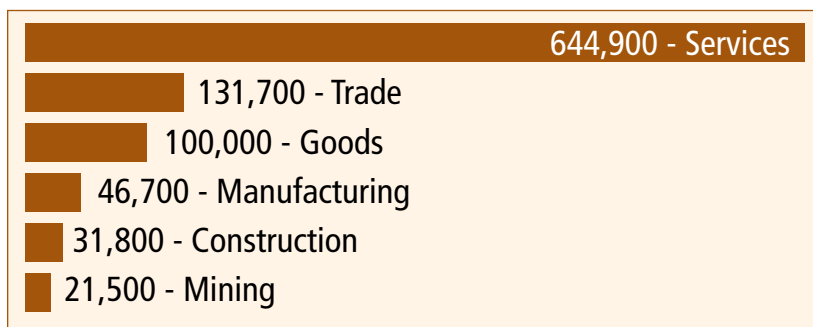


Figure 4.7

West Virginia Workers by Category, 2017

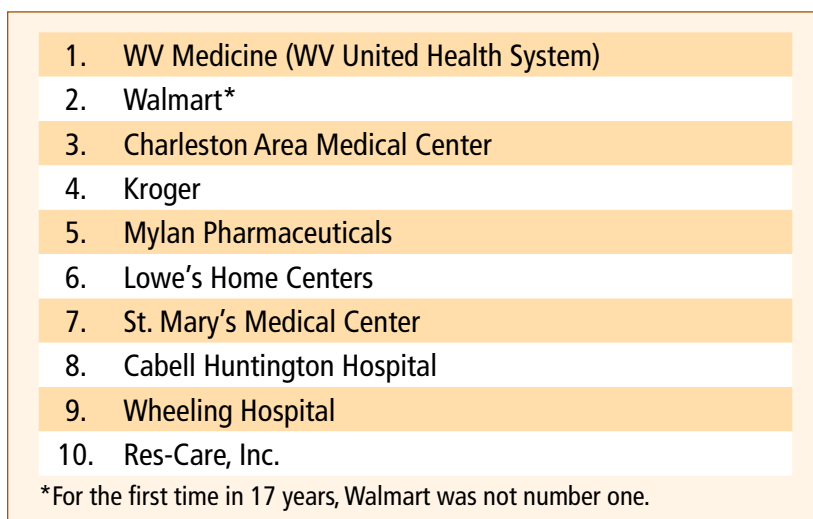


Figure 4.8

West Virginia's Top 10 Private Employers, 2017

Service

West Virginia's service industries also saw a mixed performance. Education and health services have seen job growth for more than two decades. The expanding facilities operated by WVU Medicine have helped the sector grow over time. West Virginia's professional and business services registered losses when the demand for contract workers fell. Weakness in coal and natural gas have hurt transportation and warehousing, resulting in layoffs at rail, trucking, and river barge companies. Trade has also experienced steep job cuts in the state. These losses, while partly the result of the struggling energy sector, also have resulted from the automation of warehouse facilities and increased **e-commerce** (buying and selling products electronically on the Internet).

Consumer-oriented services, such as leisure and hospitality and retail trade, also saw mixed results. Revenue and job gains in the eastern panhandle and north central West Virginia helped to offset deep declines and closed businesses in the southern coalfields. Gaming, located in different regions of the state, has struggled consistently, mainly resulting from a declining interest in live dog and horse racing and competition from newer gambling venues in surrounding states.

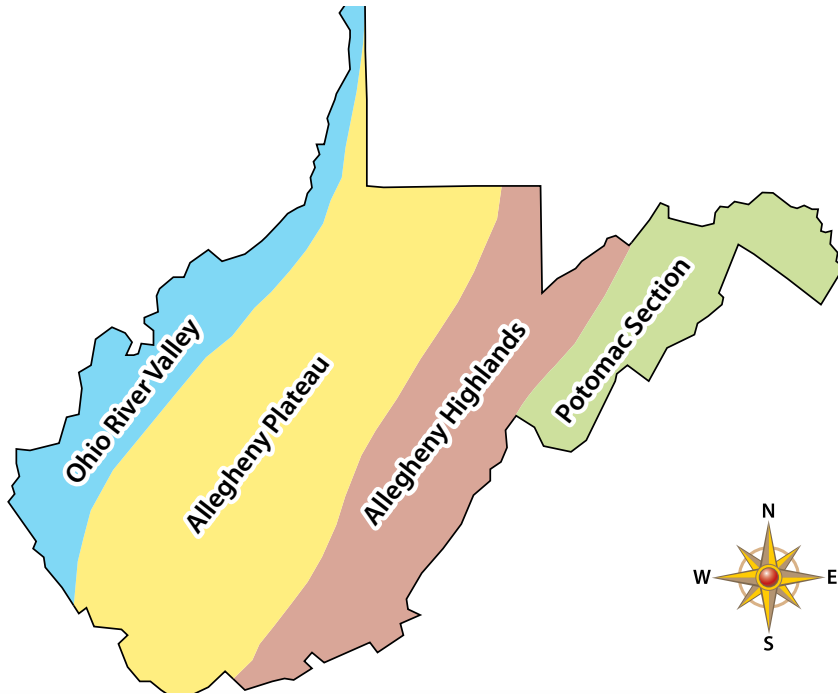
Government

West Virginia even saw losses in its government sector from 2012 to 2016. Steep declines in revenue from the severance tax (an amount charged for removing natural resources from the state) from the coal and gas industries resulted in the loss of about 500 jobs in state government. This job loss did not greatly impact the workforce since many of the losses were absorbed by retirement and hiring freezes.



Regional Economic Opportunities

West Virginia is divided into four geographic regions—the Ohio River Valley, Allegheny Plateau, Allegheny Highlands, and Potomac Section. Although industries (like tourism and technology) and occupational clusters (like government, transportation, trade, and finance) are found in all four regions, some industries are dependent on the geographic features found there. West Virginia policymakers should ensure that any plan to promote economic development is based on each region’s strengths and weaknesses.



Bottom: Biometric and biomedical industries are found in the High Tech Corridor.

Map 4.2

Geographic Regions

Map Skill: Which regions benefit from their proximity to rivers?





something
extra!


The High Tech Corridor follows I-79 from Lewis County through Harrison, Marion, and Monongalia Counties to the Pennsylvania state line.

The Ohio River provides transportation, power, and recreation for the Ohio River Valley region. The river provides a means to transport raw materials to factories as well as ship finished products to various marketplaces. Manufacturing and agriculture are important economic activities in the region. Beef and hogs, two of the state's major agricultural products, are raised here. The region is known for its production of glass. Homer Laughlin continues to be a national name in dinnerware. Manufacturing includes chemicals, energy, steel, and textiles. New natural gas pipelines are connecting gas deposits throughout the state. The region is also one of two favored sites for the construction of gas-fueled power plants. Two of the state's four gaming establishments are in this region, in Hancock and Ohio Counties.

