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## ABSTRACT

This teacher's guide and student guide unit contains supplemental readings, activities, and methods adapted for secondary students who have disabilities and other students with diverse learning needs. The curriculum correlates to Florida's Sunshine State Standards and is divided into the following six units of study: (1) introduction to economics, which addresses opportunity cost, supply and demand, different types of resources, entrepreneurship, property, and economic rent; (2) economic systems, which addresses the market system, command economic system, government controlled command economy, mixed economics, and measuring government control of the economy; (3) supply and demand, which addresses elastic and inelastic demand, fair market price, and profit; (4) economic institutions, which addresses types of business competition, business organizations, the role of banking institutions, and government regulation of the money supply; (5) taxes; and (6) an examination of the American economy, which addresses tools for measuring economic growth, tariffs and unemployment. The teacher's guide includes a general description of each unit's content and focus, provides suggestions for enrichment, and contains an assessment to measure student performance. The student guide includes case studies and practice activities. Appendices describe instructional strategies, list enrichment suggestions, contain suggestions for specific strategies to facilitate inclusion, and contain a chart describing standards and benchmarks. (Contains 37 references.) (CR)

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(PASS).

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# Economics

Course No. 2102310

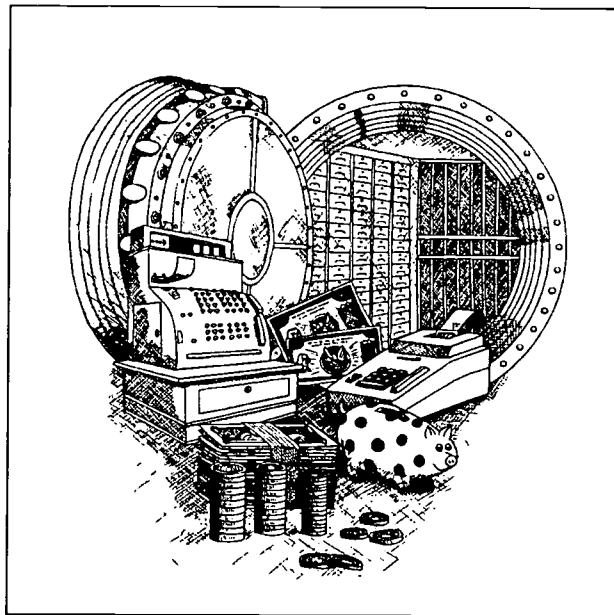
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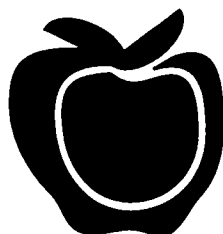
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**Economics**  
**Teacher's Guide**  
**Course No. 2102310**

**Bureau of Instructional Support and Community Services**  
**Division of Public Schools and Community Education**  
**Florida Department of Education**

2000

This product was developed by Leon County Schools, Exceptional Student Education Department, through the Curriculum Improvement Project, a special project, funded by the State of Florida, Department of Education, Division of Public Schools and Community Education, Bureau of Instructional Support and Community Services, through federal assistance under the Individuals with Disabilities Education Act (IDEA), Part B.

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# PASS Book Evaluation Form

PASS Volume Title: \_\_\_\_\_ Date: \_\_\_\_\_

Your Name: \_\_\_\_\_ Your Position: \_\_\_\_\_

School: \_\_\_\_\_

School Address: \_\_\_\_\_

**Directions:** We are asking for your assistance in clarifying the benefits of using the PASS book as a supplementary text. After using the PASS book with your students, please respond to all the statements in the space provided; use additional sheets if needed. Check the appropriate response using the scale below. Then, remove this page, fold so the address is facing out, attach postage, and mail. Thank you for your assistance in this evaluation.

## Content

1. The content provides appropriate modifications, accommodations, and/or alternate learning strategies for students with special needs.
2. The content is at an appropriate readability level.
3. The content is up-to-date.
4. The content is accurate.
5. The content avoids ethnic and gender bias.

Strongly Agree
Agree
Neutral
Disagree
Strongly Disagree

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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## Presentation

6. The writing style enhances learning.
7. The text format and graphic design enhance learning.
8. The practice/application activities are worded to encourage expected response.
9. Key words are defined.
10. Information is clearly displayed on charts/graphs.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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## Student Benefits

11. The content increases comprehension of course content.
12. The content improves daily grades and/or tests scores.
13. The content increases mastery of the standards in the course.

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## Usage

The simplified texts of PASS are designed to be used as an additional resource to the state-adopted text(s). Please check the ways you have used the PASS books. Feel free to add to the list:

- |   |  |
|---|--|
| <input type="checkbox"/> additional resource for the basic text | <input type="checkbox"/> outside assignment                                  |
| <input type="checkbox"/> pre-teaching tool (advance organizer)  | <input type="checkbox"/> individual contract                                 |
| <input type="checkbox"/> post-teaching tool (review)            | <input type="checkbox"/> self-help modules                                   |
| <input type="checkbox"/> alternative homework assignment        | <input type="checkbox"/> independent activity for drill and practice         |
| <input type="checkbox"/> alternative to a book report           | <input type="checkbox"/> general resource material for small or large groups |
| <input type="checkbox"/> extra credit                           | <input type="checkbox"/> assessment of student learning                      |
| <input type="checkbox"/> make-up work                           | <input type="checkbox"/> other uses: _____                                   |

# Overall

Strengths:

Limitations:

Other comments:

**Directions:** Check each box that is applicable.

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- All of my students have daily access at school to:  A computer  A printer  The Internet  A CD-ROM drive
- I would find it useful to have PASS on:  The Internet  CD-ROM  Mac  PC/IBM

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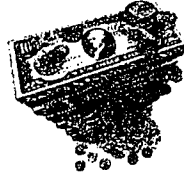
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# Economics

## Teacher's Guide

### Course No. 2102310

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Exceptional Student Education

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## Acknowledgments

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This student book is dedicated to the memory of Joel Goldfarb, who helped to develop the previous *Parallel Alternative Strategies for Students (PASS)* revised volume of *Focus on Economics*.

## Foreword

*Parallel Alternative Strategies for Students (PASS)* books are content-centered packages of supplemental readings, activities, and methods that have been adapted for students who have disabilities and other students with diverse learning needs. *PASS* materials are used by regular education teachers and exceptional education teachers to help these students succeed in regular education content courses. They have also been used effectively in alternative settings such as juvenile justice educational programs and second chance schools, and in dropout prevention and other special programs that include students with diverse learning needs.

The content in *PASS* differs from standard textbooks and workbooks in several ways: simplified text; smaller units of study; reduced vocabulary level; increased frequency of drill and practice; concise directions; less cluttered format; and presentation of skills in small, sequential steps.

*PASS* materials are not intended to provide a comprehensive presentation of any course. They are designed to *supplement* state-adopted textbooks and other instructional materials. *PASS* may be used in a variety of ways to augment the curriculum for students with disabilities and other students with diverse learning needs who require additional support or accommodations in textbooks and curriculum. Some ways to incorporate this text into the existing program are as

- a resource to supplement the basic text
- a pre-teaching tool (advance organizer)
- a post-teaching tool (review)
- an alternative homework assignment
- an alternative to a book report
- extra credit work
- make-up work
- an outside assignment
- part of an individual contract
- self-help modules
- an independent activity for drill and practice
- general resource material for small or large groups
- an assessment of student learning

The initial work on *PASS* materials was done in Florida through Project IMPRESS, an Education of the Handicapped Act (EHA), Part B, project funded to Leon County Schools from 1981–1984. Four sets of modified

content materials called *Parallel Alternate Curriculum (PAC)* were disseminated as parts two through five of *A Resource Manual for the Development and Evaluation of Special Programs for Exceptional Students, Volume V-F: An Interactive Model Program for Exceptional Secondary Students*. Project IMPRESS patterned the PACs after curriculum materials developed at the Child Service Demonstration Center at Arizona State University in cooperation with Mesa, Arizona, Public Schools.

A series of 19 *PASS* volumes was developed by teams of regular and special educators from Florida school districts who volunteered to participate in the EHA, Part B, Special Project, Improvement of Secondary Curriculum for Exceptional Students (later called the Curriculum Improvement Project). This project was funded by the Florida Department of Education, Bureau of Education for Exceptional Students, to Leon County Schools during the 1984 through 1988 school years. Regular education subject area teachers and exceptional education teachers worked cooperatively to write, pilot, review, and validate the curriculum packages developed for the selected courses.

Beginning in 1989 the Curriculum Improvement Project contracted with Evaluation Systems Design, Inc., to design a revision process for the 19 *PASS* volumes. First, a statewide survey was disseminated to teachers and administrators in the 67 school districts to assess the use of and satisfaction with the *PASS* volumes. Teams of experts in instructional design and teachers in the content area and in exceptional education then carefully reviewed and revised each *PASS* volume according to the instructional design principles recommended in the recent research literature. Subsequent revisions have been made to bring the *PASS* materials into alignment with the Sunshine State Standards.

The *PASS* volumes provide some of the text accommodations necessary for students with diverse learning needs to have successful classroom experiences and to achieve mastery of the Sunshine State Standards. To increase student learning, these materials may be used in conjunction with additional resources that offer visual and auditory stimuli, including computer software, videotapes, audiotapes, and laser videodiscs.



## User's Guide

The *Economics PASS* and accompanying *Teacher's Guide* are supplementary resources for teachers who are teaching social studies to secondary students with disabilities and other students with diverse learning needs. The content of the *Economics PASS* book is based on the *Florida Curriculum Frameworks* and correlates to the Sunshine State Standards.

The Sunshine State Standards are made up of *strands*, *standards*, and *benchmarks*. A *strand* is the most general type of information and represents a category of knowledge. A *standard* is a description of general expectations regarding knowledge and skill development. A *benchmark* is the most specific level of information and is a statement of expectations about student knowledge and skills. Sunshine State Standards correlation information for *Economics*, course number 2102310, is given in a matrix in appendix D.

The *Economics PASS* is divided into six units of study that correspond to the social studies strands. The student book focuses on readings and activities that help students meet benchmark requirements as identified in the course description. It is suggested that expectations for student performance be shared with the students before instruction begins.

Each unit in the *Teacher's Guide* includes the following components:

- **Unit Focus:** Each unit begins with this general description of the unit's content and describes the unit's focus. This general description also appears in the student book. The Unit Focus may be used with various advance organizers (e.g, surveying routines, previewing routines, paraphrasing objectives, posing questions to answer, developing graphic organizers such as in appendix A, sequencing reviews) to encourage and support learner commitment.
- **Suggestions for Enrichment:** Each unit contains activities that may be used to encourage, to interest, and to motivate students by relating concepts to real-world experiences and prior knowledge.

- **Unit Assessments:** Each unit contains an assessment with which to measure student performance.
- **Keys:** Each unit contains an answer key for each practice in the student book and for the unit assessments in the *Teacher's Guide*.

The appendices contain the following components:

- **Appendix A** describes instructional strategies adapted from the Florida Curriculum Frameworks for meeting the needs of students with disabilities and other students with diverse learning needs.
- **Appendix B** lists teaching suggestions for helping students achieve mastery of the Sunshine State Standards and Benchmarks.
- **Appendix C** contains suggestions for specific strategies to facilitate inclusion of students with disabilities and other students with diverse learning needs. These strategies may be tailored to meet the individual needs of students.
- **Appendix D** contains a chart that correlates relevant benchmarks from the Sunshine State Standards with the course requirements for *Economics*. These course requirements describe the knowledge and skills the students will have once the course has been successfully completed. The chart may be used in a plan book to record dates as the benchmarks are addressed.
- **Appendix E** lists reference materials and software used to produce *Economics*.

*Economics* is designed to correlate classroom practices with the Florida Curriculum Frameworks. No one text can adequately meet all the needs of all students—this *PASS* is no exception. *PASS* is designed for use with other instructional materials and strategies to aid comprehension, provide reinforcement, and assist students in attaining the subject area benchmarks and standards.



## Unit 1: Introduction to Economics

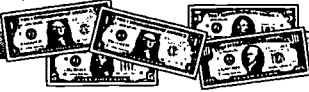
This unit emphasizes a basic understanding of *economics*, which will enable us to make informed decisions about our nation's economy and our own role as earners and consumers.

### Unit Focus

- the role economics plays in our everyday lives
- the difference between a *want* and a *need*
- how *scarcity* forces us to make choices
- four basic economic questions all societies must answer
- difference between *goods* and *services*
- difference between *consumer* and *capital goods*
- meaning of *opportunity cost*, *supply*, *demand*, *entrepreneur*, *real property*, *intangible property*, *personal property*, *economic rent*, *natural*, *human*, and *capital resources*

### Suggestions for Enrichment

1. Ask students to list and briefly describe three economic choices that they have made in the past few days and state the opportunity cost involved in each choice. Invite volunteers to share an item or two from their list with the class. Invite comparisons if appropriate.
2. Ask students to bring in pictures of consumers and workers from magazines or newspapers. Divide the class into small groups to make collages of their selections. Students may also draw illustrations of the vocabulary terms or create them from cut-out magazine pictures.
3. Divide the class into small groups of five or six. Provide magazines and catalogs. Ask students to select one item each that they would like to purchase and cut out the picture. From the selected items, the group must agree on *one* item for purchase. Each group must give



three reasons for their selection. The group should also list choices they had to give up in order to obtain their final selection. Discuss scarcity, choice, and opportunity cost.

4. Make four large cards with the terms of the factors of production—*land, labor, capital, and entrepreneurship*—printed one per card. Display these on the chalkboard or bulletin board next to a product. After discussing the four terms, remove one card and ask the class what the missing factor is, what the possible effects of the missing factor could be, and how the missing factor could be obtained. Continue removing a different card each time, identifying a different product, and asking the three questions.
5. Using the want ads in the classified section of the local newspaper, ask pairs of students to list jobs that produce a good(s) and jobs that provide a service(s). In addition, students could list the skills required for each job.
6. Bring a jar of peanut butter to class; read the ingredients on the label to the class; point out the label, jar, and lid. Ask students to brainstorm all the workers who play a role in the production and distribution of a jar of peanut butter. Write each occupation on an index card and attach the cards to a board. Ask students to arrange the cards in the sequence in which each worker is involved in the production and distribution process. If necessary, point out the myriad of jobs required before peanuts are grown (e.g., fertilizer, farm implements, and fuel producers and distributors). Have students design a flow chart with this information. Ask students the following: How do these layers of workers affect the cost of a product? What is the effect of a labor stoppage at any level of the process? How might the distribution process be made more efficient? What is the effect of having so many diverse occupations involved in a manufacturing and distribution process? How does this diversity of occupations affect the quality of a product? Have students develop a similar production and distribution flow chart for different products, such as a piece of notebook paper or a baseball.



7. Have students examine medieval and Renaissance art in an art book; a local museum; or a museum on the Internet at the Metropolitan Museum of Art (<http://www.metmuseum.org>), the Museum and Organizations (<http://www.siedu/organizational>), and/or the Worldwide Art Resources (<http://wwar.com/museums.html>); and analyze how this art illustrates economic influences in the daily lives and values of the people living in those time periods. (Please note that all listed Web-site addresses are subject to change.)
8. Invite people from various professions to speak about their work and responsibilities (e.g., advertising agency representative, agricultural extension agent, attorney, auditor, banker, Better Business Bureau spokesperson, building inspector, business and trade organization representative, career counselor, Chamber of Commerce representative, congressional representative, consumer fraud investigator, contractor, credit bureau representative, distributor, economist, employment agency representative, engineer, entrepreneur, environmental control officer, farmer, financial planner, funeral director, grocer, insurance agent, investment advisor, manufacturer, nutritionist, real estate agent, safety inspector, school business agent or treasurer, stockbroker, tax return preparer, transportation official, union official, union organizer, utilities spokesperson, Web-site designer, weights and standards auditor, welfare official).
9. Plan field trips to various sites to examine economic institutions that provide goods or services (e.g., auction, bank, Better Business Bureau office, career fair, federal courthouse, factory, farm, Federal Reserve district office, food distributor, food processing plant, grocery, newspaper office and printer, stock brokerage firm, television studio, utility plant, waste disposal plant).
10. Ask students to plan a 10-day trip anywhere in the United States, developing a low-budget plan and a first-class, luxury plan for the same destination. Using the Internet and other sources, have students develop a chart comparing alternate modes of travel, costs, and time required of each. Have students research and record the costs of transportation, lodgings, meals, and special events with a daily itinerary for the full 10 days. Ask students to present both trips to the class, and include maps, posters, travel brochures, and cost comparison charts.



11. Ask students to select a television commercial and transcribe it word for word. (Students may need to record the commercial in order to prepare the transcript.) Have students underline all factual statements and circle all opinions in the written transcript. Have students discuss and verify the facts and opinions with the class.
12. Have students brainstorm a list of commodities that confer status in their peer group. Discuss the list and ask the following: Which items were most frequently chosen? What high-status items were included? Which high-status items would have been rated lower a year ago? How can some purchases meet both basic survival needs and status needs as well (e.g., designer clothing)? Give examples of how advertisers play on our need for status in marketing their goods. How would you alter your spending habits if status and peer approval were not important to you? What businesses would collapse if status and peer approval were universally shunned? (Optional: Have students ask parents and list what commodities provide status in their peer group.)
13. Ask students to find several magazine advertisements appealing to their need for status approval and analyze the latest messages of these advertisements.
14. Have students describe a favorite commercial by answering the following: Who is in the commercial? If there is a main spokesperson, what image does that person project? What is the plot of the commercial? Is music an important or a prominent component of the commercial and what kind of music is it? How does it affect the tone or mood of the commercial? Does a narrator speak in the commercial and what does the narrator say? Do any words or product symbols appear on the screen in the commercial and what are they? What colors are prominent in the commercial, and how do they affect the tone of the commercial? What does the advertiser want the audience to do, feel, or think after seeing the commercial? What is the general tone of the commercial (funny, warm, romantic, threatening, thought-provoking)? What makes the commercial memorable to you? Write responses on the board as students share answers, noting frequently cited answers, main or recurring themes, and key ideas.



15. Discuss the role of advertising in America today, why certain advertising tactics are popular among audiences, and which tactics appeal to different audiences. Give groups of students different newspapers or magazines (e.g., publications covering a wide variety of topics and audience appeal, such as news and politics, sports, teens, fashions, hobbies, and entertainment) or give each student copies of the same advertisements to discuss. Ask each group to select three advertisements to analyze. Ask students to answer the following for each advertisement: What does the advertisement show (e.g., people, their actions, products, animals, scenery)? What does the advertisement want its audience to feel or do? What tactics are used to convince the audience to remember or feel a certain way (e.g., entertained, uplifted, excited, reassured, anxious, warm, friendly) toward the product? Is there writing in the advertisement and what does it say? What is the tone of the advertisement and why is it important to the message?

Discuss how advertisements differ depending on the type of media in which they appear (e.g., newspapers, magazines, television, movie theaters, billboards). Discuss how advertisements can mislead an audience, how misleading or inaccurate information can help sell a product, and how a person may feel about a product when he or she suspects or knows the advertisement is misleading.

16. Discuss how a country's political, economic, and social climates affect the advertisements that appear in its media. Have students choose a country to research and examine their advertising to compare and contrast it to that of America.
17. Have student research and examine popular magazines from the 1920s through the 1990s to analyze and report on advertisements in each magazine. Discuss the following: For each decade, how were women portrayed? Were they in work roles? What kind? What sex role stereotypes were reinforced in the advertising? Were any of the stereotypes challenged? How were cigarettes promoted? What proportion of smokers depicted in the ads were women? What age did the smokers appear to be? What appeals did the advertiser employ in their ads—status, security, sex appeal, patriotism, celebrity testimonials? How were minorities depicted in the advertisements? How many? In what roles? For what products?



18. Ask students to imagine that they each had just inherited a million dollars and to make a list of what he or she would do with the money. After a few minutes, solicit responses and write them on the board. Discuss the following: What values are represented by the chosen items? What psychological and social needs are being met? How would the money change your life? How would you spend your time? How do you account for the apparent unhappiness of some lottery winners? What does money really buy (e.g., time, status, power)? How is wealth portrayed on television? Why are television game shows that give away large sums of money so popular? How important is money in your definition of success?
19. Discuss scarcity and the difference between needs and wants. Divide the class into small groups and have students sit in a circle facing each other. Tell groups the following information: You and your classmates are in the middle of a large ocean on an island, three miles long and one mile wide, not found on any map. No plane or ship passes it. A warm current flows past the island; the highest elevation is a 30 foot hill at the north end; a cave is in the hill; a water-proof box is in the middle of a puddle in the cave; the box contains 500 pounds of a dry substance. There is a freshwater spring on the island; one-third of the island is covered with plants; the rest has no vegetation. The ship which brought you to the island is wrecked and sunk three miles away in deep water. No one knew where you were going, the last time you touched land was 1,000 miles away, and your radio went out 1,000 miles from your departure point. You have not been on anyone's radar for 800 miles, and you sent no message for help. However, none of you were hurt, and you are well as you are right now.

Tell the group that their decisions need to be recorded, and that one person needs to accept that responsibility. Let the group make their own decisions on who this will be in order to allow group leaders to emerge. After five to 10 minutes, ask the students the following: Is anyone else on the island? Do we need protection here? What do we have? What do we need? Who will be our leaders? What should we do to get started? What should we do in the first 24 hours? After about 20 minutes, ask the leader to describe what the group decided to do.

As the groups work, observe and keep notes on their developments as follows: Who began to assume dominance over discussions and





suggestions? Who made the most reasonable suggestions? What was the group's reactions to these? What was the first decision made by the entire group? How was it made (domination, apathy, vote)? Who became group recorder and how did the person get the responsibility? What was the first rule the group established? How did the group deal with the concept of scarcity? Then discuss with the class the observations you made during the groups' work. Next have students prepare a concept map (spider graph) with the idea of scarcity at the center.

20. Almost 70 percent of Earth is covered by water, yet only three percent is fresh and most of that is frozen in glaciers and ice caps, leaving available only 0.008 percent, most of which is stored below the surface in groundwater or in aquifers. Since demand for the world's water has grown faster than its population, discuss your area's freshwater supply, its source, how it is replenished, and if there are any local restrictions on watering lawns or washing cars. Have students speculate on physical and human characteristics of countries that lack adequate freshwater supplies and then research and locate such countries. Display a transparency of a world map and have students color in those countries. Assign one or more countries in each region for groups to research. Then have groups present data on water problems and recommend solutions.

Have group members assume the roles of an expert climatologist, a demographer, and an economist and research the following: name country, its location, its size (area), its climate, droughts, its population and population growth, demands on water supply, and whether the country is heavily industrialized. Ask groups to analyze the data and answer the following: What physical and human characteristics explain the country's lack of fresh water? What environmental factors contribute to its water problems? How does human/environmental interaction affect freshwater supplies? What are the groups' recommendations for water resource policies? Have groups present reports or hold a symposium with all groups participating. After their presentations, have students investigate and discuss possible solutions to the world's water worries (e.g., desalination treatments and reuse of wastewater, conservation, development of drought-resistant crops). Have students research why groundwater use threatens supplies in the United States, Australia's Great Artesian Basin, and the African Sahel.



21. Have students assume the roles of representatives from Israel, Jordan, and Syria to resolve potential conflicts over water rights. Supplement their research with the following facts: Israel and Jordan have suffered droughts in recent years; hundreds of thousands of Jews have emigrated to Israel from the former Soviet Union since the late 1980s; about 3,000,000 Palestinians fled to Jordan from the Gulf states in 1990 and 1991 as a result of the Persian Gulf War; Syria has built dams that divert water from Jordan and Israel; aquifers in south Jordan contain fossil (nonrenewable) water.

Ask students to research: the geography and climate of the region and how these affect its water source; why water supplies are limited, and why international cooperation is necessary; the ways in which water is used and why demand is increasing; the country's population; the population doubling time at the current rate; what percentage of the population is rural or urban; the gross domestic product; and annual withdrawal of water. Ask students to outline reasons why their country needs water and the basis for its water disputes to formulate a plan to resolve water problems in their region. Have students present ideas on how to resolve water conflicts along the Jordan River. Then have the class evaluate all proposals and decide which is best. (Optional: Have students use the same methods of investigation to explore water problems shared by Turkey, Syria, and Iraq.)

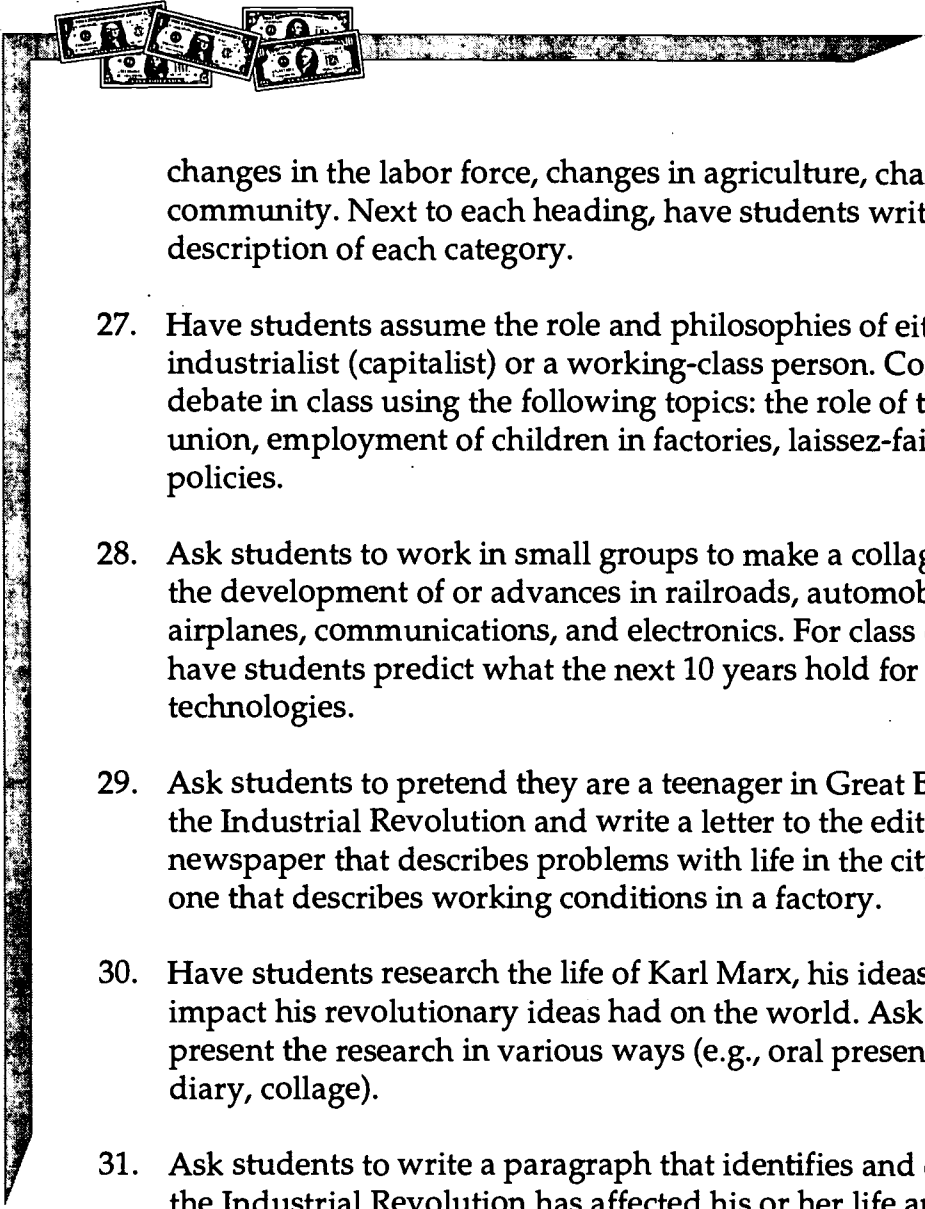
22. Since the oil embargo of the 1970s and the discovery of increasing greenhouse gases, nations have looked for ways to generate electricity without relying on petroleum. Have students act as United States developers of geothermal, solar, or wind electric power for the international market and select a country with geographic conditions that accommodate that source of energy. Ask students to write a persuasive proposal to convince that country's ministry of development to approve development of the alternate source of electricity, explaining why that country is well-suited for developing the source of energy, why that country needs more energy from a clean source, and how that country will benefit from this alternative energy project. Have students discuss how exporting energy technology affects the global economy, what government's role is in developing and protecting natural resources, and some of the disadvantages of alternative forms of energy.



23. Prepare a map of the Middle East. Use symbols to indicate which countries are rich as a result of oil and which have none. Have students research living conditions in both groups. Have them defend the position that the wealthy countries should (or should not) share with the poor.
24. Explain to students that with the present rate of deforestation, Earth may be devoid of rainforests in 50 years. Then ask students to note the following: one-fourth of our medicines come from rain forest plants; two-thirds of the world's plants and animal species live in tropical forests; at least two billion people use wood for cooking and heating; deforestation contributes to global warming and affects the world's water and oxygen cycles.

Assign students one of the following countries for a case study: Brazil, Costa Rica, Ethiopia, India, Indonesia, Nigeria, Sierra Leone, Thailand, or Uganda. Have students research the following: How much of that country's total land is forested? What is the extent of deforestation? What are the causes and result of deforestation in that country? Ask students to create a deforestation chart listing the causes and results of deforestation and then compare their country's case study with other students' case studies. Discuss how developed countries have used debt relief as an incentive for developing countries to protect their tropical forests. Have students examine the effect of reforestation efforts and whether there have been measurable effects (e.g., the environmental movement in northern India). Optional: Have students investigate deforestation in temperate regions (e.g., Europe and North America) and determine the effects of acid rain on temperate deciduous forests and temperate and subtropical evergreen forests (e.g., aquatic life in the Adirondacks).

25. Ask students to identify his or her occupational aspirations and to explain why they are considering these jobs or careers. Ask students to explain what, if any, post high school is necessary for these jobs or careers. Ask students to research and discuss the opportunity costs of such education and why a person would want an investment in human capital.
26. Have students draw a chart on a piece of paper with the heading of industrialization brings change. Ask students to list the following headings down the left side of the chart: changes in manufacturing,



changes in the labor force, changes in agriculture, changes in community. Next to each heading, have students write a description of each category.

27. Have students assume the role and philosophies of either an industrialist (capitalist) or a working-class person. Conduct a debate in class using the following topics: the role of the labor union, employment of children in factories, laissez-faire economic policies.
28. Ask students to work in small groups to make a collage that shows the development of or advances in railroads, automobiles, airplanes, communications, and electronics. For class discussion have students predict what the next 10 years hold for other technologies.
29. Ask students to pretend they are a teenager in Great Britain during the Industrial Revolution and write a letter to the editor of the newspaper that describes problems with life in the city in that era or one that describes working conditions in a factory.
30. Have students research the life of Karl Marx, his ideas, and the impact his revolutionary ideas had on the world. Ask students to present the research in various ways (e.g., oral presentation, drama, diary, collage).
31. Ask students to write a paragraph that identifies and describes how the Industrial Revolution has affected his or her life and include names of inventions that directly or indirectly benefited him or her.
32. Ask students to write a paragraph or short story about what life would have been like prior to the Industrial Revolution or what it would be like if there had not been an Industrial Revolution.
33. Have students examine the history of child labor, especially during the Industrial Revolution. Ask students to investigate modern exploitation of child labor.
34. Have students write a first-person story about life in a European country during the Industrial Revolution.



35. Have students draw or clip pictures to show the assembly line process. Ask students to explain the pictures and post them in the room.
36. Ask students to bring in products that demonstrate the concept of interchangeable parts.
37. Have students select an important inventor or business person and report on his or her life. Ask students to include visuals with their reports.
38. Have students "invent" a new product which would make labor easier and faster. Ask students to prepare an advertisement or commercial for their product.
39. Have students write a play that depicts the way a job was performed before and after a major invention. Videotape the play.
40. Have students research and create a timeline of both the English and the American Industrial Revolutions including important inventions, milestones, trends, and historic figures.
41. Discuss the technological revolution being experienced now in industrialized countries and compare it to the Industrial Revolution in England and the United States.
42. Have students research the Industrial Revolution and answer the following questions.
  - What were the causes of the Industrial Revolution?
  - What inventions made it possible?
  - How were the English and the American revolutions similar and how were they different?
  - What was the world like before and after the American Industrial Revolution?
  - What were the positive and negative effects of these changes?
  - Discuss what was revolutionary about the Industrial Revolution. Does the revolution continue?



43. Ask students to choose five of the top inventions from the English Industrial Revolution and five from the American Industrial Revolution. Have students explain what each invention was used for and why they chose to profile it. Ask students to include pictures, dates, descriptions of the invention, and information about the inventor.
  
44. Have students research the factory system of the Industrial Revolution and answer the following: What was the factory system? When and where did it arise? What inventions made it possible? How did it revolutionize society? What were its positive and negative aspects? Explain what "the division of labor" is and how it played a part in the factory system. Ask students to incorporate quotations about factory conditions from witnesses of the day in their research.
  
45. Have students research who objected to the changes brought about by the Industrial Revolution (e.g., the Luddites, Robert Owen, and writers such as Charles Dickens and William Blake) and explain why they objected, and what their proposed solutions, their methods, and their arguments were. Were the objectors' points of view similar or different? Ask students to take a stand and state if they feel the objectors were justified in their opinions; whether artists should play a role in debating social issues; and if they agree or disagree with the objectors, explaining their reasoning.
  
46. Have students choose a country on the verge of becoming industrialized. Ask students to pretend to be an outside consultant hired by the government and create a proposal to present to the next meeting of Congress explaining their plan for industrialization. Have students explore the national resources, culture, economy, animal habitats, cities, and indigenous peoples of the country. Ask students to be as specific in their proposed plan as possible: Where will the factories be built? What indigenous peoples' way of life should be protected and how? What industries could make use of the country's natural resources? What sort of restrictions on pollution, deforestation, and environmental degradation should be proposed in the industrialization plan? What laws should be recommended to Congress to prevent abuse of workers and the environment? What natural wonders, wild areas, and species should be protected? What



sort of experts should be called upon to advise on the plan? Discuss these people (real or imaginary). List their accomplishments and expertise, and explain why their input is valued. Have students present proposals to the class.