The Allegheny Plateau is the location for many of West Virginia's minerals. These natural resources supported the creation of several **extractive industries** (industries that remove natural resources from Earth), especially coal, oil, and gas. Because the capital, Charleston, is in this region, state government is a major employer. There is a High Tech Corridor in Harrison, Marion, and Monongalia Counties. One of the state's four gaming establishments is located near Charleston.

The Allegheny Highlands includes many of the state's highest peaks and remote forested areas. Much of the region is protected by the Monongahela National Forest and the northern parts of the Washington and Jefferson National Forests. It is a region that attracts tourists who are interested in outdoor activities. It is also the location of major wood-related industries. Mining and quarries are also found here. Minerals found in this region include coal, limestone, sand, shale, and clay.

The Potomac Section is a large agricultural region. The rich limestone-based soil makes it a good place to grow apples, peaches, and other fruits. The state's poultry industry is located here, especially in Hardy County. Farmers also raise other livestock. Because of the influx of new residents, some of the farmland has been sold to make way for housing developments. The fourth of the state's gaming establishments is in Jefferson County.



Bottom: Monongahela National Forest.

Future Projections, 2017-2022

In 2017, West Virginia's workforce increased by approximately 7,000 jobs. Whether this upward movement will continue through 2022 depends on several factors, including trends in demographics and increased access to technology.

Demographics

West Virginia's population saw some small growth in 2017 and is projected to continue that growth. The state's population will, however, continue to become more concentrated in the 65-and-older group as current residents reach those ages. Eventually, one in four West Virginia residents will be 65 or older. Deaths will also continue to exceed births in most counties, although the birth rate is predicted to increase slightly. The overall population of the state will show pockets of greater growth, especially in the eastern panhandle and north central regions, as migrants from within the state and nation will move there as more jobs become available.

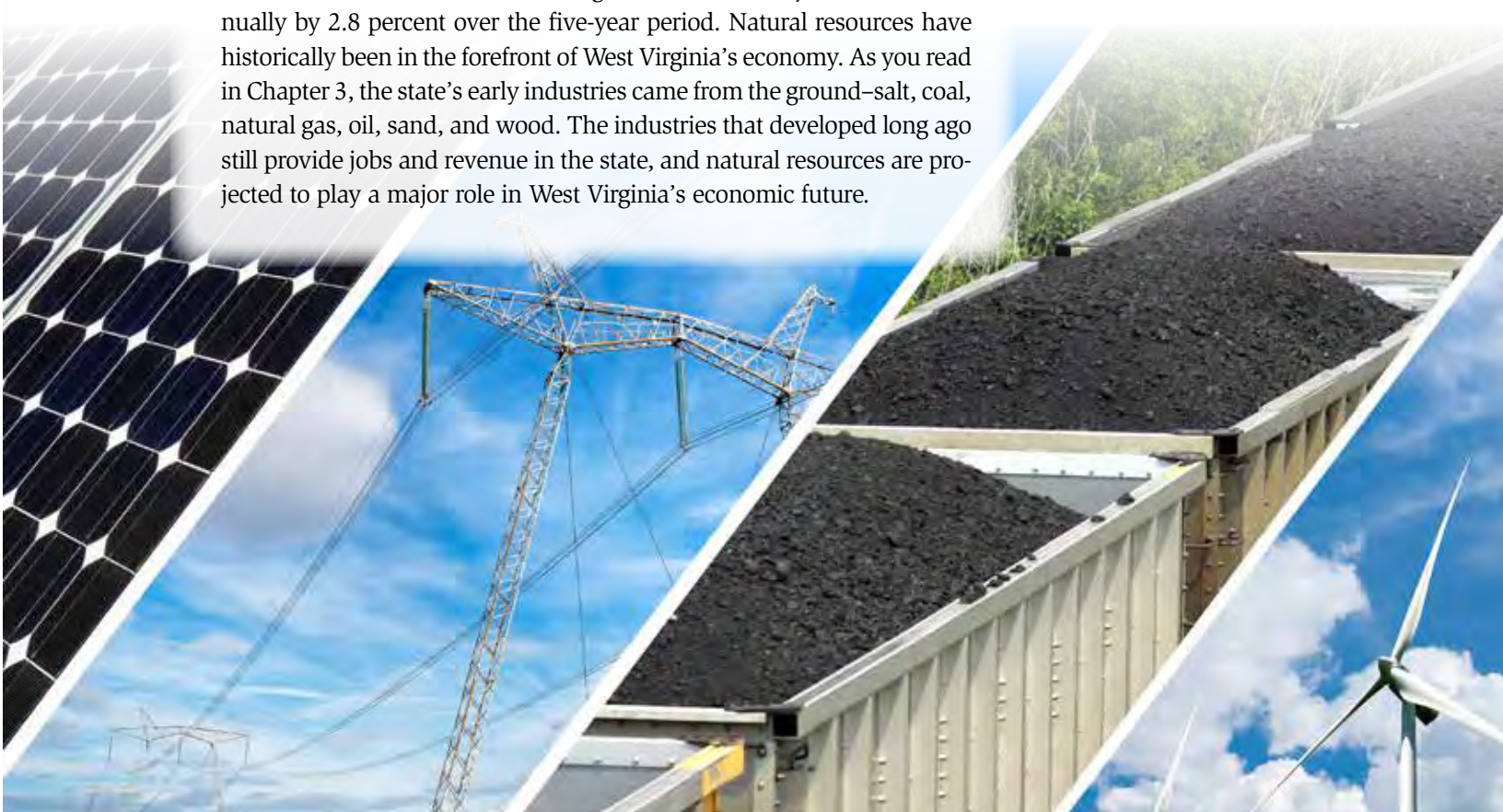
Industrial Growth

As the state's demographics will change somewhat between 2017 and 2022, so will the state's leading industries—most of which were experiencing difficulties during 2012-2016. Research indicates the slow growth in 2017 is forecasted to continue through 2022.

Natural Resources and Mining

The natural resources and mining sector should see jobs increase annually by 2.8 percent over the five-year period. Natural resources have historically been in the forefront of West Virginia's economy. As you read in Chapter 3, the state's early industries came from the ground—salt, coal, natural gas, oil, sand, and wood. The industries that developed long ago still provide jobs and revenue in the state, and natural resources are projected to play a major role in West Virginia's economic future.

Below: West Virginia's natural resources will play a major role in the state's economic future.



Below: Jobs in the natural gas industry are expected to increase at a rate of 10 percent a year through 2022. **Bottom:** Growth in manufacturing related to the housing market—like furniture making—will be more stable through 2022.

The importance of coal in the future is uncertain. This is partly because many European countries are moving away from using coal as fuel. If China and India move away from using coal to fuel their production of steel and electricity, the demand for West Virginia coal will decline substantially. However, the state's rich deposits of natural gas may become the fuel China and India want in the future. The increasing demand for natural gas would then compensate for the lack of demand for coal.