47. Discuss how industrialized countries are experiencing yet another revolution. People are increasingly free to work outside cities and to telecommute to work. What inventions made this possible? What are the pros and cons of this revolution? Ask students to project themselves 50 years into the future and ask what they think the world will be like then.
48. Have one student stand up and start a debate or discussion on an economic topic. The student can outline an opinion or write it on the board. Then select the next person to speak or write until all students have had a chance.
49. Review proficiency before a test by giving and scoring a generalized pretest. Conference with students to get opinions on weakest areas. Divide students into groups according to areas of study.
50. Review concepts of the unit through a silent *Jeopardy* activity. Select 10 categories of topics, five for the first round and five for the second round. Have each student divide a piece of paper into two columns for the first and second round of *Jeopardy*. Assign point values of 1, 2, 3, 4, 5 for the first round and 2, 4, 6, 8, 10 for the second round. Randomly read questions from any topic and ask students to silently write the answers in the appropriate column. After a set time, do a final *Jeopardy* question and allow students to wager for 0-10 points. Check papers and tally the scores.
51. Have students select content-related activities and write about the processes used to complete each activity. Have students scan the Sunshine State Standards and identify all standards that apply to the student behaviors demonstrated in completing the selected activities. Ask students to then revise their written explanations to describe how each activity developed or reinforced each identified standard. Collect the students' work samples and the written reflections to form a student portfolio.
52. See Appendices A, B, and C for other instructional strategies, teaching suggestions, and accommodations/modifications.



## Unit Assessment

Match each definition with the correct term. Write the letter on the line provided.

- |  |                  |
|--|------------------|
| _____ 1. human effort that goes into the making of goods and providing services  | A. capital       |
| _____ 2. goods and services that a consumer may desire or want to buy but that are not necessities   | B. demand        |
| _____ 3. an individual who creates something new and earns a profit by combining land, labor, and capital resources to produce goods or services | C. durable goods |
| _____ 4. the study of people trying to satisfy their wants in a world of scarcity  | D. economics     |
| _____ 5. goods and services that are necessities, such as food, clothing, shelter, and medical care  | E. entrepreneur  |
| _____ 6. goods used to produce other goods and services  | F. labor         |
| _____ 7. the amount of goods or services that producers are willing and able to produce  | G. needs         |
| _____ 8. activities performed for others for money such as teaching and selling  | H. services      |
| _____ 9. the amount of goods or services that consumers are willing and able to buy  | I. supply        |
| _____ 10. goods that are not used up and do not quickly wear out   | J. wants         |





*Write an N if the item is a need and a W if the item is a want.*

- \_\_\_\_\_ 11. medicine
- \_\_\_\_\_ 12. computer game
- \_\_\_\_\_ 13. pair of eyeglasses
- \_\_\_\_\_ 14. compact disc
- \_\_\_\_\_ 15. cheeseburger
- \_\_\_\_\_ 16. shoes
- \_\_\_\_\_ 17. haircut
- \_\_\_\_\_ 18. pencil
- \_\_\_\_\_ 19. potatoes
- \_\_\_\_\_ 20. your neighbor's house




Use the list below to complete the following statements.

capital	goods	resources
consumer good	labor	scarcity
demand	natural	services
economic rent	needs	wants
entrepreneur	opportunity cost	

21. Most parents try to satisfy their children's \_\_\_\_\_, which include food, shelter, clothing, and medical attention.
22. Parents are less likely to satisfy their children's \_\_\_\_\_, which often include many toys and games.
23. Before the \_\_\_\_\_ combined different resources to begin making a remote-controlled lawn mower, she did a survey of consumers to see if there was a \_\_\_\_\_ for her new product.
24. Abdul is a skillful engineer who designs drawbridges in Miami and Tampa. He is able to charge a high \_\_\_\_\_ for his \_\_\_\_\_.
25. Every society has to choose how it will use its limited \_\_\_\_\_; this basic economic problem is known as \_\_\_\_\_.





26. Consumers also must make choices and decide which goods and services they will give up so they can buy other goods and services.

This trade-off is called \_\_\_\_\_.

27. Most carpenters take care of the hammers, saws, tape measures, and other \_\_\_\_\_ resources they use for building and repair.

28. Rivers, wind power, and anything else that occurs naturally and is used to produce goods or services are called \_\_\_\_\_ resources.

29. A capital good increases in value over time or creates more wealth for its owner. A \_\_\_\_\_ satisfies personal needs and wants, and tends to lose value over time.

30. People who work in factories help to produce \_\_\_\_\_ —objects that can be bought or sold.

People who sell, cut hair, or take care of lawns provide \_\_\_\_\_ to consumers.



## Keys

### Practice (p. 16)

1. the need to be independent of other countries; the need for more goods to be produced faster
2. Industry prospered and the United States grew stronger economically, politically, and socially.
3. less farmland, increased slave labor; nation grew in different directions

### Practice (pp. 17-18)

1. labor
2. wants
3. necessity
4. supply
5. capital
6. land
7. resources
8. entrepreneurship
9. needs
10. economics

### Practice (p. 19)

1. efficient
2. opportunity cost
3. demand
4. goods
5. trade-off
6. services
7. scarcity
8. consumer

### Practice (p. 20)

1. E
2. —
3. E
4. E
5. —
6. —
7. E
8. E
9. E
10. E

### Practice (p. 21)

1. how
2. what or for whom
3. what
4. what
5. how
6. how
7. how
8. how
9. what or for whom
10. for whom

### Practice (p. 22)

1. True
2. False
3. False
4. True
5. True
6. False
7. False
8. True
9. True

### Practice (p. 23)

Answers will vary.

### Practice (pp. 24-25)

1. late summer
2. there is very little food and no way to call for help
3. the boat begins to take on water, the motor quits running, and the boat sinks
4. a small boat
5. to fish and enjoy the sun
6. Answers will vary, but total size-weight unit (SWU) may not exceed 25.



## Keys

### Practice (p. 31)

1. N
2. N
3. N
4. N
5. N
6. W
7. N
8. N
9. W
10. N

### Practice (p. 32)

1. G
2. S
3. S
4. G
5. S
6. S
7. G
8. S
9. G
10. G

### Practice (p. 33)

1. consumer good
2. consumer good
3. capital good
4. consumer good
5. capital good
6. capital good
7. capital good
8. consumer good
9. capital good
10. consumer good

### Practice (p. 40)

1. entrepreneur
2. durable goods
3. financial capital
4. capital goods

5. economic rent
6. nondurable goods
7. consumer goods

### Practice (pp. 41-42)

1. Scarcity
2. unlimited; limited
3. Demand
4. Consumer goods
5. money
6. Land
7. real
8. want
9. economic rent
10. Trade-off
11. entrepreneurship
12. necessity
13. intangible
14. personal

### Practice (pp. 43-44)

1. the gap between limited resources and unlimited wants and needs
2. natural, human, and capital
3. consumer goods depreciate; capital goods appreciate
4. What to produce? How to produce? For whom to produce? Are we efficient?
5. A want is not necessary for your life; a need is essential and necessary.
6. It refers to type of property you can see, hear, or touch.

### Practice (pp. 46-47)

1. Like a country, a family has limited resources (usually in the form of money). A family must decide how it will use its resources. It must decide which needs or wants it will use its resources to buy. After a



## Keys

family has used its resources to provide for its needs, the family must decide which of its wants to satisfy.

2. Answers will vary but may include the following: So much of our lives is dependent on transportation that it can be considered a necessity, or need. People need transportation to get to work, and to buy many things they need including food, clothing, and shelter. So without transportation, we would find it difficult to satisfy many of our needs.
3. If we rented a hotel room overnight, we would be using it as a service. However, if we bought the hotel, we would be using it as a good—we could continue renting out its rooms to earn wealth.

### Practice (p. 48)

1. K
2. I
3. C
4. G
5. J
6. E
7. A
8. F
9. B
10. H
11. D

### Practice (p. 49)

1. D
2. B
3. C
4. K
5. J
6. E
7. H

8. G
9. A
10. I
11. F

### Unit Assessment (pp. 15-18TG)

1. F
2. J
3. E
4. D
5. G
6. A
7. I
8. H
9. B
10. C
11. N
12. W
13. N
14. W
15. N
16. N
17. W
18. W
19. N
20. W
21. needs
22. wants
23. entrepreneur; demand
24. economic rent; labor
25. resources; scarcity
26. opportunity cost
27. capital
28. natural
29. consumer good
30. goods; services



## Unit 2: Economic Systems

This unit emphasizes the economic elements of *traditional*, *market*, and *command* economic systems and describes one measurement of a nation's economy, its *gross domestic product (GDP)*.

### Unit Focus

- characteristics of the three economic systems and their present uses by different nations
- meaning of *barter*, *capitalism*, *economist*, *economic elements*, *command elements*, *mixed economies*, and *GDP*

### Suggestions for Enrichment

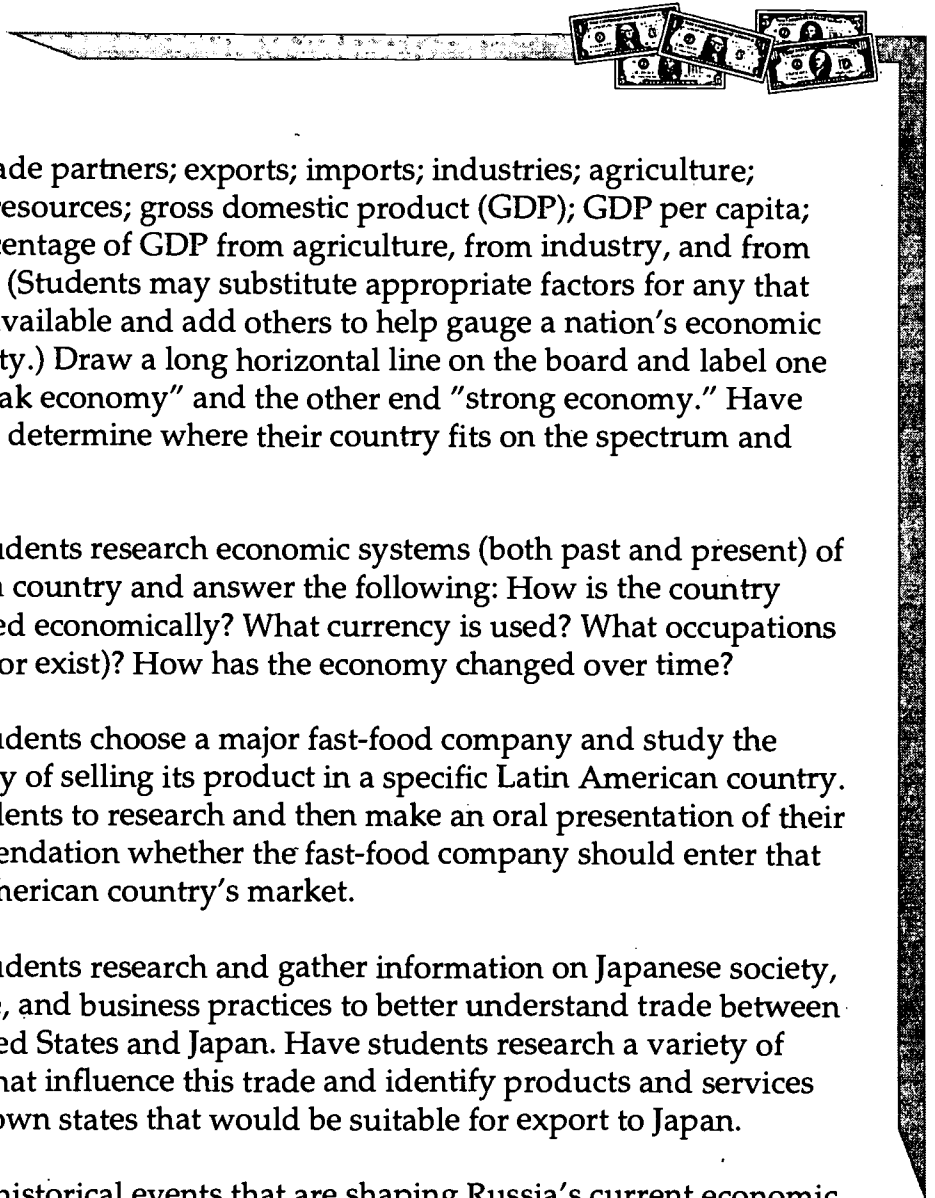
1. Make a transparency master of a large square divided into 25 equal squares. Give each student a copy to serve as a blank game board. Put vocabulary terms on the chalkboard or transparency. Ask students to fill in the game board with one term per square in any order. Play a Bingo game, calling out the definitions or asking questions for which the terms are answers. Students put markers on the terms that are the correct answers. Answers can be verified and discussed after each definition or question. When a student gets five markers in a row, have the student shout "Payday!" or some economic reward term. Keep a record of the terms used and continue to play another round.
2. View the film *The Kingdom of Mocha*, and use a simulation activity as a follow-up. See also *Return to the Kingdom of Mocha*, if time permits.
3. Conduct a trading activity for students to learn about barter. Ask each one to bring in an item from home that they have no more use for and that costs less than one dollar. Set a time limit of three minutes or so and ask them to trade their item for another. They can trade as many times as they like within the set time limit. After the activity, discuss why one item was valued more than another, if they are satisfied with their trade, the negotiation skills used in the



process, etc. See which economic terms, such as *opportunity cost*, can be used. Ask them to interpret the saying "One man's junk is another man's treasure."

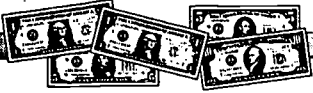
4. Ask students to work together in small groups to choose three countries from each continent on which they would like to do some research. Have them describe the economic elements in the economic system of each country, and report their findings to the class.
5. Ask students to brainstorm the benefits of competition. Then discuss the following: What are the economic benefits of competition in a capitalist society? What is the definition of capitalism and how does it compare to the answers of the responses about the economic benefits of competition? Why do capitalist economics require competition? Is capitalism a good or bad economic system and why?
6. Have students find examples from the newspaper of the six characteristics of the market economy as it exists in the United States today. Next have students research how the United States Constitution supports these characteristics. Finally, have students compare the economic provisions of the United States Constitution with the economic system of China to understand the difference between a command and a market system.
7. Have students prepare a chart in which they compare and contrast socialism, communism, fascism, and democracy, based on four basic questions: Who owns factories and farms? Who decides what goods will be produced? How are goods distributed? How much freedom of choice is there?
8. Since the collapse of communism, eastern European countries have had to build new governments and new economic systems, going from command economies to a free-enterprise system. Assign students one of the following countries: Bulgaria, Hungary, Poland, or Romania. Have students research and create an economic overview chart with the following information about that country:





major trade partners; exports; imports; industries; agriculture; natural resources; gross domestic product (GDP); GDP per capita; and percentage of GDP from agriculture, from industry, and from services. (Students may substitute appropriate factors for any that are not available and add others to help gauge a nation's economic prosperity.) Draw a long horizontal line on the board and label one end "weak economy" and the other end "strong economy." Have students determine where their country fits on the spectrum and why.

9. Have students research economic systems (both past and present) of a foreign country and answer the following: How is the country structured economically? What currency is used? What occupations existed (or exist)? How has the economy changed over time?
10. Have students choose a major fast-food company and study the feasibility of selling its product in a specific Latin American country. Ask students to research and then make an oral presentation of their recommendation whether the fast-food company should enter that Latin American country's market.
11. Have students research and gather information on Japanese society, etiquette, and business practices to better understand trade between the United States and Japan. Have students research a variety of factors that influence this trade and identify products and services in their own states that would be suitable for export to Japan.
12. Discuss historical events that are shaping Russia's current economic picture (e.g., the collapse of the communist-based Soviet republic, the rapid conversion to a capitalistic free-market-based economy). Have students speculate about the future of the Russian economy.
13. Assign groups a local business (e.g., a car dealership, a music store, a real estate company, a bank, an employment agency, a manufacturer of consumer goods such as clothing, furniture, appliances, or electronics). Have groups analyze the consequences of unemployment, reduced income, and devalued currency on that



business with respect to business owners, employees, suppliers, and other local businesses. Have students identify specific consequences for individuals and the local company, and also the social consequences of a poor economic climate (e.g., increased social problems, need for social services, effects of family stress). Have groups present the analyses and relate the conclusions to their situation in Russia.

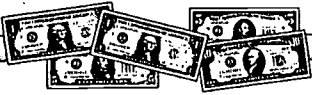
14. Discuss how devaluation of currency affects upper, middle, and lower class citizens differently and how the Great Depression in the United States in the late 1920s might compare with this period now in Russian history.
15. Ask students to calculate how much their family's monthly expenses (rent, utilities, food, entertainment) or items students routinely purchase (a pair of jeans, lunch at fast-food restaurants, a CD, a movie ticket) would cost in Russia today and one year ago by converting the dollar to rubles. The conversion could be based on these values: on September 8, 1998, the value of the ruble was 22.05 to one United States dollar; on September 8, 1997, the value of the ruble was 5842 to one United States dollar.
16. Have students locate statistics about current prices of goods, services, and salaries of different occupations in Russia.
17. Have students search the Internet for daily fluctuations in the dollar and the Russian ruble and other foreign currencies over the past year and create a graph of their findings. Discuss what the value of a country's currency in relation to other currencies reveal about the country's economy.
18. Discuss how the Russian economy is being aided by world banks, emphasizing both the benefits and the drawbacks of this aid. Have students research changes in economics in other countries and how they are handling economic strife.
19. Have students research and compare current economic statistics for eastern European nations with those for countries of the former Soviet Union to formulate generalizations on which nation's economy is healthiest and why.