Research calls for strong job growth in the use of natural gas. It is expected that jobs in that industry will increase at a rate of around 10 percent per year through 2022. Although there may not be a lot of gain in the price of natural gas, more workers will be hired to explore and develop new gas wells. As pipeline infrastructure expands, it is likely that new gas-fired power plants will be built.

Not everyone is supportive of the natural gas expansion in West Virginia. Environmentalists question the construction of a section of the Atlantic Coast Pipeline through the Seneca State Forest. The pipeline, which will be about four miles long, follows the Allegheny Trail for a short distance, causing the trail to be rerouted. Some say the new section of the trail will be better for hikers, but others worry about what it might do to wildlife habitats. Additionally, the need to construct roads to construction sites in more remote areas of the forest might harm the environment.



Manufacturing

Manufacturing will continue a slow recovery. But manufacturing linked to the housing market—including furniture, finished wood products, and certain plastics—will enjoy a more stable growth through 2022. The manufacture of machinery and fabricated metals tied to the state's energy sector will also see greater gains. While the manufacture of machinery is expected to register the fastest rate of growth, the state's chemical industry will account for the greatest overall growth.



Construction is expected to slowly recover through 2022 from an average performance during the last several years. The energy industry will drive a large part of this growth because of the numerous pipeline projects in the state. Residential and nonresidential development will also be contributors to growth. The Procter & Gamble manufacturing facility in the eastern panhandle will continue to be expanded, even after its opening in late 2017. A planned \$150 million ROXUL plant in Jefferson County, which will manufacture stone wool insulation, is also expected to boost construction payrolls as the facility is to begin construction in 2020.

Another boost to the construction sector is West Virginia's infrastructure project, Roads to Prosperity. West Virginia voters approved a levy that allows revenue from increased taxes and fees (up to \$1.6 billion) associated with the Department of Motor Vehicles to be used in road construction and improvements.

Services

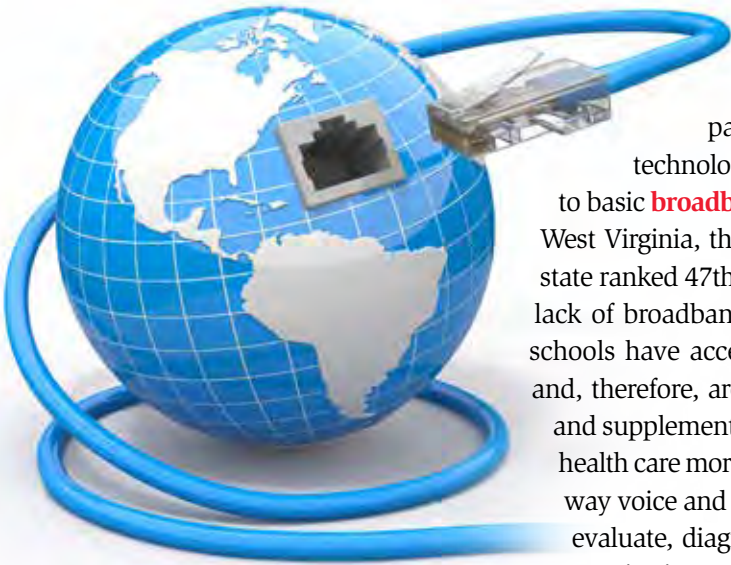
Goods-producing industries are expected to record the fastest rates of growth through 2022, but several private service industries will account for greater opportunities. Most professional and business services are expected to add more jobs in engineering, legal, and consulting positions, health care, and health services. The leisure and hospitality industry will also enjoy job gains through 2022. The state will continue to market itself as a regional tourism destination.

Above: The numerous pipeline projects in the state will drive growth in the construction industry. **Below:** Service workers make up the largest group of West Virginia workers.



The Importance of Technology

Historically, a skilled workforce and a strong work ethic have played a role in the state's economic success. To sustain economic growth, either the birth rate must increase by a large number or productivity within a given workforce needs to keep increasing. The key to increased productivity with little growth in the workforce is technology. Many parts of West Virginia have had limited or no access to technology. Thirty percent of West Virginia does not have access to basic **broadband** (a high-speed communications network). In rural West Virginia, the percentage is even higher—48 percent. In 2017, the state ranked 47th among states with broadband access. West Virginia's lack of broadband has limited educational opportunities. Even when schools have access, many students do not have broadband at home and, therefore, are unable to do homework or access online textbooks and supplemental materials. The use of telemedicine (e-health) makes health care more accessible to homebound and/or rural residents. Two-way voice and visual communication allows medical professionals to evaluate, diagnose, and treat patients. But without broadband, this service is not available.



Top: Access to broadband is a key to increased productivity.
Above: Entrepreneurs with vision start small businesses that help West Virginia's economy grow.

Today, West Virginia has around 115,000 new, smaller workplaces that had their beginning in a vision of an **entrepreneur** (a person who organizes, manages, and takes on the risks of a business). Those workplaces employ about 280,000 workers. Technology makes it possible for small businesses to communicate with the rest of the world via the Internet. Entrepreneurs can even produce a small product or offer a service and sell it in a foreign country from their homes. Access to broadband would enable even more entrepreneurs to establish their own businesses. This, in turn, would help grow West Virginia's economy.

In 1974, the federal government began a Community Development Block Grant (CDBG) program that mostly focused on housing needs. However, grants can be awarded to states and local communities for other needed projects. In 2017, West Virginia received a grant of \$1.5 million to expand and/or update broadband. From those funds, grants for local needs provide \$30,000 to counties or community development groups for planning and up to \$300,000 to implement a plan. To address West Virginia's lack of broadband, funds can be used to lay fiber optic cable, expand wireless connectivity, and support connectivity needs. Twenty-seven counties applied for the first round of grant awards, and twelve received funding in mid-2017.

Technology, the driving force now and in the future, is constantly changing. It is important that West Virginians stay abreast of those changes and be prepared to use whatever new innovations come along. Technology will result in lost jobs from time to time. Technology has taken jobs from bank tellers, travel agents, librarians, and sales representatives, to name a few. E-commerce has taken business away from traditional brick-and-mortar stores. In the future, 3-D printers will revolutionize how products are manufactured. This will change the types of jobs that are needed in an industry and possibly eliminate the need for warehouses.

It is important that the state's future workforce be aware of the impact of change and how it affects jobs in the future. Those individuals who do not have proficiency in software programming, computer hardware, networking, or other facets of the IT (information technology) sector will become less important in the future economy. Those workers who are comfortable using technology—who can write code and understand how technology works inside and out—will be in demand. Jobs related to health care, many of which will be driven by technology, will also continue to be in demand.