20. Ask students to research and discuss why the economic well-being of eastern Europe matters to the United States and how the economic policies of the old Communist governments affected the environment of eastern Europe.
21. Ask students to assume the role of a young person in an eastern European nation and create a diary relating how changes in the country's economic system have affected him or her personally.
22. Assign students one of the 11 European nations that switched to the euro on January 1, 1999 (e.g., Ireland, Finland, Netherlands, Germany, Austria, Luxembourg, Belgium, France, Italy, Spain, Portugal). Have students write a brief profile of the economy of the country and include the type of economic system, what the name of the currency was preceding the euro, the exchange rate in American dollars prior and after switching to the euro, the major imports and exports, and any negative or positive outcomes from the currency change.

Have students research and discuss whether the change to the euro was a reform for the European economy and research ways in which the 11 European countries that switched to the euro (see list in above suggestion) are economically compatible and may be politically, socially, ethnically, linguistically, and religiously compatible.

23. Have students use the Internet to research what is happening to the population growth rate (PGR) worldwide by reading charts, graphs, maps, and reports. Discuss a course of action for the PGR worldwide.
24. Have students use the Internet to research a country's gross national product (GNP) and read charts and graphs to find out how to determine the wealth of a country and to determine where the rich and poor countries of the world are located.
25. About 600 million people worldwide suffer from malnutrition because some countries cannot feed their populations adequately. Assign students one of the following countries: Argentina, Australia, Canada, Chad, Chile, China, India, Mexico, New Zealand,



or Thailand. Have students research the following to determine whether a country can feed itself: percent of gross domestic product (GDP) from agriculture, food products imported and exported, food supply per capita and dietary protein supply, and population growth rate. Have the class create a food profile chart for each country and then make a list of which countries can or cannot feed themselves. For the countries that cannot feed themselves, discuss strategies, based on that country's characteristics, that may be appropriate for increasing that country's food supply (e.g., develop new farmland, increase use of irrigation, develop high-yield varieties of crops such as rice and wheat, develop new sources of food such as soybeans). Have students predict, state reasons, and then verify which of the following countries can feed themselves: Russia, France, Brazil, Israel, and Saudi Arabia. Discuss how grain surpluses influence global trade and if the "green revolution" of the 1960s and 1970s was successful and why.

26. Have students research economists since Adam Smith (e.g., John Maynard Keynes, Karl Marx, Milton Friedman) who have contributed lasting achievements in their field and those who may have been of only passing importance or a novelty of their times (<http://home.pacbell.net/camoore1/economist.html>).
27. Have students use the Internet to research analysis of current classroom economic topics in the news by leading economists.
28. Have students create a business magazine with a managing editor, reporters, art editor, and biography editor. Ask students to review other examples of newspapers and magazines (e.g., *Business Week*, *Time*, *Newsweek*, *Fortune*, *Forbes*, *Changing Times*, *Wall Street Journal*, *U.S. News and World Reports*). Some suggested topics for the magazine are as follows: the year's economic conditions; the economics of health care and the response of the current President; changes in price levels of consumer goods, inflation, and forecast of the economy with current President; interview with a local business person, union official, or any person with insight into how the current economy affects his or her work; examination of entrepreneurship and how businesses operate in today's competitive market; editorials; investment column with investment tips; review of a movie with an economic theme; social costs of unemployment; economic costs of crime.



29. Set up an inner circle and an outer circle of chairs. Have student in the inner circle debate an issue for 10 minutes. Then have students in the outer circle respond to what they have heard.
30. Have students research a historical figure with a partner and formulate economic questions and answers to present an interview of that historical person to the class, along with a timeline of the person's life.
31. Have students examine universal issues (e.g., transportation) and how such issues are handled in various countries. For example, for the universal issue of transportation: will the same vehicle be most effective in each country? (Compare Anchorage, Alaska; Bangkok, Thailand; and Paris, France.)
32. Have students choose a country and find pictures which depict that country's culture and values in economic, political, social, religious, and aesthetic areas. Next have students do the same for his or her culture or values. Then compare and contrast each area.
33. Have students create a shoe-box float or a quilt of construction-paper collage squares that depict a specific country's exports.
34. See Appendices A, B, and C for other instructional strategies, teaching suggestions, and accommodations/modifications.



## Unit Assessment

Match each definition with the correct term. Write the letter on the line provided.

- |          |  |                                 |
|----------|--|---------------------------------|
| _____ 1. | an economic system in which the government decides <i>what</i> goods or services to produce, <i>how</i> to produce them, and for <i>whom</i> to produce them | A. barter                       |
| _____ 2. | the total value of goods and services produced in one year within the borders of a nation by whoever produces them   | B. command economic system      |
| _____ 3. | an economic system based upon private property and free enterprise   | C. capitalism                   |
| _____ 4. | an economic system in which goods and services are exchanged   | D. gross domestic product (GDP) |
| _____ 5. | an economic system in which the types and costs of goods and services are determined by consumers and producers  | E. market economic system       |
| _____ 6. | a system of exchange in which one type of good or service is traded for another type of good or service without the use of money                             | F. traditional economic system  |



Circle the letter of the correct answer.

7. A \_\_\_\_\_ economic system uses only barter.
  - a. command
  - b. traditional
  - c. market
  
8. Democracies have a \_\_\_\_\_ .
  - a. command economic system
  - b. traditional economic system
  - c. market economic system
  
9. Countries in which the government controls all or most economic decisions have a \_\_\_\_\_ .
  - a. command economic system
  - b. traditional economic system
  - c. market economic system
  
10. An economic system describes how \_\_\_\_\_ .
  - a. people produce goods and services
  - b. governments attempt to satisfy their people's wants and needs
  - c. goods and services are transported
  
11. A pure market system \_\_\_\_\_ .
  - a. has no government rules
  - b. does not exist
  - c. both a and b
  
12. The gross national product measures the \_\_\_\_\_ .
  - a. total amount of taxes paid in one year
  - b. total amount of goods and services consumers buy in one year
  - c. total amount of all goods and services produced in one year



Use the list below to complete the following statements.

<b>command economic elements economist</b>	<b>four market mixed economies</b>	<b>money pure market traditional</b>
--	--	--

13. Most countries today use \_\_\_\_\_ as a medium of exchange to buy and sell goods.
14. The former Soviet Union has gone from a \_\_\_\_\_ economic system to a \_\_\_\_\_ economic system.
15. Tribes had a \_\_\_\_\_ economic system.
16. There are \_\_\_\_\_ main economic systems.
17. A(n) \_\_\_\_\_ is someone who studies economics.
18. Most countries use different \_\_\_\_\_ to develop their own unique economies.
19. Nearly all countries now have \_\_\_\_\_ that use basic elements and combine them in different ways.
20. Not even the United States, a country which encourages free enterprise and entrepreneurship, has a \_\_\_\_\_ system.





Write **True** if the statement is correct. Write **False** if the statement is not correct.

- \_\_\_\_\_ 21. A *market economic system* uses money as the medium of exchange.
- \_\_\_\_\_ 22. Many *pure command economies* and *pure market economies* are still operating in the world.
- \_\_\_\_\_ 23. In *command economic systems*, the government restricts its citizens from starting their own businesses or investing their incomes.
- \_\_\_\_\_ 24. Under *capitalism*, people are free to buy and sell goods of their choice.
- \_\_\_\_\_ 25. Most large countries using the *command economic systems* are converting to *market economic systems*.



## Keys

### Practice (pp. 62-63)

1. command
2. market
3. market
4. traditional
5. command
6. market

### Practice (p. 64)

1. B
2. C
3. C
4. M
5. C
6. C
7. B
8. M
9. M
10. C
11. M
12. M
13. B

### Practice (p. 65)

Answers will vary.

### Practice (p. 69)

1. True
2. True
3. True
4. True
5. False
6. False
7. False
8. False
9. True
10. False

### Practice (p. 70)

1. the people's right to buy and sell most types of goods and services
2. capitalism

3. make rules on pay and working conditions, and on product safety
4. to meet their own specific needs
5. money

### Practice (pp. 72-74)

Answers will vary but may include the following:

1. Bartering would more often be seen between elementary-school-age children. They don't tend to have much money and so may trade objects with other children. They probably trade toys, sports equipment, candy, and even labor for building tree houses.
2. You would have to have something, a service or some object, that you would be willing to give up for having your yard mowed, and the lawn care service would have to be willing to accept your service or object as payment for its service. In a market economic system you could pay an agreed-upon amount of money.
3. If a child had some of her needs—food, clothing, shelter, and medical attention—met, or if a child had some of her wants—toys, CDs, or other objects—satisfied, this exchange would resemble bartering. If a child received money or an allowance for his chores, this exchange would resemble a market economic system.

### Practice (p. 75)

1. A
2. F
3. D
4. B
5. C
6. E



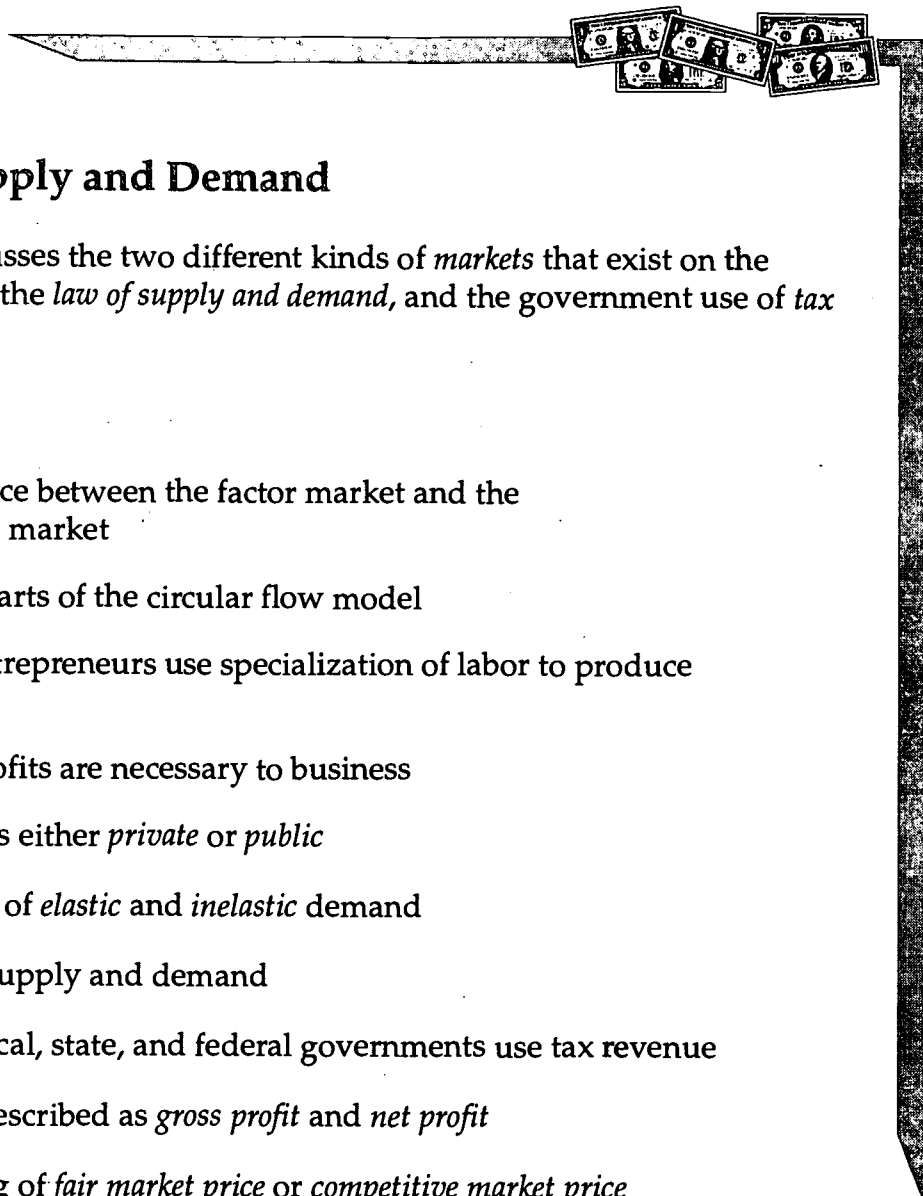
## Keys

### Practice (p. 76)

1. D
2. A
3. C
4. B
5. F
6. E

### Unit Assessment (pp. 31-34TG)

1. B
2. D
3. C
4. F
5. E
6. A
7. b
8. c
9. a
10. b
11. c
12. c
13. money
14. command; market
15. traditional
16. four
17. economist
18. economic elements
19. mixed economies
20. pure market
21. True
22. False
23. True
24. True
25. True



## Unit 3: Supply and Demand

This unit discusses the two different kinds of *markets* that exist on the national level, the *law of supply and demand*, and the government use of *tax revenue*.

### Unit Focus

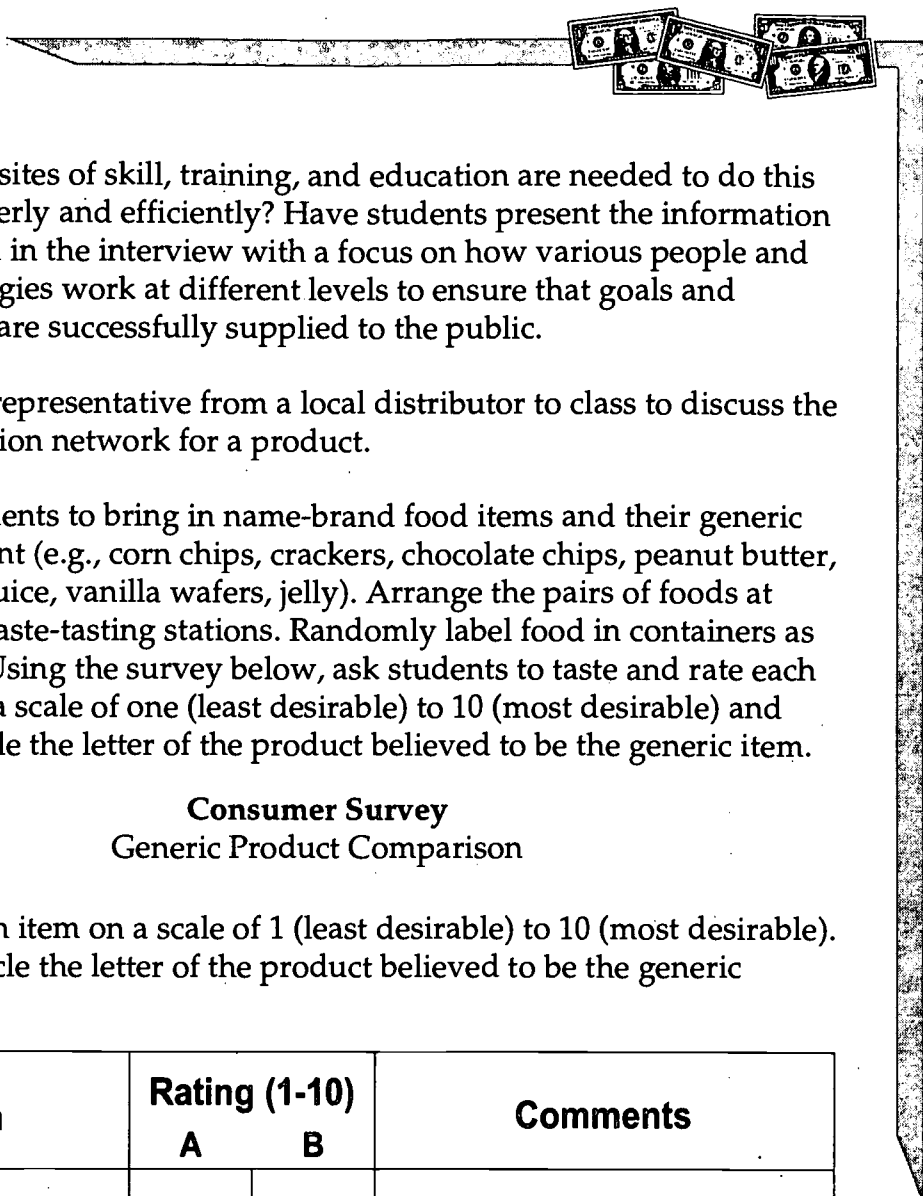
- difference between the factor market and the product market
- major parts of the circular flow model
- how entrepreneurs use specialization of labor to produce goods
- why profits are necessary to business
- goods as either *private* or *public*
- concept of *elastic* and *inelastic* demand
- law of supply and demand
- ways local, state, and federal governments use tax revenue
- profit described as *gross profit* and *net profit*
- meaning of *fair market price* or *competitive market price*

### Suggestions for Enrichment

1. Have students cut out pictures of private and public goods and make a collage. Items such as hospitals, road interchanges, construction projects, and recreational areas can be either public or private. Discuss the differences and justify which is which. Small groups of students could make larger collages, rather than doing individual ones.



2. Recovering from a disaster (such as Hurricane Andrew that hit Miami in 1992) creates many economic problems. Small discussion groups could outline and prioritize selected construction projects. Given a budget of a set amount of dollars for designated needs, determine what will be built first, second, etc. *The Miami Herald* published a book called *Hurricane Andrew*, which is available for more specific information, if desired.
3. Give the students a certain amount of play money and a list of three clothing stores, three food stores, and three automobile dealers. Using their budget, the students should choose items from each group. Decisions should be based on value, brand products, and price. Students will substitute one product for another for various reasons. Apply as many economic terms as possible: entrepreneur, profit, and supply and demand. Discuss ways in which elastic and inelastic demand apply.
4. Divide the class into groups of threes, and give each group a copy of a yellow page from the telephone book. Students should locate at least five businesses that provide different services. Discuss why someone would start a business to provide a service? How would one decide what services were needed in her community?
5. Have students brainstorm occupations and people in the community whom they can interview about the methods of production or providing services in the business in which they work. Have groups select one of the businesses on the list as the focus of interviews regarding steps in production or providing a service, people and places involved, skills needed, and use of technology. Within each group, ask each student to interview a different person working in this business (e.g., hospital industry: hospital administrator, doctor, worker in patient admissions, worker in hospital supplies). Have the class develop a list of interview questions about the aspects of business and production as follows: What is the hierarchy of workers in this business and how do these people interact? Where does the interviewee stand in this hierarchy and with whom does he or she specifically interact? What equipment and supplies are necessary for the interviewees' job? In what different locations does the interviewee work and what does he or she do in these different locations? What technology does the interviewee use and how does it help productivity? What



prerequisites of skill, training, and education are needed to do this job properly and efficiently? Have students present the information gathered in the interview with a focus on how various people and technologies work at different levels to ensure that goals and services are successfully supplied to the public.