Below: Mylan Pharmaceuticals first opened for business in an abandoned skating rink in White Sulphur Springs. Two years later, the company moved to Morgantown, where it has remained. Mylan began as a distributor of prescription drugs. More recently, it has opened a research and development laboratory where it has focused on producing generic drugs to treat dementia and Alzheimer's disease.



Figure 4.9	Projected Jobs in the Future	Percentage of Growth
West Virginia's 20 Fastest-Growing Jobs, 2017	Home Health Aide	129.2%
	Personal Care Assistant	125.8%
	Physical Therapist Assistant	121.2%
	Physical Therapist	119.7%
	Physician Assistant	119.6%
	Marketing Internship	119.5%
	Nurse Practitioner	116.5%
	Medical Receptionist	115.2%
	Industrial Mechanic	114.4%
	Representative	113.6%
	Dental Hygienist	110.8%
	Aide	110.2%
	Phlebotomist	109.9%
	Respiratory Therapist	109.9%
	Medical Director	109.5%
	Certified Nursing Assistant	109.2%
	Computer Technician	109.1%
	Licensed Practical Nurse	109.0%
	Medical Assistant	108.7%
	Management Consultant	108.5%

Reviewing the Section

Reviewing the Content

1. What does the term *demographics* mean?
2. Name two factors that negatively impact West Virginia's economic growth.
3. Which industry has seen the most growth over the last five years?

Using the Content

1. Write a slogan to attract more domestic business to West Virginia.
2. Write a letter, or send an email, to West Virginia's governor suggesting a way to help the state's economy grow.

Extending the Literacy Skill

Look at Figure 4.9 on page 176. Use the information there to answer the following questions.

1. What does the information in Figure 4.9 show?
2. In what area are most of the jobs found?
3. How much growth is projected for nurse practitioners?

SECTION 3

The Role of Individuals in a Global Economy

As you read, look for

- the importance of preparing a budget;
- the steps in preparing a budget;
- types of services offered by a bank;
- benefits of having a savings account;
- investment opportunities;
- the importance of having a good credit history;
- factors that make up a credit history;
- terms: **credit, interest, budget, income, expenses, checking account, savings account, certificate of deposit, money market account, invest.**

Nations and states must watch their income and spending to achieve economic security; so too must individuals. Individuals who do not know how to handle money may never have financial security. Just think what would happen to our country or state if all West Virginians managed their money poorly. People could not pay their bills, which would cause businesses to close, resulting in a loss of jobs. Fewer jobs would mean less income. People could not buy things, which would result in even more businesses closing and more unemployment. This may sound like something that could never happen. But this is exactly what did happen in the early 2000s, when the United States experienced its worst economic downturn since the Great Depression.

Below Left: Credit cards allow you to buy things now and pay over time.



The High Cost of Credit

Credit is a wonderful thing if you use it wisely. Most people use credit in two ways: by taking out a loan or using a credit card.

Loans are usually acquired to purchase an expensive item, like a house or car. Some people use loans to cover medical or educational expenses or to sustain them when, for instance, they lose a job. Loans can be useful, but they come with a cost. When you repay a loan, you must pay the amount borrowed (principal) plus a fee for borrowing (interest). Therefore, it will cost more to pay back the loan than the money you borrowed.

Credit cards are convenient for making everyday purchases, like food, clothing, or fuel. Ideally, they should be paid in full each month. This will prevent finance charges and/or late fees from being added to the balance. Because credit cards are easy to use, many people misuse them, running up large balances and finding it hard to pay back the full amount. Although credit card companies allow a minimum payment, they add a finance charge (interest) to the balance. If the monthly payment is not made on time, a late fee is added. People who make only minimum payments or late payments find that their total debt keeps rising even if they do not make additional purchases. Eventually they may owe more money from late fees and finance charges than the amount of the original purchases.

Credit card finance charges are generally much higher than the rates for loans. The annual interest rate on credit cards ranged from 13 to 23 percent in 2018. Some credit card companies increase your interest rate to nearly 30 percent if you routinely miss payments or make only the minimum payment. Most credit card statements show how long it will take to pay your balance if you only make a minimum payment. They also show what amount, including interest and fees, you have paid.

Financial institutions and businesses check a person's credit history to decide if he or she qualifies for a loan or credit card and, if a person does qualify, how much credit will be available. It's never too early to start thinking about the importance of credit!



During the early days of the twenty-first century, people overextended their credit to buy things they wanted but probably did not need. (**Credit** is the ability to buy things now and pay for them over time.) Eventually, those people could not pay off their credit cards in full at the end of the month. This resulted in **interest** (money paid for the use of money), usually at a high rate, being added to the amount owed. Eventually the inability of many thousands of creditors to pay their debts put lending institutions at risk. If lending institutions—banks, retail stores, and credit card companies—do not receive payment, they cannot continue to do business. Understanding the four major areas of personal finance—budgeting, saving, investing, and credit—will help you keep from getting into a credit crisis. Having an understanding of these areas will also help you make better financial decisions to benefit yourself. It will also help you understand decisions made by your state and nation and make you a better citizen.

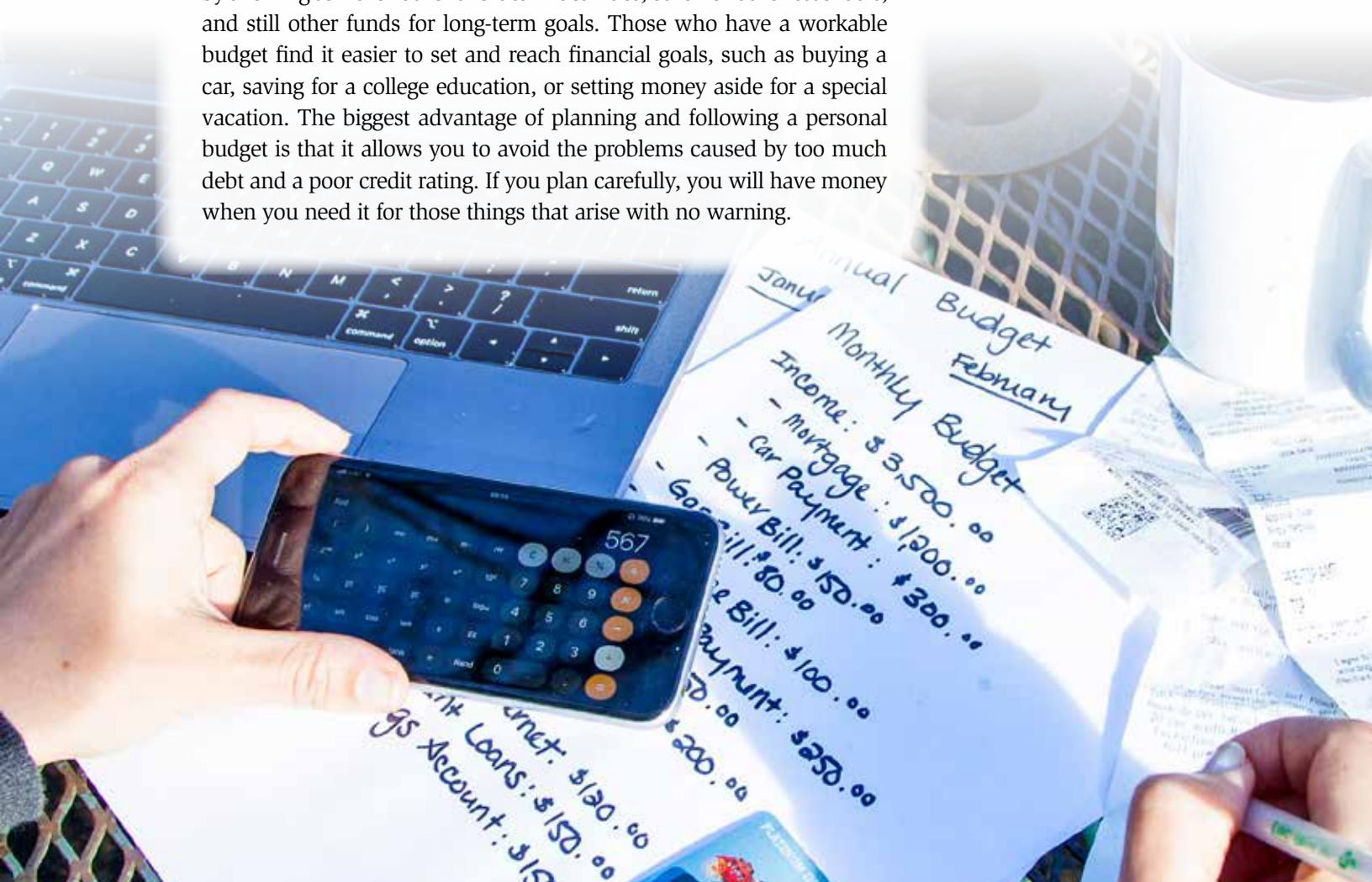
Budgeting

Everyone needs a plan in order to manage finances wisely. One easy way to ensure that you will handle money effectively is to develop and follow a personal **budget** (a plan for receiving and spending money for a specific period of time). A budget reduces the stress of managing money by allowing some funds for short-term activities, other funds for essentials, and still other funds for long-term goals. Those who have a workable budget find it easier to set and reach financial goals, such as buying a car, saving for a college education, or setting money aside for a special vacation. The biggest advantage of planning and following a personal budget is that it allows you to avoid the problems caused by too much debt and a poor credit rating. If you plan carefully, you will have money when you need it for those things that arise with no warning.

something extra!

Most people prepare a budget based on the calendar year. Governments and businesses often work on a year that runs from July 1 to June 30.

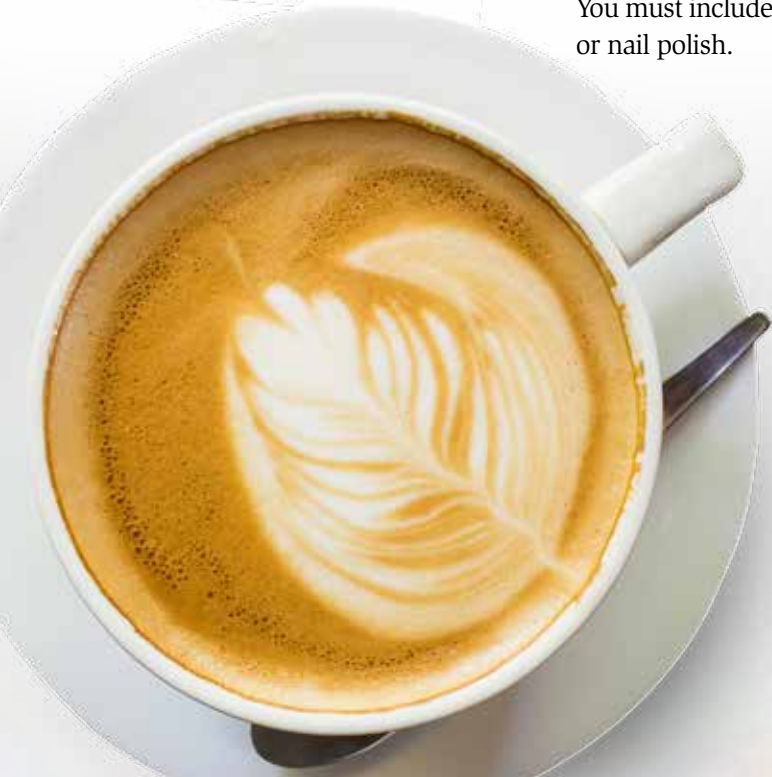
Below: Preparing a personal budget helps you manage your money effectively.



Planning a Budget

When developing a budget, you should plan for a whole year by following several specific steps. First, make a list of all your **income** (money earned for working, providing services, selling goods or property, or from investments), which may come from several different sources. As a young person, your income may come from your family; it might include an allowance, money given to you for school or personal expenses, and financial gifts for special occasions. Other income may come from outside the family. That might include monies you earn from part-time jobs and interest you receive on a bank account or investment. Make a monthly income list, keeping in mind that you may have extra income in the summer months if you are able to do lawn care or baby sit. In other months, when school activities keep you busy, you may have less income. Determine the total of your income for twelve months and then divide by 12 to get a monthly figure.

Now that you know about your income for a year, make a list of **expenses**, what you spend on your own needs and wants. To do this, make a list of your monthly expenses. Some expenses, such as school-related expenses, food, and entertainment, will occur regularly. Other expenses will occur only at certain times of the year, such as Christmas. Keep track of all the money you spend in a given month by selecting a typical week and recording each evening the actual monies you spent during that day. You must include everything—even small purchases such as gum, soda, or nail polish.



Above: You should keep track of the money you spend, including small purchases.

Right: Saving should be part of any budget.

After you make a list of all your expenses, determine which are *fixed* expenses (set amounts that must be paid each month) and which are *flexible* expenses (amounts that are not set and may vary from month to month). An example of a fixed expense is a loan payment that has to be made each month. A flexible expense might be entertainment, where you have \$25 to spend one month but only \$10 in another month. Categorize each expense on your list as fixed or flexible.

Next, compare your total expenses with your monthly income. Does your monthly income cover your expenses? If so, you're in good financial shape. If your expenses exceed your income, you must look at your expenses and find ways where you can cut back. Even if your income and expenses are in line, you might need to change your budget to plan for unexpected events. To account for the unexpected, try to increase the amount you save. Your savings is a fund you can use when the unexpected occurs.

Developing a personal budget will help you understand the process that states and nations go through to create a plan to manage their money. Just like you, government agencies must balance their income and expenses to have financial security.