6. Invite a representative from a local distributor to class to discuss the distribution network for a product.
7. Ask students to bring in name-brand food items and their generic equivalent (e.g., corn chips, crackers, chocolate chips, peanut butter, tomato juice, vanilla wafers, jelly). Arrange the pairs of foods at several taste-tasting stations. Randomly label food in containers as A or B. Using the survey below, ask students to taste and rate each item on a scale of one (least desirable) to 10 (most desirable) and then circle the letter of the product believed to be the generic item.

**Consumer Survey**  
**Generic Product Comparison**

Rate each item on a scale of 1 (least desirable) to 10 (most desirable). Then circle the letter of the product believed to be the generic product.

Item	Rating (1-10)		Comments
	A	B	
1.			
2.			
3.			
4.			
5.			



(Optional: The same procedure and survey can be used for other name-brand and generic products (e.g., dish washing detergents).

Calculate and post the product ratings. Give students the price and size of each product to calculate the price per unit for each product and post the amounts next to the student ratings. Ask students the following: Which items were harder to differentiate between generic and name-brand products? Are there genuine differences between a name-brand product and its generic product equivalent? Which items represent the best value? Which generic products were judged clearly inferior to the name brand? Why do most people not buy generic products? What role does advertising play?

8. Have students visit supermarkets and list all the generic products they find.
9. Invite a pharmacist to class to discuss generic medications.
10. Have students choose an everyday grocery item (e.g., toilet paper, bleach, toothpaste, paper napkins, dish detergent, catsup, cornflakes, ice cream, popcorn, flour, sugar). Ask students to visit a supermarket and make a list using the chart below to record a list of the prices and sizes of all brands of that product. In groups, have each student choose a product available in two or more brands and have the group compute the per unit price for each product brand. Have each group ask the class to guess the price of their items and then present their item prices and calculated per unit prices.  
(Optional: Have students calculate the per unit prices for the rest of the sizes on their lists.)

### Comparison Shopping Chart

Type of Product \_\_\_\_\_

Store \_\_\_\_\_

List all the sizes available for each brand of the product. Specify the exact unit of measure (ounces, pounds, number of sheets). List the price of each item. Per unit prices will be calculated in class.



### Comparison Shopping Chart

Brand	Size	Price	Per Unit Price

11. Have students use the Internet to research and compare prices of a range of common products.
12. Ask students to interview parents, grandparents, and other adults about the value of the dollar when they were teenagers.
13. Set up the following situation to give students hands-on experience with the concept of supply and demand. Provide two tokens of different colors and three index cards. Ask students to select any number of tokens (one to a handful). After students have selected tokens, place a value on the tokens. Put out only one of an item that students need to have in order to receive an "A" on this lesson. Open bidding for the item at 10 and allow students to bid their tokens. Continue until a student has paid a high price and received the item. Then pull out a large supply of the very same item just sold and announce that you just happened to have a few more of these items and are willing to open the bidding at one. Wait and watch the reaction—then write *supply* and *demand* on the board. Ask the student who bought the overpriced item to define what these terms mean in light of the experience and to explain the motivation behind paying such a high price for it. Would he or she have paid so much if it had been known that there were many such items to go around?

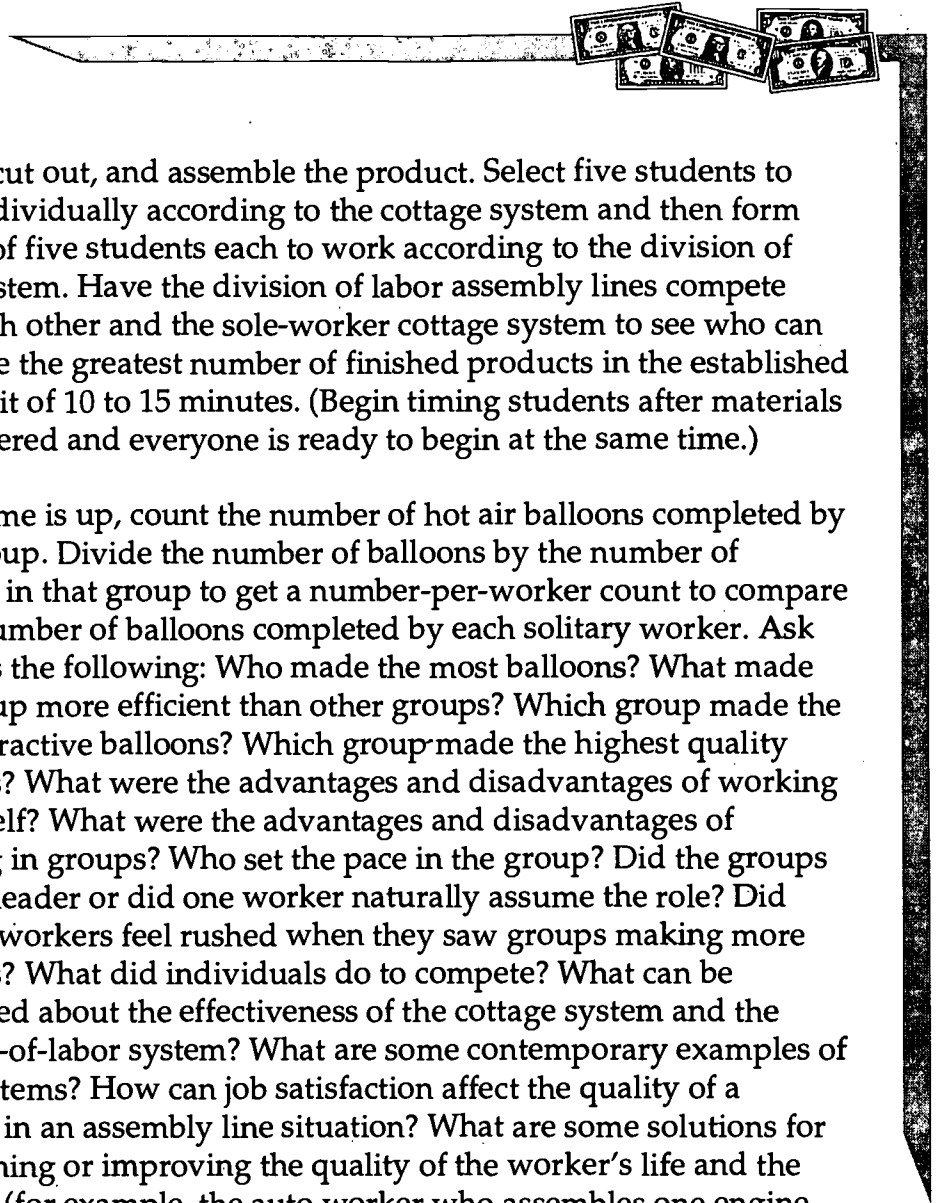




Discuss how supply and demand affects choices such as what types of cars and trucks are made. Elicit recent examples of instances where demand exceeded supply and what the results of this were, and explain how economic stability or affluence affects supply and demand. Ask students the following: What if the tokens represented money and this was all the money they had for two months?

Next ask students to think of three items in their backpacks and to secretly set a price for each one on an index card folded so it can stand upright. Have students place the items by the corresponding price on the index card. Then ask students to go around the room and note all the prices on the cards. Ask students the following: Now that you know how other merchants priced their items, how will it affect your pricing of the same items? Were some items in high demand because of their low supply? How might that affect pricing? Give students another opportunity to price their three items and discuss their changes and why they made them.

14. Have students create a model of a business cycle and draw the interrelationships between supply, demand, production, and distribution.
15. Group the class into producers, middlemen, retailers, and consumers. Focus on one product and follow the transactions involved with this product from producers to consumers. Pose a situation of low production and high demand and then reverse the situation. Ask students to come up with prices, keeping in mind the effect of prices on supply and demand
16. Have students apply the processes involved in manufacturing a product (such as construction-paper models of hot air balloons) using the cottage industry system and compare them with those of the division-of-labor factory system. Collect necessary materials (e.g., construction paper, glue, staples, tape, colored yarn, scissors, pencils, glitter, stickers, markers, crayons), determine basic pattern and necessary steps (e.g., steps—draw balloons and cut them out; design, cut out, and glue decorations on balloons; cut out balloon basket and proper length strings; attach strings and basket to balloon), and then divide class into two groups of workers to design, cut out, and assemble the product. Select five students to



design, cut out, and assemble the product. Select five students to work individually according to the cottage system and then form groups of five students each to work according to the division of labor system. Have the division of labor assembly lines compete with each other and the sole-worker cottage system to see who can complete the greatest number of finished products in the established time limit of 10 to 15 minutes. (Begin timing students after materials are gathered and everyone is ready to begin at the same time.)

When time is up, count the number of hot air balloons completed by each group. Divide the number of balloons by the number of workers in that group to get a number-per-worker count to compare to the number of balloons completed by each solitary worker. Ask students the following: Who made the most balloons? What made one group more efficient than other groups? Which group made the most attractive balloons? Which group made the highest quality balloons? What were the advantages and disadvantages of working by oneself? What were the advantages and disadvantages of working in groups? Who set the pace in the group? Did the groups name a leader or did one worker naturally assume the role? Did solitary workers feel rushed when they saw groups making more balloons? What did individuals do to compete? What can be concluded about the effectiveness of the cottage system and the division-of-labor system? What are some contemporary examples of both systems? How can job satisfaction affect the quality of a product in an assembly line situation? What are some solutions for maintaining or improving the quality of the worker's life and the product (for example, the auto worker who assembles one engine component all day long)?

17. Have students decide upon and plan a profitable business that will also help the economy of the community. Have students research and present the following: what enterprise the community needs, what its effects will be, what permits will be required, the amount of capital needed, specific location number of employees, future development, and what the opposition of city council and the community may be to the enterprise.



18. Set up a competitive marketplace in the classroom. Design mock money for payment for attendance and performance (e.g., on time = \$5; tardy = \$2; completed homework = \$5; quiz grades = A-\$20, B-\$10, C-\$5, D-\$10; special projects = \$5 to \$75 to be negotiated). Each week decide what goods or services may be purchased (hold an auction each week and have students bid for their favorite seat in class; allow students who forget their books, paper, or pencils to rent these items from the teacher or other students; have students bid on special privileges or products donated by merchants, such as fast-food coupons, posters, sport passes, movie tickets, or product samples).
19. Using the terms *fixed* and *variable cost*, ask students to discuss why many gas stations have also become convenience stores. Discuss under what conditions might selling more products *not* increase profits.
20. Have students list the different types of technology that might be found in a fast-food restaurant. Have students brainstorm different businesses in the community, choose one, and list the kinds of technology that might be used in that business.
21. Have students brainstorm ways in which computers affect our everyday lives (at home, work, school, and in the areas of entertainment, health, or transportation). Have students brainstorm all they know about how computers are used in automobiles. Then have them answer the following: How does the use of computer technology enhance the value or improve the performance of a car? Have students discuss new ways computer technology might be used to improve the performance or value of other commonplace products or services. Have students research automobile companies and compare those that use very advanced technology to less advanced companies. Plot the share fluctuations of their stocks on a graph. Ask students to develop a persuasive radio advertisement or print advertisement to encourage consumers to purchase a product or service that uses an innovative application of computer technology that they have devised.
22. Have students research and evaluate Prohibition-era policies and goals supported by Mothers Against Drunk Driving (MADD) on consumer behavior.



23. Have groups discuss a topic from the unit. Ask each group to choose a recorder to write down ideas and a second person to summarize the discussion to the class.
24. Have students choose a person in history (e.g., Gandhi, Hirohito, Mao, Churchill, Mandela, Lincoln) and report on the dates that person lived, where he or she lived, and his or her economic accomplishments in relation to his or her country. After all students have reported, have them discuss some similarities and differences of the accomplishments and if these accomplishments had anything to do with that person's culture. Explain why or why not.
25. Ask students to name common symbols, such as flag or dollar sign. Direct students to [www.cagle.com](http://www.cagle.com) on the Internet and select the editorial cartoons page. Ask what symbols students see in an editorial cartoon, why they think the symbols were chosen, and what the symbols represent. Have students list all the symbols they find in the editorial cartoons. Have students research the origins of iconic symbols such as Uncle Sam, the Republican elephant, the Democratic donkey, or the hammer and sickle.
26. Have students look at today's editorial pages and analyze political cartoons by discussing the following: What issues do the political cartoons focus on? What symbols do the cartoonists use? What techniques, such as caricature or stereotyping, can be identified? Are there other articles in today's paper related to the political cartoons? What other topics on today's news could be depicted in political cartoons?
27. Ask students their opinion about a current news story. Direct students to [www.cagle.com](http://www.cagle.com) on the Internet and select the editorial cartoons page. Have students look at the same cartoon. Discuss the events portrayed and opinion expressed. Ask students to find a cartoon portraying a point of view different from their own. Have students create a cartoon in response to the one they have chosen.



28. Have students use the form below to analyze editorial cartoons.

### Editorial Cartoon Analysis

1. List the media source and date of publication.	
2. What event or issue inspired the cartoon?	
3. Are there any real people depicted in the cartoon?	
4. Are there symbols? What are they and what do they represent?	
5. What is the cartoonist's opinion of the event or issue?	
6. Do you agree or disagree with the cartoonist's opinion? Why? Explain.	

29. Have students create a cartoon on a current economic topic.

30. Discuss the power of the press with students. Discuss our expectations of journalistic objectivity and hypothetical threats to it (in our society or others), such as the editorial powers of a newspaper's owners, the clout of an advertiser who threatens to withdraw patronage, government censorship, and the need to maintain a high rate of readership.

31. See Appendices A, B, and C for other instructional strategies, teaching suggestions, and accommodations/modifications.



## Unit Assessment

Circle the letter of the correct answer.

1. A market is a place where people \_\_\_\_\_ .
  - a. manufacture high-tech equipment
  - b. buy and sell goods
  - c. observe a manufacturing process
  - d. grow produce
  
2. The two different kinds of markets that exist on the national level are the \_\_\_\_\_ .
  - a. fruit market and produce market
  - b. farmers' market and manufacturers' market
  - c. factor market and product market
  - d. vertical market and horizontal market
  
3. The basic principle that *drives* our economy is the \_\_\_\_\_ .
  - a. law of supply and demand
  - b. law of want and need
  - c. golden rule
  - d. law of elastic and demand
  
4. The price at which the consumer is willing to buy and the producer is willing to sell is called the \_\_\_\_\_ .
  - a. inelastic demand
  - b. traditional economic price
  - c. fair market price
  - d. factor market
  
5. \_\_\_\_\_ is the difference between money received and money spent.
  - a. Market clearing price
  - b. Loss
  - c. Inelastic demand
  - d. Profit



6. *Private goods* are those things that people own for themselves, whereas \_\_\_\_\_ *goods* are available for everyone's use.
- taxable
  - public
  - inexpensive
  - risk
7. If demand for a good is \_\_\_\_\_, sales of the good will increase as its price decreases.
- elastic
  - inelastic
  - profit
  - revenue
8. A \_\_\_\_\_ is something you can eat, drink, wear, smell, touch, feel, and take with you.
- service
  - good
  - public good
  - public service
9. A \_\_\_\_\_ is something you pay someone to do for you, such as cleaning your clothes or washing your car.
- service
  - good
  - public good
  - profit good
10. When raising or lowering the price of a good does not change the amount sold, the *demand* for the good is called \_\_\_\_\_.
- elastic
  - inelastic
  - profit
  - revenue



Use the list below to complete the following statements.

<b>cottages</b>	<b>factor market</b>	<b>product market</b>
<b>cottage industries</b>	<b>factories</b>	<b>specialization of labor</b>
<b>factor</b>		

11. In the \_\_\_\_\_, companies pay money to people in return for labor or natural resources.
12. In the \_\_\_\_\_, manufacturers sell goods and consumers buy them.
13. The *entrepreneur* is someone who organizes people's labor and combines it with other resources to produce a product. Another name for the entrepreneur in the history of industry was the \_\_\_\_\_.
14. In times past, the entrepreneur brought work to workers' homes, where workers labored on a product. Because workers lived in \_\_\_\_\_, these home workplaces were called \_\_\_\_\_.
15. Each family completed one of the many tasks necessary to produce a good. The separation of an entire job into its parts is called \_\_\_\_\_.
16. Eventually the entrepreneur moved all workers to a building near a power source such as water. These buildings are still called \_\_\_\_\_.





Identify the following statements as describing an elastic demand (E) or an inelastic demand (I). Write the correct letter on the line provided.