Making Adjustments

Every budget plan is just that—a plan. You must be flexible enough to adjust the budget so that it remains workable and realistic. If you find yourself falling short from month to month, it is time to rework the plan by reducing your expenses or increasing your income. Expecting income that does not materialize, underestimating expenses, forgetting special needs—all of these are weaknesses in your plan that must be addressed. Budgets are useless if they are not realistic.

Below: A budget allows you to save for long-term goals such as a new car or college.





something extra!

Today, there are software programs that will help you develop and maintain a budget. Some programs also help you keep track of your spending.

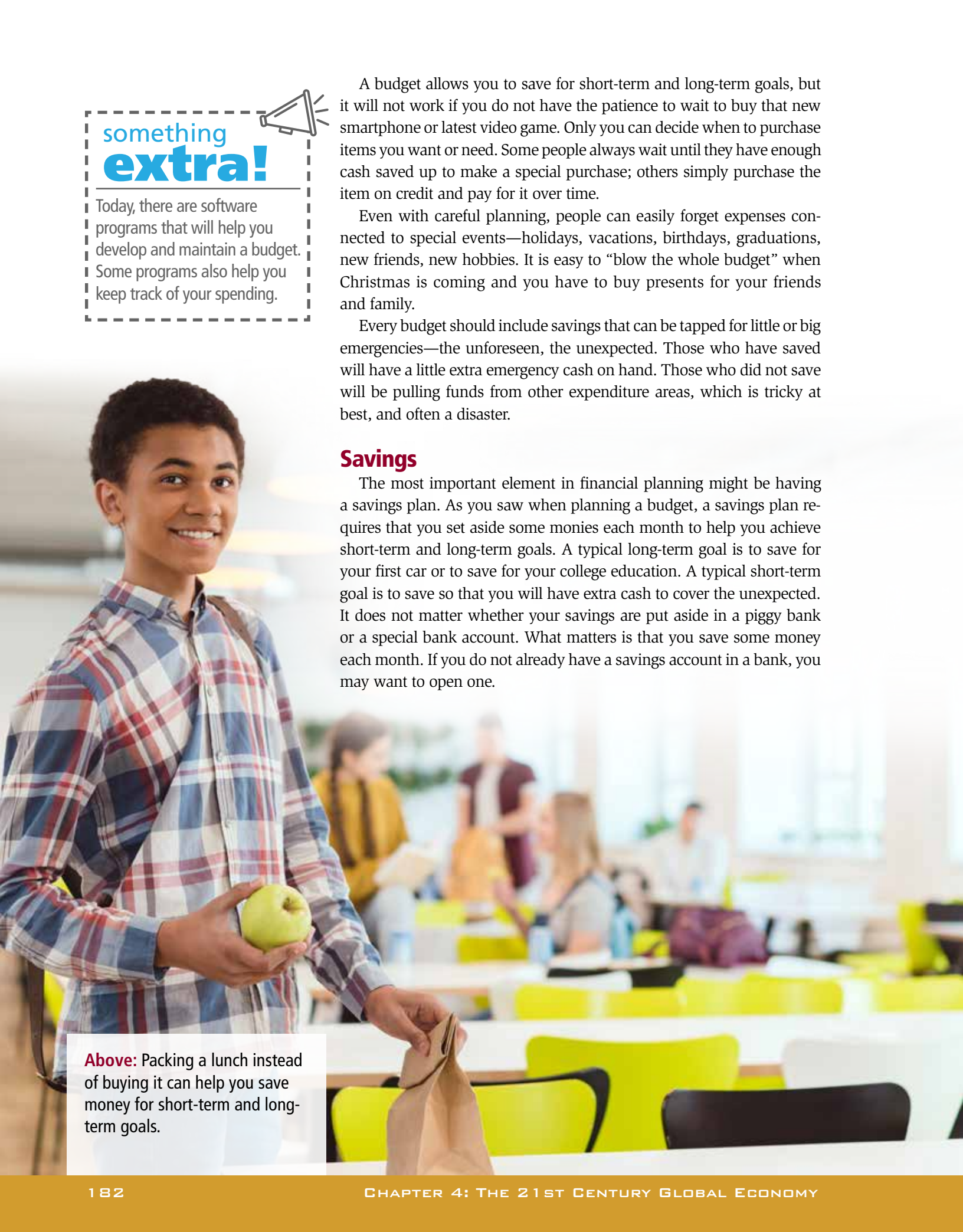
A budget allows you to save for short-term and long-term goals, but it will not work if you do not have the patience to wait to buy that new smartphone or latest video game. Only you can decide when to purchase items you want or need. Some people always wait until they have enough cash saved up to make a special purchase; others simply purchase the item on credit and pay for it over time.

Even with careful planning, people can easily forget expenses connected to special events—holidays, vacations, birthdays, graduations, new friends, new hobbies. It is easy to “blow the whole budget” when Christmas is coming and you have to buy presents for your friends and family.

Every budget should include savings that can be tapped for little or big emergencies—the unforeseen, the unexpected. Those who have saved will have a little extra emergency cash on hand. Those who did not save will be pulling funds from other expenditure areas, which is tricky at best, and often a disaster.

Savings

The most important element in financial planning might be having a savings plan. As you saw when planning a budget, a savings plan requires that you set aside some monies each month to help you achieve short-term and long-term goals. A typical long-term goal is to save for your first car or to save for your college education. A typical short-term goal is to save so that you will have extra cash to cover the unexpected. It does not matter whether your savings are put aside in a piggy bank or a special bank account. What matters is that you save some money each month. If you do not already have a savings account in a bank, you may want to open one.



Above: Packing a lunch instead of buying it can help you save money for short-term and long-term goals.

Most West Virginians deposit their money in banks. People commonly have a **checking account** (an account against which the depositor can write checks to pay bills on demand). A checking account is sometimes considered a “flow through” account. Money flows in from deposits and out when checks demand the money be moved from the account for specific purposes.

If you want to keep your money in a bank account for a longer period of time, you may also put your money in a **savings account** (a holding place for money for the future). Customers may also choose a **certificate of deposit** (a bank certificate that draws interest and is written for a specific period of time) or a **money market account** (a special account whose interest fluctuates with the national interest rate).