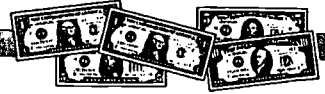
- \_\_\_\_\_ 17. Although the price of the board game *Clear Thinking* changed constantly, its sales remained the same.
- \_\_\_\_\_ 18. However, after another toy company came up with an equally exciting game called *Sharp Thinking*, the sales of *Clear Thinking* dropped when its price was raised.
- \_\_\_\_\_ 19. There was only one product on the market for a serious condition called *I-Can't-Get-Going-in-the-Morning*.
- \_\_\_\_\_ 20. Whereas 30 years ago the only basketball shoe worn in the United States was made by Converse, today there are many companies selling equally good basketball shoes.
- \_\_\_\_\_ 21. There is just no good substitute for treating a clogged wormhole in space other than *Trek's Space Wash*.
- \_\_\_\_\_ 22. The gas stations are having a gas war: each station keeps lowering its price to keep pace with the others.

Write **True** if the statement is correct. Write **False** if the statement is not correct.

- \_\_\_\_\_ 23. The *law of supply and demand* does not describe the interaction that goes on between buyer and seller.
- \_\_\_\_\_ 24. The *law of supply and demand* states that as demand increases, supply will decrease.
- \_\_\_\_\_ 25. *Net profit* is the money a company has after paying all its costs, including taxes.
- \_\_\_\_\_ 26. *Private goods* are owned by individual people.



- \_\_\_\_\_ 27. *Public goods* are managed by the government.
- \_\_\_\_\_ 28. The government uses *tax revenue* to pay for and maintain private goods.
- \_\_\_\_\_ 29. Examples of *private goods* are parks, water, and most local bus systems.
- \_\_\_\_\_ 30. Examples of *public goods* are homes and cars owned by individuals.



## Keys

### Practice (pp. 85-86)

1. the law of supply and demand
2. factor market and product market
3. In the factor market, companies exchange money as wages, rent, interest, or profits to people in return for land, labor, capital, or entrepreneurial skills; in the product market companies sell goods or services to the consumer in return for money.
4. a person who organizes labor with other resources to produce a product and is engaged in business for himself or herself
5. the separation of an entire job into different parts to produce more

### Practice (p. 93)

1. 2,000,000
2. \$3.00
3. 500,000
4. \$2.00
5. 1,750,000
6. \$4.50

### Practice (p. 95)

1. 500,000
2. \$4.00
3. 1,000,000
4. \$5.00
5. \$3.50
6. 750,000

### Practice (pp. 98-99)

1. quantity demand for the product changes as the price of the product changes
2. quantity demand for the product will not change whether the price of that product is lowered or raised
3. substitutes
4. lack of substitutes; need to survive
5. insulin

6. doughnuts
7. Goods are objects that can be carried away and kept; services are not.

### Practice (p. 100)

1. supply and demand
2. Consumers will increase their demand for a product as the price decreases; producers will increase supply as price increases.
3. fair market price
4. intersect or meet
5. substitutes
6. inelastic

### Practice (pp. 104-105)

1. I
2. E
3. P
4. P
5. P
6. P
7. P
8. I
9. I
10. E
11. I
12. E
13. E
14. E
15. E
16. E
17. P
18. P
19. I
20. P

### Practice (pp. 106-107)

1. c
2. c
3. b
4. b
5. d
6. a



## Keys

7. d
8. c
9. a

### Practice (p. 108)

1. True
2. True
3. True
4. True
5. False
6. True
7. True
8. False
9. False
10. True

### Practice (pp. 109-110)

1. fair market price; competitive market price; market clearing price
2. factor; product
3. the amount of a good or service consumers are willing and able to buy depending on the price
4. resources, including people's labor
5. by factors exchanging wages for labor
6. people doing only one part of the process necessary to produce a good
7. factories
8. product market
9. substitutes

### Practice (pp. 112-113)

Answers will vary but may include the following:

1. Manufacturers benefit from specialization of labor because people can be more efficient at a single task. Thus the cost of production will be lower. The worker may find that performing only one task is tedious and not as satisfying as working on many

tasks involved in the production of a product. Specialization of labor also means that workers cannot easily be shifted to other tasks because they would not know or have developed the needed skills.

2. When the price drops below the point at which a manufacturer makes a profit, the manufacturer will probably stop production.
3. Once a public good becomes a private good, the owner may be able to do anything he wants with the good. As a private good parks can be turned into parking lots and highways could be shut down. So keeping public goods public protects them and keeps them in a state desirable to us.

### Practice (p. 114)

1. A
2. C
3. D
4. I
5. E
6. F
7. H
8. G
9. B

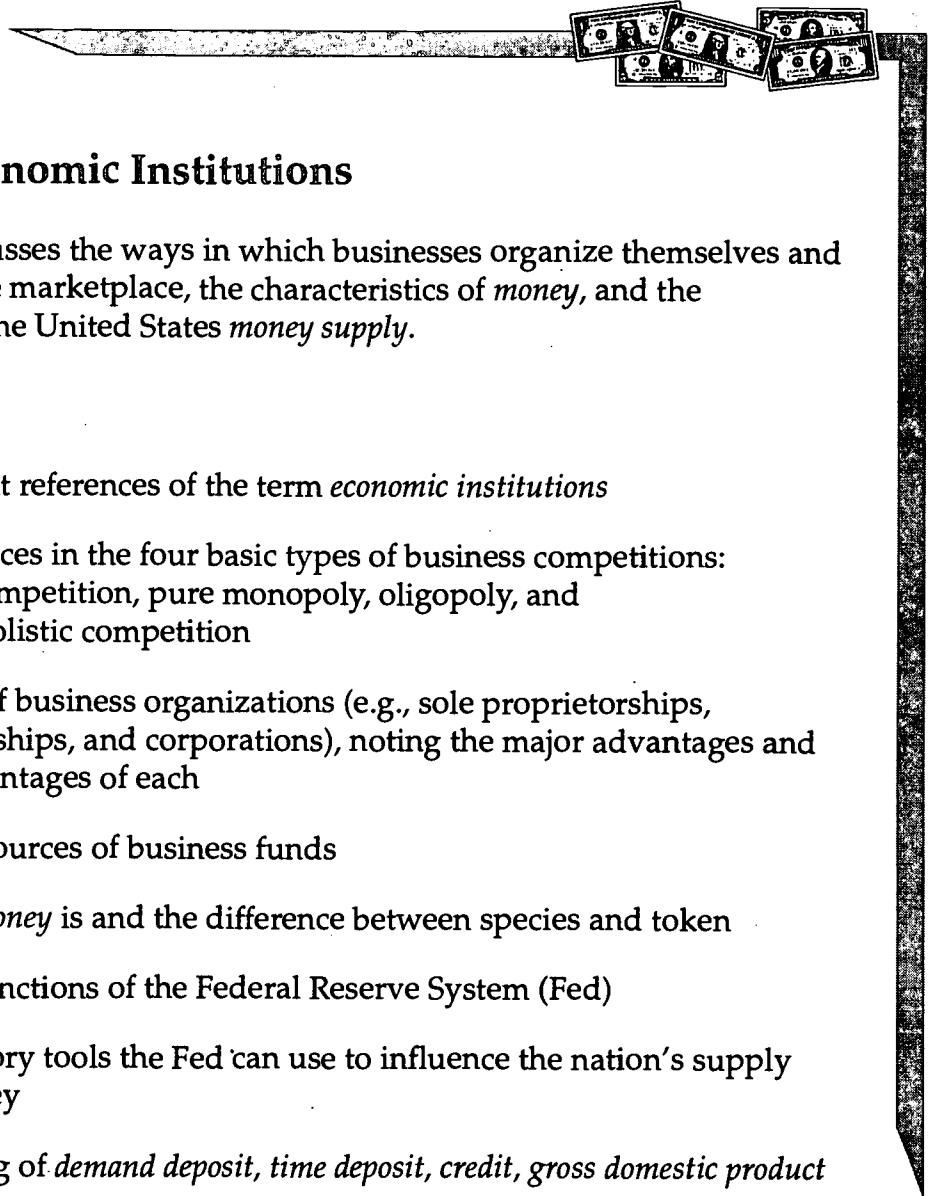
### Unit Assessment (pp. 47-51TG)

1. b
2. c
3. a
4. c
5. d
6. b
7. a
8. b
9. a
10. b
11. factor market
12. product market
13. factor



## Keys

14. cottages; cottage industries
15. specialization of labor
16. factories
17. I
18. E
19. I
20. E
21. I
22. E
23. False
24. False
25. True
26. True
27. True
28. False
29. False
30. False



## Unit 4: Economic Institutions

This unit discusses the ways in which businesses organize themselves and compete in the marketplace, the characteristics of *money*, and the regulation of the United States *money supply*.

### Unit Focus

- different references of the term *economic institutions*
- differences in the four basic types of business competitions: pure competition, pure monopoly, oligopoly, and monopolistic competition
- forms of business organizations (e.g., sole proprietorships, partnerships, and corporations), noting the major advantages and disadvantages of each
- major sources of business funds
- what *money* is and the difference between species and token
- main functions of the Federal Reserve System (Fed)
- regulatory tools the Fed can use to influence the nation's supply of money
- meaning of *demand deposit*, *time deposit*, *credit*, *gross domestic product (GDP)*, *inflation*, and *recession*

### Suggestions for Enrichment

1. Place five items on a table in front of the class. Ask students to answer questions about the items: What raw materials might be needed to make each item? What types of labor might be used to make each item? What capital goods might be used to make each item? What organizational skills might be required to organize the labor, capital, and raw materials used to make each item? How might the producer obtain the resources for each item?



2. Have students bring in newspaper advertisements or use the telephone book yellow pages to list examples of different business organizations and the advantages and disadvantages of each type, including ease of organization, ability to raise financial resources for growth, control of business, taxation, etc.
3. Assign students one of the following to research. Have students write a brief report about the subject's place in the economic history of the United States: John D. Rockefeller, Andrew Carnegie, James Fisk, Jay Gould, J. P. Morgan, Cornelius Vanderbilt, and the DuPont family.
4. Ask students to think about the board game *Monopoly* and discuss the following: What is the goal of the game? How do the rules of the game apply to the real corporate monopolies? How does it relate to what sometimes happens with large corporations in capitalistic societies? What is the definition of monopoly? How can a company produce or sell a commodity or service for which there is no practical substitute? Why are the concepts of monopolies and capitalism in great contrast to each other? Are monopolies fair? Why are monopolies illegal? Discuss how trusts operate and the difference between a trust and a monopoly. Why are trusts legal?
5. Discuss the meaning of the word *merge*. What does a merger of companies mean? Ask the following: What types of companies might want to merge to make a bigger company? How does this relate to the notion of monopolies?
6. Have students research historic examples of companies that were charged with monopolization of their industries and services (e.g., Standard Oil Company, American Tobacco Company, International Business Machines Corporation (IBM), General Mills, General Foods, American Telephone and Telegraph (AT&T), Bell Telephone). The Federal Trade Commission Web site (<http://www.ftc.org>) has information on antitrust cases and the Department of Justice Antitrust Division Web site (<http://www.usdoj-gov/atr/index.html>) contains appellate briefs for antitrust cases since December 1994. Ask students to answer the following about the corporation: In what year was the company tried for monopolizing a sector of the economy, and what commodity or service was the company accused of monopolizing? How did the company defend



itself in the court case? What was the verdict and why? What were the results of the verdict on the corporation? What is the company like now? How do you feel about the verdict and why? Have students discuss possible connections between their company's court case and the Microsoft court case and write an essay comparing and contrasting the Microsoft trial to the researched company's antitrust law suit.

7. Ask students to interview an adult about the monopoly on telephone services until the mid-1970s and what aspects of telecommunications were completely controlled.
8. Have students research Congressional acts and new government offices developed to amend the Sherman Antitrust Act (Clayton Antitrust Act, Federal Trade Commission, Robinson-Patman Act, Celler-Kefauver Antimerger Act).
9. Have students research companies currently under scrutiny for possible antitrust law violation.
10. Have students brainstorm what they know about the Microsoft Corporation. Discuss why the Sherman Antitrust Act was originally written. Ask the following: Why did economists in the late 19<sup>th</sup> century oppose this act? Why did this change by the early 1900s? Have students research President Theodore Roosevelt's views on good and bad trusts and if they agree or disagree with his ideas and why. Ask students to examine why John D. Rockefeller's Standard Oil Company epitomized what a monopoly is and how it works in a capitalist economy. When discussing monopolies and the Sherman Antitrust Act, what are the main differences between the Standard Oil Company and Microsoft?
11. Have students obtain a list of different Microsoft products on the Microsoft Web site (<http://www.microsoft.com>). Ask students to determine which computers in their school are dependent upon Microsoft applications and software.
12. Have students research the government's charges against the Microsoft Corporation. Ask students to assume the role of the judge hearing the case and express his or her decision in a persuasive





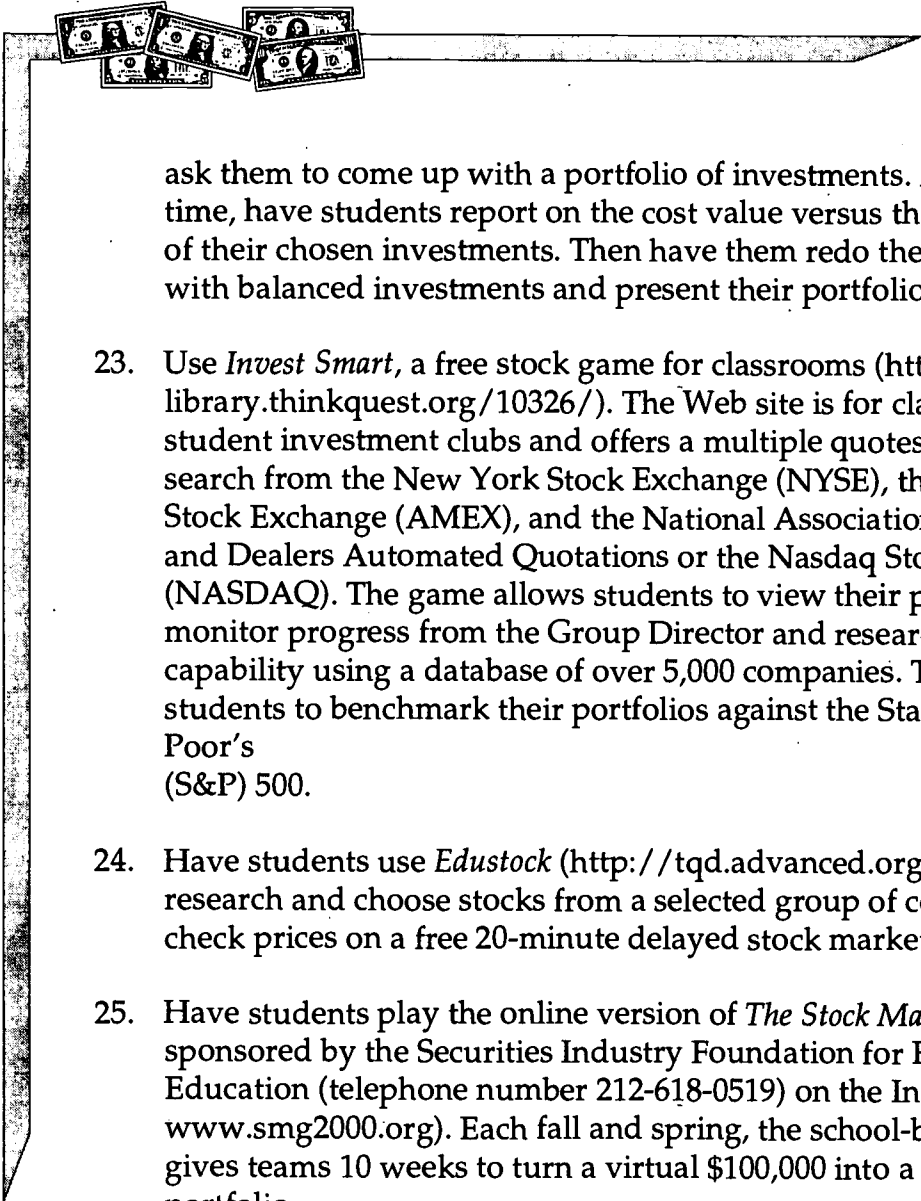
essay addressing the following: Why is a monopoly bad? Can a monopoly ever be good? Why would his or her decision advance the goals of capitalism? (Optional: Ask students to include a timeline of events in the case.)

13. Have students find editorial cartoons on business mergers, Microsoft, and other related issues and explain how they present the issues, and what opinions and insights they offer?
14. Discuss the fundamentals of the United States market economy and stock ownership and how stockholders share the risks and rewards of business ownership by purchasing stock.
15. Have students discuss reasons why companies like to associate their products with professional sports figures. Have students research companies who hire sport celebrities to endorse their products and choose three companies and record their recent stock history. Ask students to discuss how the actions of a sport celebrity sponsor could affect a company's sales and stock.
16. Have students choose magazine advertisements featuring famous celebrities and write an explanation of how that celebrity helps to present the image that the company wants for its products. Ask students to also state whether they think that celebrity is the best person to sponsor that product. If not, who should the company hire for the advertisement instead?
17. Have students work in groups to create a 30-second television commercial for fictitious products that feature one or more real celebrities. Ask the class to rate each group's commercial based on how well the celebrity's presence enhanced the appeal of the product and state whether that particular celebrity is an appropriate sponsor for that product.
18. Ask students to assume the role of a representative from a company on one of the stock exchanges to make a presentation on a product to shareholders and customers. The product presentation should include the following: product description, supply and demand information for the product, market share, quantity sold, revenues and profits from sale of product, comparison between other companies' similar products, how the product is brought to market



(e.g., produced or exported), selling price and cost, brand strategy, amount spent on research and development; amount spent on advertising, advertising campaign summary.

19. Have students bring in the stock market section of the newspaper and teach them how to read it. Ask students to choose 10 companies and gather background information from those companies' Web sites (e.g., type of company, number of years in business, summary of what the company does, last year's and this year's profits). After reviewing the information, ask students to decide on five companies in which to invest a total of \$100,000. Have students find out the current selling price per share for each company's stock and decide how many shares to buy. Ask students to create a spreadsheet that includes name of stock and symbol, and initial investment (date of transaction, price per share, number of shares, total investment; daily record: date of transaction, buy/sell, number of shares, price per share, current value, profit/loss). At the end of the designated stock performance period, ask students to create a line chart showing profit or loss for each stock investment.
20. Have students use the *Investing for Kids* Web site (<http://tqd.advanced.org/3096/>) to research investment options, such as stocks, bonds, and mutual funds, and play various levels of stock games provided on the site.
21. Have students pretend an aunt has just given them \$2,000 to invest in stocks. The aunt, who keeps all of her own extra money in a savings account, might be uneasy about the decision to buy stock. Ask students to anticipate the aunt's concerns and write a letter explaining why they think they are making good use of the money, even though stock ownership involves risk. Have students include information about the company whose shares they would be willing to purchase and the description of two products made by that company.
22. Tell students they each have inherited \$100,000 for investment purposes. Have each student write his or her finance objective (e.g., college, marriage, children, future business, wealth, retirement). Discuss the concept of risk and explain the reasons for diversifying a portfolio. Divide class into small groups with similar objectives and



ask them to come up with a portfolio of investments. After a set time, have students report on the cost value versus the market value of their chosen investments. Then have them redo their portfolios with balanced investments and present their portfolios to the class.

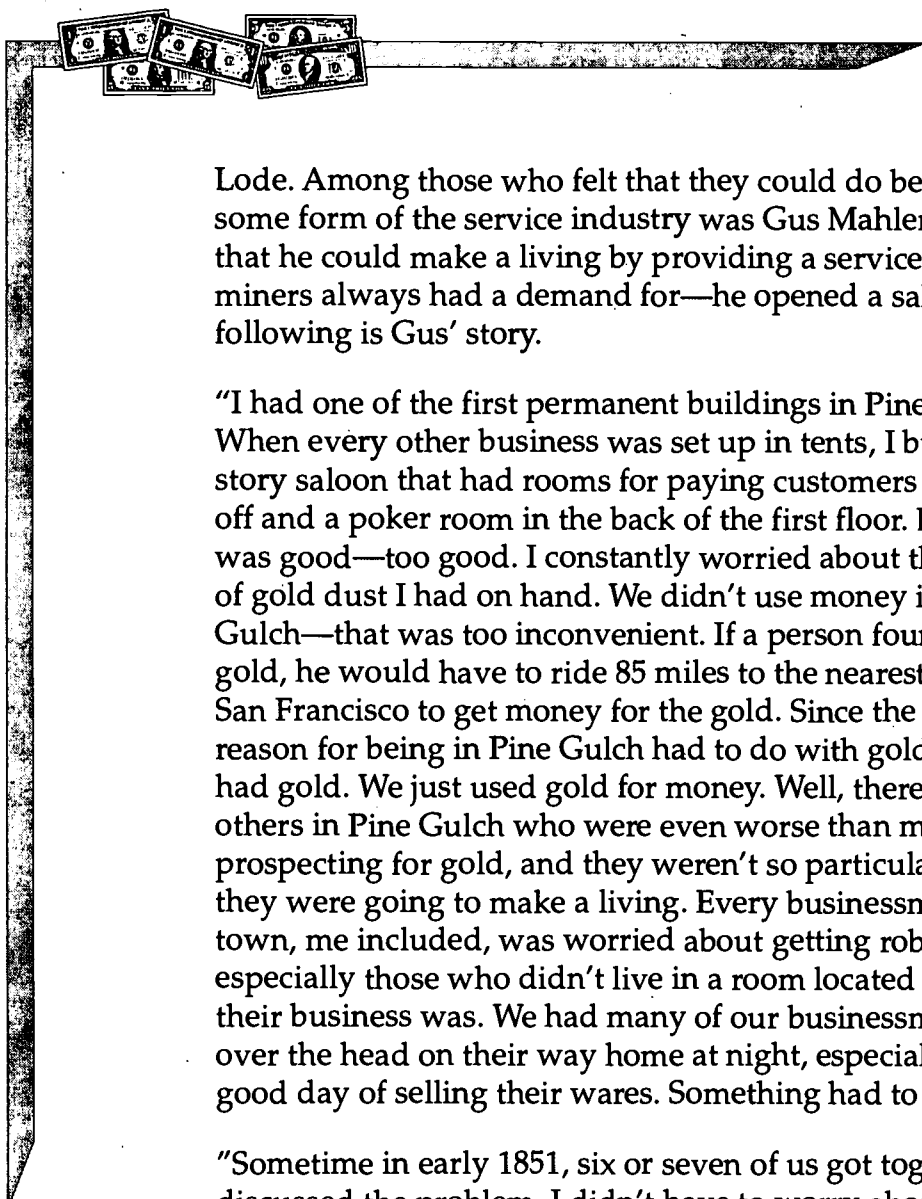
23. Use *Invest Smart*, a free stock game for classrooms (<http://library.thinkquest.org/10326/>). The Web site is for classrooms or student investment clubs and offers a multiple quotes and symbols search from the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and the National Association of Securities and Dealers Automated Quotations or the Nasdaq Stock Market (NASDAQ). The game allows students to view their portfolios and monitor progress from the Group Director and research stock capability using a database of over 5,000 companies. The site allows students to benchmark their portfolios against the Standard and Poor's (S&P) 500.
24. Have students use *Edustock* (<http://tqd.advanced.org/3088/>) to research and choose stocks from a selected group of companies and check prices on a free 20-minute delayed stock market simulation.
25. Have students play the online version of *The Stock Market Game* sponsored by the Securities Industry Foundation for Economic Education (telephone number 212-618-0519) on the Internet (<http://www.smg2000.org>). Each fall and spring, the school-based game gives teams 10 weeks to turn a virtual \$100,000 into a winning portfolio.
26. Brainstorm suggestions for substitutes for United States currency such as gold, cookies, oil, shells, salt, beans, etc. Measure each suggestion against the characteristics and acceptability of current money. You may want to use a chart to record the main points under the categories described in the text: portability, durability, etc.
27. Discuss funding sources for businesses: loans from outside sources, retained earnings (reinvestment of profits), and new partners, for example. Ask the students why a business might favor one source over another and what problems might be encountered.



28. As a way of teaching banking skills, present the story below orally to students. After the story, have students discuss the following questions. (Due to the story's length, you may wish to provide students with a copy to read along with you.)
- Why was there a demand for Slim's services in Pine Gulch?
  - How did Slim use this demand to create a monetary system for the town?
  - Why was it important for Slim to go to San Francisco to get the ink and paper to write the receipts?
  - Why did the people of Pine Gulch accept these receipts as currency?
  - How did Slim increase the money supply in Pine Gulch? How did he decrease it?
  - Who benefited from this practice? Why did Slim have to leave town after Big Bart shot him?
  - How did Slim become one of the richest men in Pine Gulch?
  - How does contemporary banking and Americans' faith in their monetary system compare with the faith the citizens of Pine Gulch had in Slim?

**Recollections of Pine Gulch 1840-1890  
Taken from the Memoirs of Gus Mahler**

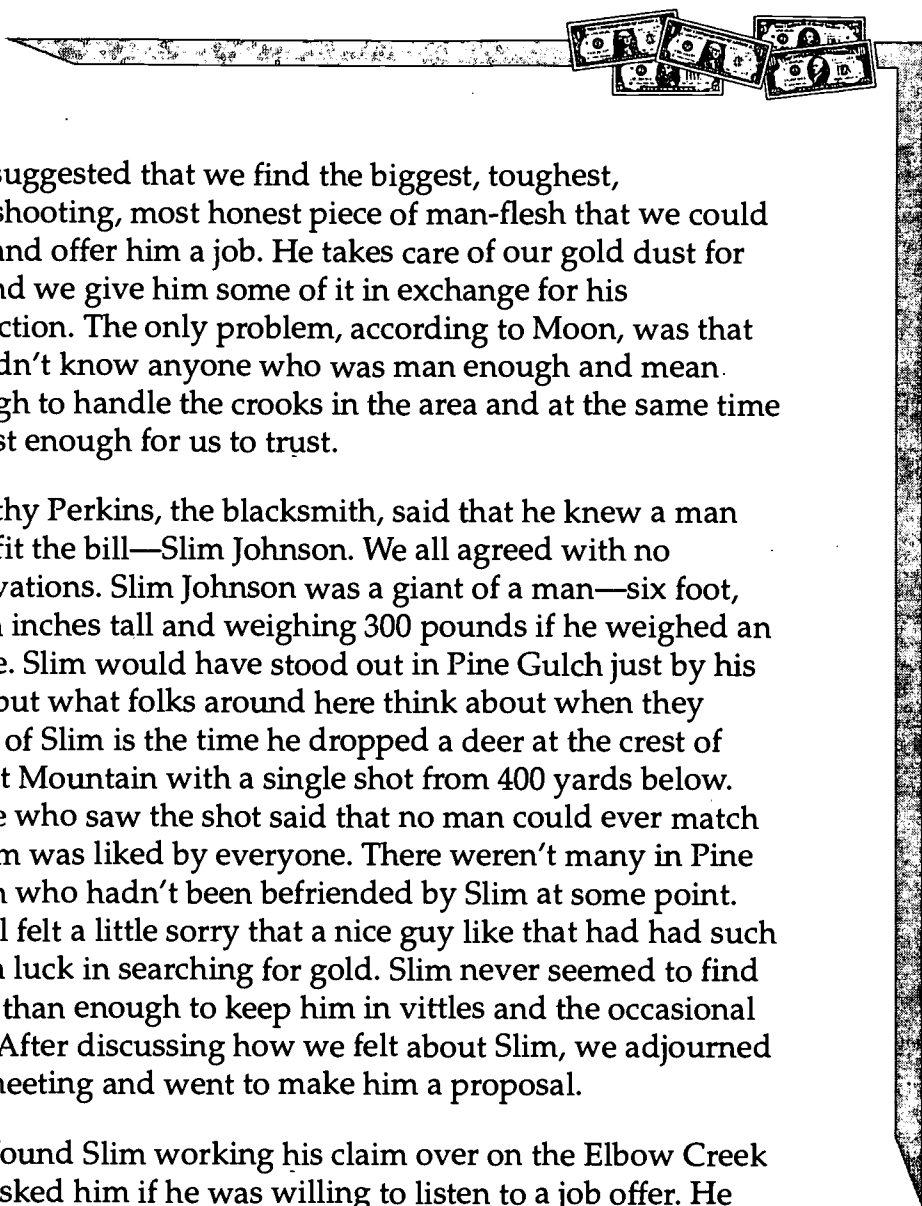
With the discovery of gold at Sutter's Mill in 1848, a new American Dream of sudden wealth taken from the ground resulted in a population boom in Northern California. Where before there had been barren wilderness and small homesteads, the discovery of gold gave rise to "boom towns" and "mining camps" filled with men (and some women) who believed that they were going to strike it rich. As some of these opportunists came to realize that they were not going to find the big strike, they saw the need to provide services for those who continued to try to find the Mother



Lode. Among those who felt that they could do better in some form of the service industry was Gus Mahler, who saw that he could make a living by providing a service that miners always had a demand for—he opened a saloon. The following is Gus' story.

"I had one of the first permanent buildings in Pine Gulch. When every other business was set up in tents, I built a two-story saloon that had rooms for paying customers to sleep it off and a poker room in the back of the first floor. Business was good—too good. I constantly worried about the amount of gold dust I had on hand. We didn't use money in Pine Gulch—that was too inconvenient. If a person found some gold, he would have to ride 85 miles to the nearest bank in San Francisco to get money for the gold. Since the only reason for being in Pine Gulch had to do with gold, everyone had gold. We just used gold for money. Well, there were others in Pine Gulch who were even worse than me in prospecting for gold, and they weren't so particular in how they were going to make a living. Every businessman in town, me included, was worried about getting robbed—especially those who didn't live in a room located where their business was. We had many of our businessmen get hit over the head on their way home at night, especially after a good day of selling their wares. Something had to be done.

"Sometime in early 1851, six or seven of us got together and discussed the problem. I didn't have to worry about going home with the receipts at night like my fellow businessmen, but I was worried about a raid on my saloon. The saloon in Red Mountain had been knocked over late one night and the owner, a Swede named Ole Svenson, had lost a large supply of dust because he hadn't been to San Francisco in five months. I was afraid that the crooks that had done that job would hit my place one night, even though I made the trip to Frisco once a month and never kept as much on hand as Svenson had that night. Moon Jenkins, the dry goods supplier, came up with possibly the best idea that he ever had.



"He suggested that we find the biggest, toughest, best-shooting, most honest piece of man-flesh that we could find and offer him a job. He takes care of our gold dust for us, and we give him some of it in exchange for his protection. The only problem, according to Moon, was that he didn't know anyone who was man enough and mean enough to handle the crooks in the area and at the same time honest enough for us to trust.

"Smithy Perkins, the blacksmith, said that he knew a man who fit the bill—Slim Johnson. We all agreed with no reservations. Slim Johnson was a giant of a man—six foot, seven inches tall and weighing 300 pounds if he weighed an ounce. Slim would have stood out in Pine Gulch just by his size, but what folks around here think about when they think of Slim is the time he dropped a deer at the crest of Skillet Mountain with a single shot from 400 yards below. Those who saw the shot said that no man could ever match it. Slim was liked by everyone. There weren't many in Pine Gulch who hadn't been befriended by Slim at some point. We all felt a little sorry that a nice guy like that had had such rotten luck in searching for gold. Slim never seemed to find more than enough to keep him in vittles and the occasional beer. After discussing how we felt about Slim, we adjourned our meeting and went to make him a proposal.

"We found Slim working his claim over on the Elbow Creek and asked him if he was willing to listen to a job offer. He said that since his luck had been running about normal that day, he might as well take some time out to talk with us. We described our problem and explained that we wanted someone we could trust and have confidence in to take care of our gold dust. Slim asked us what he would earn from this, and we told he that we would each give him one-half of one percent of our gold that he held each month in exchange for him safeguarding it for us. Slim asked us how much we would be asking him to guard each month, and, after doing a little calculating, he figured that he would see a lot more gold tending after ours than he ever would working his claim. He agreed to our deal and asked us give him the weekend to make preparations.



"Slim spent that weekend making arrangements in Pine Gulch. He rented a small house in town, and all weekend people heard the sound of hammering and sawing coming from the house. When we went to see Slim on Monday, he showed us his work. He had put iron bars on the three windows in the house and cut a hole in the floor and placed sheets of steel all around the hole. He told us that he intended to keep our gold in this hole. When Moon Jenkins asked him what would keep someone from crawling under the house and trying to get into the hole from the outside, Slim told him to go outside and crawl under the house and try. Moon came running back in within seconds, and I think I actually heard him cuss for the first time. It was such a shock that I wasn't sure what I heard. I did hear him say something about a monster and realized that Slim wasn't living in the house alone—he had brought Daisy to town with him. Daisy was a creature of indeterminate breed. Some thought she was a dog; others considered her a wolf. The only thing I was sure of was that Slim was the only one who Daisy got along with. I knew that if anyone was going to try to break into Slim's strongbox from the outside, Daisy was a big obstacle that they were going to have to overcome. Satisfied, we all went back to our businesses and brought most of the gold dust we had on hand and deposited it with Slim. He gave us receipts for the amount we placed with him and told us to return whenever we needed to put more in or get some out.

"This began Slim's banking career. As more and more of Pine Gulch's businessmen saw the advantage of having Slim take care of the gold dust that they made, they made the same deal with Slim—in exchange for Slim taking care of the gold dust (and the occasional nuggets that they took in), Slim would receive one-half of one percent of the dust that he held for them. Slim, being a sharp businessman himself, began offering his services to the prospectors in the area, also, and slowly they too began using his services. As his customers expanded, Slim slowly started on his way to becoming the wealthiest man in Pine Gulch. But as the years went on and his list of customers grew, he began realizing that the demands on his time were becoming so much that he wasn't able to enjoy his new-found wealth.



"The final straw came the night that Orville Kanter got involved in a poker game in the back of my saloon. I closed the saloon at around two in the morning but allowed the game in the back to continue. Somewhere around four in the morning, Orville, who had been losing steadily for quite some time, got involved in a show down with Two-Fingers Bradley. Bradley had been the game's big winner that night, and I think that he thought he could buy the pot from Orville. When Orville wouldn't back down and couldn't match Two-Fingers' bet, he turned to me and asked me to hold his cards while he went to get the money required to match the bet. I agreed and we waited about 20 minutes until Orville returned with the dust necessary to match the bet. It was a good thing that Orville's straight was better than Two-Fingers' three kings because I sure didn't want Orville to suffer the black eye he had gotten for nothing. It seems that when Orville went to get the dust he needed to match the bet, he barged into Slim's house to wake him up and get what he needed. Normally, I don't think that would have been a problem, but Slim wasn't alone when Orville burst in, and I think he was a little embarrassed to be found embracing Bessie Nordstrom.... Anyway, Slim's first reaction when Orville burst in the door was to leap up and land a haymaker on Orville that gave him a beaut of a shiner. After helping Orville up off the floor, Slim withdrew the gold dust that Orville needed, but I understand that he wasn't very happy about being disturbed at that particular time.