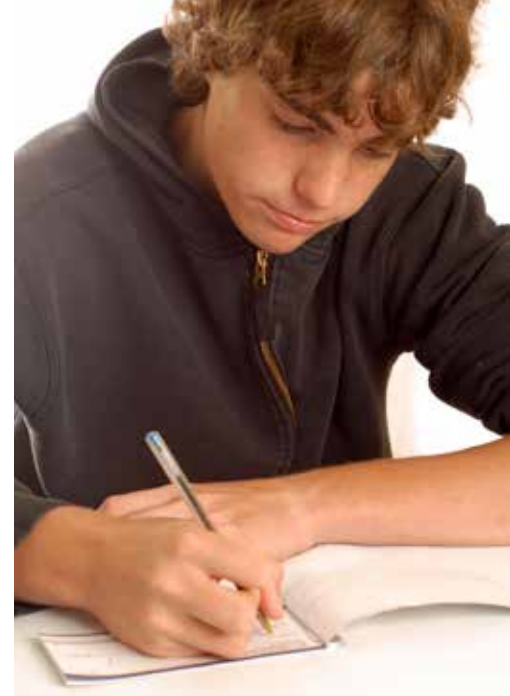
Banks use the money in depositors’ accounts to make loans. To reward depositors for allowing them to use their money, banks pay interest on the amount of money in the accounts.

Suppose you deposit \$100 in a savings account and receive 5 percent interest on the balance. At the end of the year, if you have not withdrawn any of the money, the bank will pay you \$5 in interest, making your balance \$105. Some banks also pay depositors interest, usually at a lower rate, on checking accounts.

Banks can pay interest to depositors because the banks earn money from those people who take out loans. A borrower must not only repay the amount borrowed but must also pay interest on the loan. Interest on loans is the main source of money for most banks. When interest rates are low, people are more likely to borrow money and make large purchases. An increase in buying stimulates the economy by increasing the demand on manufacturers, causing the need for more workers. When more people are working, there is also more money available to continue the buying cycle. But when interest rates are low, people may be less interested in saving because they do not earn as much interest. When interest rates are high, people are less likely to borrow money because the amount they have to repay is high. This is the time when more people add to their savings accounts or purchase certificates of deposit rather than buy a lot of consumer goods. Because buying declines, manufacturing declines and unemployment goes up. The ability of individuals to borrow money and purchase goods affects the overall economy of the state and nation.

Top Right: A checking account is a “flow through” account that helps you keep a record of purchases and bill payments.

Above Right: When interest rates are low, people are less inclined to deposit money in savings accounts. **Right:** ATM machines make it easier to withdraw money from a checking or savings account.



Below: With money that is saved over time, a prospective homeowner can make a sizable down payment on a house and save on interest payments by borrowing less money. This will increase the homeowner's profit when the house is later sold.

Investing

In addition to saving for your future, you may reach a financial position where you can use some of your money to **invest** (buy an asset hoping that it will provide future profit or income). When you invest money, you must understand that there is a possibility you will lose instead of make money. Some investments can be very risky. Risky investments offer the potential for high profit, but the potential for losing your money is also high. Low-risk investments normally offer very small gains or profits.

Investment opportunities include stocks and bonds (long-term debt certificates with interest payments). Research shows, however, that some stocks and bonds are very low-risk investments—for example, U.S. Treasury savings bonds or bonds issued by cities. People who invest in the stock market (a location where shares of ownership in a corporation, called stocks, are bought and sold) take a greater risk. Most investors try to protect themselves by investing in a variety of high-risk and low-risk ventures.

Investments are not limited to the stock market. Some people invest in property. These investors hope to buy a piece of land at a low price, hold that land for a period of time, and sell it at a higher price to make a profit. Other people buy old houses, restore them, and sell them for a profit. People also invest in gold and silver, in artwork, and in businesses. Some even invest in nonconventional areas, like athletes. For example, a group of golf club members might pool their monies and invest in a young golfer just starting on a professional career. The investors finance the golfer's first few years on tour in exchange for a percentage of any monetary winnings. If the young person plays well and wins a few tournaments, he or she could earn millions of dollars. A percentage of those earnings would belong to those who invested in the golfer's future success. If the golfer is not successful, the investors will lose their investment.



Using Credit

Using credit wisely is sometimes difficult for many people to master. It seems so easy to take out a plastic card when you are short of cash. Many people buy something they want now and pay for it over a period of time instead of saving their money until they have enough to purchase the item with cash.

Your access to credit depends upon several factors, including your income, how much you borrow, your payment history, and how much you owe. These factors are used to define a person's *credit history*; they represent a person's ability to pay future debts based on a record of past debt payments. If you have credit and make payments on time as required, you develop a good credit history. A poor credit history reflects that payments were made late, or not at all; items purchased on credit may even have been repossessed or legal proceedings may have been brought against those who failed to pay as promised. Having a good credit history is important because it allows you to qualify for future credit, and your interest rate will be lower than that offered to people with poor credit histories.

Most people make large or major purchases, such as houses and automobiles, on credit. The company sells the item and works out a payment schedule, which includes interest. The longer it takes you to pay for it (finance it), the more interest you will pay. That is why people often make a sizable down payment (a portion of the selling price) for major items. In that case, the amount to be financed over time is as small as possible.

Interest rates vary based on the interest rate the Federal Reserve System charges to loan money to banks. Interest rates also vary from one loan agency to another. That is why it is wise to comparison shop when making large purchases. When shopping for a car, for example, the car dealer may offer a lower interest rate than a bank because the dealer is motivated to sell cars.



Left: A car dealership may offer a lower interest rate than a bank in order to get your business.

As you enter into debt to finance purchases, you can use the often recommended “20 percent rule.” This rule states that your total debt, excluding home mortgage payments, should be no more than 20 percent of your net income (the amount of income you actually take home) each year.

Reviewing the Section

Reviewing the Content

1. What is a budget?
2. Name some ways that you can invest your money.
3. What factors make up your credit history?

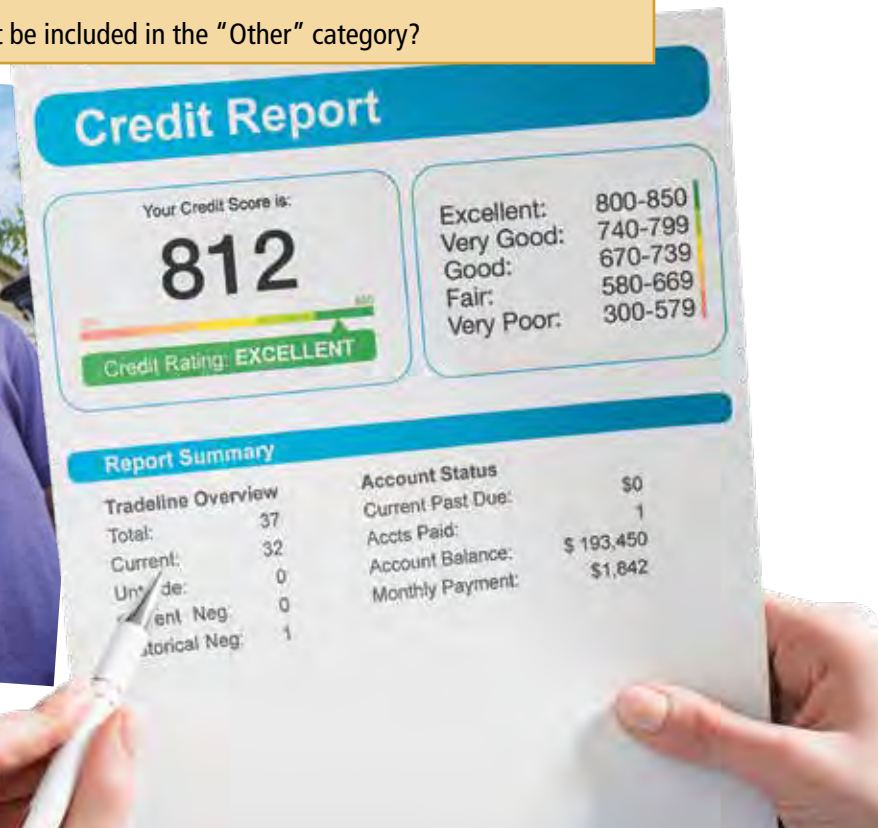
Using the Content

Based on what you have learned about personal finance, write a letter to a friend advising him or her on ways to obtain financial security.

Extending the Literacy Skill

Joe made a personal budget that included the following monthly expenses: Rent, \$750; Savings, \$200; Utilities, \$110; Food, \$135; Car payment, \$160; Loan payments, \$595; Insurance, \$115; Transportation (including gas), \$115; Clothes, \$95; Services, \$60; Entertainment, \$100; Other, \$75. Use this information to make a circle graph of Joe’s monthly expenses. Then answer the following questions.

1. What is the total amount of Joe’s monthly expenses?
2. What is Joe’s largest monthly expense?
3. What might be included in the “Other” category?



Above: A good credit score enables you to purchase large items, such as a new home.

John Perdue: His Focus

John Perdue was elected state treasurer in 1996 and has served in that office for more than twenty years. Perdue, a native of Dog Fork Hollow in Boone County, attended Scott High School and earned a degree in agriculture from West Virginia University. He joined the staff of the West Virginia Department of Agriculture in 1973 and remained in that position until 1989. In that year, Perdue became the executive assistant to newly elected Governor Gaston Caperton. He remained with Caperton through the end of his two terms as governor. As Caperton was leaving public office, Perdue decided he would run for a state office. His duties with the governor included handling the financial operations of the office and serving as a legislative liaison. Experience in those two areas made him a likely candidate for the state treasurer's job.

He won the election in 1996 and has been reelected five times.

Since taking office in 1997, Perdue has experienced much success. He manages a state budget of \$13 billion, and his Unclaimed Property Division has returned more than \$160 million to rightful owners during his administration.

Perhaps his greatest achievement has been his promotion of financial education. His NetWorth program, which provides personal finance lessons that can be incorporated into math, language arts, and social studies classrooms, has won national awards. His Financial Education Center provides elemen-



tary students an opportunity to visit his office, and it exposes them at an early age to financial responsibility. His Get a Life program provides realistic financial simulations and strategies for living within a budget. His SMART529 program provides a college savings plan that offers every citizen the ability to invest in the future.

Perdue has focused on ensuring that every West Virginian can pursue higher education at colleges/universities, as well as vocational, technical, or culinary schools.

SMART529 funds can also be used at community colleges for worker retraining classes. To help West Virginians make good decisions about contributing to SMART529, they can access the free College Foundation WV's website. Its online calculators can determine how much money a family is expected to contribute to a child's higher education (EFC Calculator), how much a family should save to provide a college education (College Savings Calculator), or how much the interest and monthly payments on student loans will be, given a student's potential career choice (SLOPE calculator).



Chapter Summary

Section 1: A History of a Global Economy

- Trade is the voluntary exchange of goods or services. The first form of trade was barter.
- After reading Marco Polo's book about travels to China, Europeans began looking for all-water trade routes to the Far East.
- During the colonial period, Great Britain supported a policy of mercantilism.
- Inventions such as steamships and railroads brought growth in global trade.
- After World War II, GATT (General Agreement on Tariffs and Trade) was ratified to manage global trade. In the 1990s, it was replaced by the WTO (World Trade Organization).
- Since 1980, all presidents except Donald Trump have favored free trade agreements. Trump placed tariffs on goods from previous free trade partners. It is uncertain how his tariffs will affect West Virginia's trade with other nations.
- West Virginia's export markets have been driven by the demand for coal and other natural resources.

Section 2: West Virginia's Demographic Profile

- West Virginia has the largest number of residents over age 60 in the country.
- Between 2012 and 2016, reduced demand for West Virginia's exports resulted in job losses, especially in the coal industry; demand for natural gas grew; most manufacturing declined; and service industries saw a mixed performance.
- All West Virginia industries are predicted to show some growth between 2017 and 2022, especially the service industry.

Section 3: The Role of Individuals in a Global Economy

- The four areas of personal finance are budgeting, saving, investing, and credit.
- A budget is a plan for receiving and spending money for a specified time period.
- Banks offer savings accounts, certificates of deposit, and money market accounts, which all pay interest.
- Banks earn interest from loans they make. People borrow more when interest rates are low and save more when rates are high.
- People make investments (like stocks and bonds) in hopes of making money.
- A good credit history allows you to qualify for future credit and lower interest.



The 21st Century Global Economy

Recalling the Facts

1. What role did Marco Polo play in creating an increased interest in global trade?
2. What is mercantilism?
3. What inventions brought about a growth in global trade in the nineteenth century?
4. What is NAFTA?
5. What are the effects of global trade?
6. What is West Virginia's top export market?
7. How has the role of small companies changed in the export marketplace?
8. What demographic factors affect the economic growth in an area?
9. What natural resource is projected to have strong growth by 2022?
10. Improvements in what two areas must be made to help the state's economy grow?
11. What area is expected to show the largest job growth by 2022?
12. What are four areas of personal finance that are important to a person's financial security?
13. What are some ways you can save money?
14. What are the benefits of having good credit?

Learning Skill

1. Have free trade agreements helped or hurt the national and state economies? Give reasons to support your answer.
2. What jobs do you think will be needed fifty years from now?
3. Why do you think foreign countries are willing to invest in West Virginia? Give reasons for your answer.

Chapter Review

4. What advice would you give to your friends about buying on credit?
5. How does your management of personal finances impact the economy of West Virginia and the world?

Community Connection

Interview the owner of a small business in your community to determine if the business would be a good candidate for exporting its products.

Literacy Skill

1. Choose a business located in West Virginia and write a help wanted ad for possible employees. Include a list of qualifications for the job, duties to be performed, and a salary range.
2. Look at a want ad written by a classmate in the previous activity. Write a résumé listing your own qualifications for the job.

Technology Tool

Go to website money.cnn.com/data/markets and choose a category of stocks, such as food, retail, or technology. Click on that category, and then choose a specific stock from those listed. Return to this website every day for the next three weeks and record the day's stock price. After three weeks of collecting data, make a graph to illustrate the data.