"The next day Slim stopped by the saloon and told me that he was going to be gone for a couple of days and that I would need to hold on to my dust until he returned. He rode off that night without telling us where he was going.

"When he returned, he summoned me to his house and told me where he had been. It seems that he had ridden to San Francisco looking for something that could help him keep from being interrupted at all hours of the night and also from having to be on call for all the people who had left their dust with him. He told me that he had searched all over San Francisco and finally found something that would fit his needs. He had found a stationery shop just off Nob Hill, and he had asked the owner if there was any paper and ink that





the owner had in stock that was unique. The owner of the stationery shop said that he had had an eccentric old widow who had special ordered a unique combination from him and then died before she had picked up the order. The order was green paper and purple ink. Slim looked the material over and, after determining that there was no paper and ink like it on the West Coast, he bought the entire supply.

“Why?” I asked him. Slim answered that from that point on, whenever we left gold dust with him, he would write out a receipt for the amount of dust we had left. He said that he would even fill out receipts for different amounts. If I left \$100 worth of dust with him, for example, he could give me one receipt for \$100, or two receipts for \$50, or whatever combination I wished. Then whenever I needed to purchase anything, instead of coming to Slim to withdraw some of the dust I had left with him, I could just give a receipt to whomever I was doing business with and that person would know that if they wanted the dust, they could go to Slim and withdraw it. If they didn’t want the inconvenience of carrying the dust around, they could just hold on to the receipt and use it to purchase something that they wanted. Slim guaranteed me that he had the only supply of green paper and purple ink on the West Coast and that everyone would know that the receipt was good because of his signature on the receipt. When I asked Slim if this writing of these receipts would be worth all the trouble that he would have to go through, he replied that they were going to make his job much easier because now people wouldn’t be bothering him at all times of the night to get their dust. In fact, he said that he was only going to be open on Monday through Friday from 9:00 a.m. to 4:00 p.m. for people to leave their dust with him or withdraw dust. In this way he could still protect the deposits and have a life of his own.

“I was skeptical at first, but gradually everyone in Pine Gulch accepted Slim’s receipts as ‘money,’ and Slim’s life began to approach what would be considered by some to be normal. If it had been anyone else but Slim, I don’t think the plan would have worked, but since everyone knew Slim to be an honest and virtuous man (Bessie Nordstrom notwithstanding), Slim’s currency became the medium of exchange in Pine Gulch.



"Some even joked that Slim should add a slogan to the receipts—one that said 'In Slim, we trust.'

"About a year after Slim introduced his currency into Pine Gulch, he stopped into my saloon to have a glass of sarsaparilla. I had been doing some thinking about how to improve my business, since Pine Gulch was growing and I no longer had the only saloon in town. I had a few ideas about what would bring more business into my place, but I sure didn't have the money I needed. I brought Slim his glass of sarsaparilla and took him over to the corner booth to discuss my particular problem. I wanted to add on to the saloon and build a big stage where I could bring in some fancy dancers from San Francisco for a show. The type of fancy place I envisioned would have a mirror running the length of the bar and fancy curtains and all the baubles I saw in those fancy places in San Francisco. The only trouble was that everything I wanted was going to cost around \$5,000, and I didn't have anywhere near that amount of money, especially since the other saloons were taking a large part of my business away. I asked Slim if there was some idea that he had that could help me with my problem.

"Slim thought for a while, and then he said that he didn't have enough to lend me either. He had spent a large part of his earnings on the new building he bought for his bank. But, he said, if I would stop by the bank the next day, he might have a way for me to get what I needed to expand. I went to the bank the next day, and Slim welcomed me and took me into his back office. After we sat down, Slim told me that he had a solution to my problem. He reached into his desk and pulled out a stack of receipts totaling \$5,000. He pushed the stack across his desk and told me that the receipts were mine to use for the expansion of my place.

"I was shocked! 'Where,' I asked Slim, 'did the money come from? I thought you said you didn't have any you could lend me. What is this?' I was not prepared for Slim's answer. He told me that he had written up the receipts that morning.

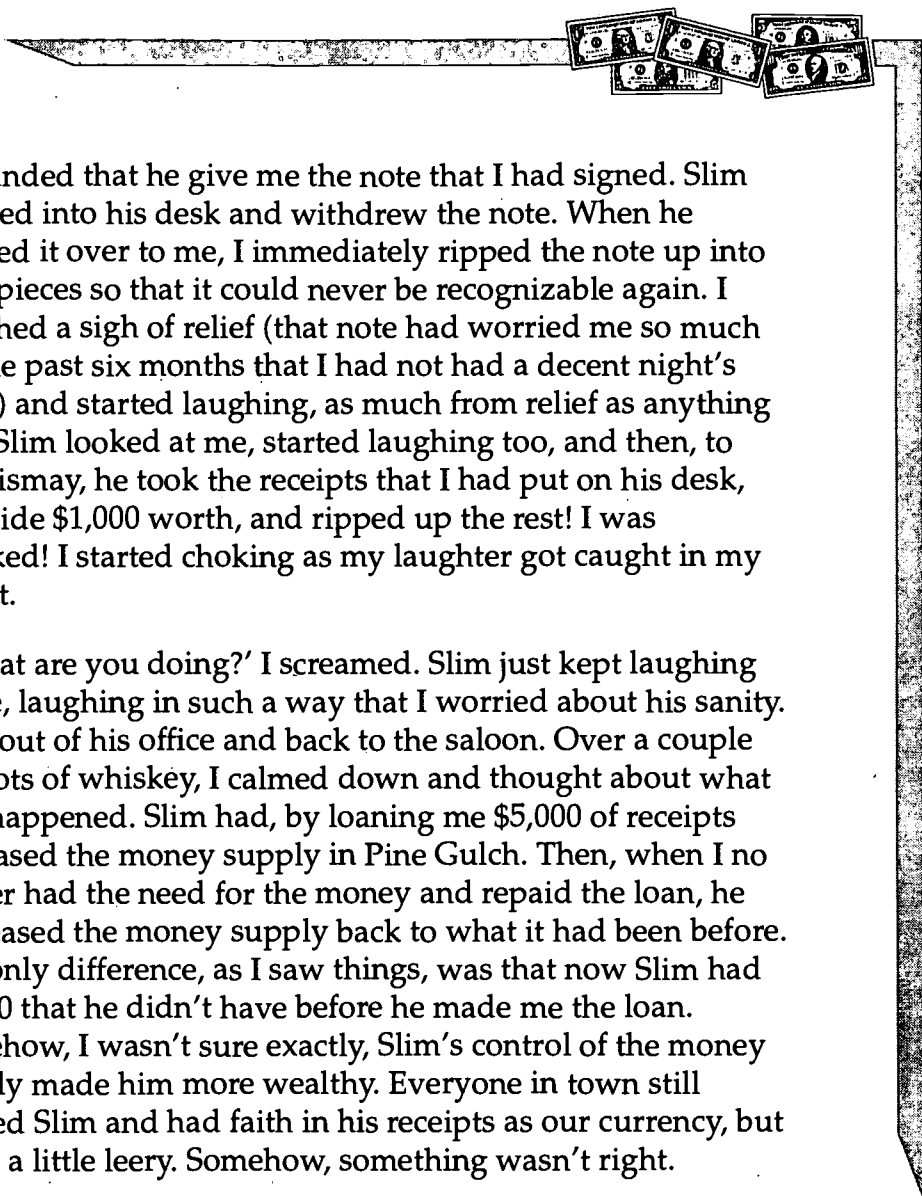


I couldn't believe my ears. We had come to Slim to care for our gold because we trusted him. Now he was offering to hand me receipts for gold that I didn't have. It had to be stealing.

"Slim told me not to worry. He explained that he had around \$20,000 worth of gold dust in his safe, and he had written \$20,000 worth of receipts that we were circulating in Pine Gulch as currency. But few people ever came into the bank and cashed the receipts in for gold dust anymore. In fact, he said that the biggest demand for gold dust in the previous year had been a \$1,000 redemption of receipts. Since he had more dust on hand than anyone ever wanted to redeem, he felt that he could write out enough receipts to give me a loan for my expansion and never worry because the people wouldn't demand their gold.

"I was thinking that somehow what we were talking about was illegal. Slim was writing receipts for gold that I hadn't put into his bank and allowing me to spend the receipts. Something was wrong here. Slim explained to me that I wasn't going to get the receipts for nothing. He reached into his desk and pulled out a piece of paper and handed it to me. The paper said that I, Gus Mahler, was borrowing \$5,000 in receipts from Slim's bank and that in six months I would repay the \$5,000 plus \$1,000 in something called interest. He explained that the \$1,000 was going to my cost of borrowing from his bank. I was nervous about this, but as long as Slim assured me that he would stick the paper away where no one would see it and wouldn't tell anyone about it, I felt that I could improve my business and make enough to repay the loan without anyone learning about it.

"I accepted the receipts and began ordering what I needed from the businesses in town. The materials to expand my saloon got to Pine Gulch within a month, and the expansion took about another two weeks. By the end of the six month period of the loan, my business had improved to such a point that I could repay the loan in full plus the interest that I owed Slim. I walked into Slim's office one Monday morning and, after we had gone back into his office, I took the \$6,000 in receipts out of my pocket, set it on his desk, and



demanded that he give me the note that I had signed. Slim reached into his desk and withdrew the note. When he handed it over to me, I immediately ripped the note up into little pieces so that it could never be recognizable again. I breathed a sigh of relief (that note had worried me so much for the past six months that I had not had a decent night's sleep) and started laughing, as much from relief as anything else. Slim looked at me, started laughing too, and then, to my dismay, he took the receipts that I had put on his desk, set aside \$1,000 worth, and ripped up the rest! I was shocked! I started choking as my laughter got caught in my throat.

“What are you doing?” I screamed. Slim just kept laughing at me, laughing in such a way that I worried about his sanity. I ran out of his office and back to the saloon. Over a couple of shots of whiskey, I calmed down and thought about what had happened. Slim had, by loaning me \$5,000 of receipts increased the money supply in Pine Gulch. Then, when I no longer had the need for the money and repaid the loan, he decreased the money supply back to what it had been before. The only difference, as I saw things, was that now Slim had \$1,000 that he didn't have before he made me the loan. Somehow, I wasn't sure exactly, Slim's control of the money supply made him more wealthy. Everyone in town still trusted Slim and had faith in his receipts as our currency, but I was a little leery. Somehow, something wasn't right.

“As the years went along, Slim made loans to many others in Pine Gulch. I never felt good about borrowing from him again, but I knew many others who went to Slim whenever they needed something and couldn't afford it. I was sure that if he was making money off their loans the way he did off mine, he had to be the richest man in Pine Gulch. But the gold strikes were starting to peter out, and I wondered if Slim had anywhere near the gold dust in his safe as the amount of receipts that were in circulation.

“In the late 1860s a stranger rode into town. With my first glance at him, all thoughts of Slim being a big man left my head. This monster was bigger than most bears I had ever seen. He sat in my saloon, tossing back beers with the



regulars and telling jokes and laughing louder than anyone I had ever heard. His name was Bart McQueen, but everyone referred to him as Big Bart. After partying all over town for a couple of days, Big Bart announced his intentions to settle down in Pine Gulch. He said he was going to need a job, and he wanted the best job in town. 'What is that job?' he asked, and everyone in town knew what the answer was. 'Slim Johnson has the best job in town,' they said. 'He's the banker.' After listening to the townspeople talk about Slim and his job, Big Bart decided that this was the job for him.

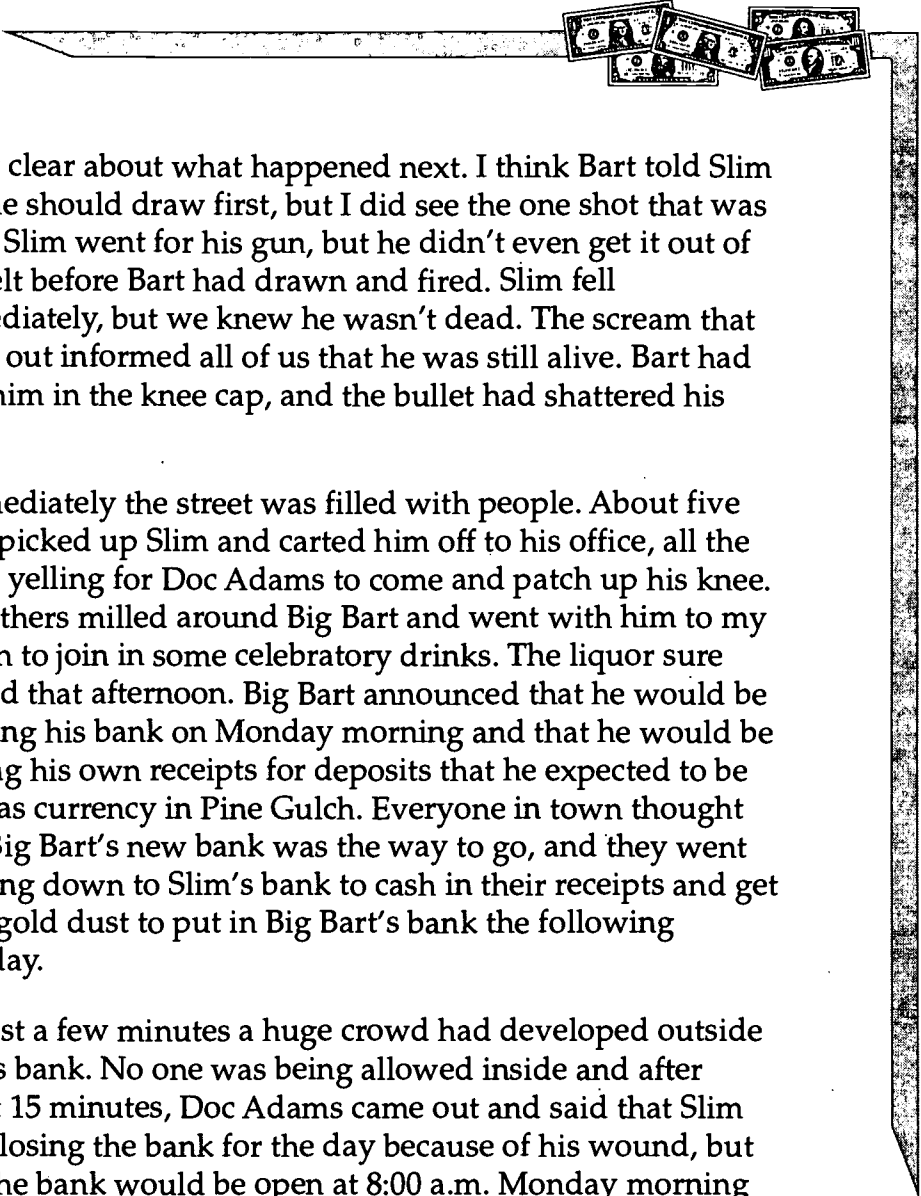
"'You can't do that,' Smithy Perkins said. 'Slim is the banker and he's the one we go to for finances. We can't have two bankers and two different kinds of money. That would make things confusing.'

"'No problem,' said Bart, 'just tell Slim that I'll be waiting for him in the street at 3:00 p.m. this afternoon. After we're done, there will only be one person who wants to be banker in Pine Gulch.'

"Like wild fire, the news spread through Pine Gulch. When I heard it, I knew that Slim was in trouble. No one had challenged him for years, and I had been beginning to wonder if he was living off his reputation. Big Bart was impressive looking, and if he could handle a six-gun, I had a feeling that Slim might have seen better days.

"That afternoon, there was no one on the only street that ran through Pine Gulch, but if you looked behind the curtains that looked out on the street, you would have found everyone who lived within five miles of town. A lot of people were wondering if Slim would show up, but at 3:00 p.m. he walked out of his office and took up a position in the middle of the street. About a minute later, Big Bart walked out of the office of the *Pine Gulch Gazette* (I found out later he was helping the copy boy write Slim's obituary) and took up a position opposite Slim.

"I heard him tell Slim that this fuss could be avoided if Slim chose to leave town. Slim's reply was that the person who should leave was the person who was new to town. I'm not



really clear about what happened next. I think Bart told Slim that he should draw first, but I did see the one shot that was fired. Slim went for his gun, but he didn't even get it out of his belt before Bart had drawn and fired. Slim fell immediately, but we knew he wasn't dead. The scream that he let out informed all of us that he was still alive. Bart had shot him in the knee cap, and the bullet had shattered his knee.

"Immediately the street was filled with people. About five guys picked up Slim and carted him off to his office, all the while yelling for Doc Adams to come and patch up his knee. The others milled around Big Bart and went with him to my saloon to join in some celebratory drinks. The liquor sure flowed that afternoon. Big Bart announced that he would be opening his bank on Monday morning and that he would be issuing his own receipts for deposits that he expected to be used as currency in Pine Gulch. Everyone in town thought that Big Bart's new bank was the way to go, and they went running down to Slim's bank to cash in their receipts and get their gold dust to put in Big Bart's bank the following Monday.

"In just a few minutes a huge crowd had developed outside Slim's bank. No one was being allowed inside and after about 15 minutes, Doc Adams came out and said that Slim was closing the bank for the day because of his wound, but that the bank would be open at 8:00 a.m. Monday morning for anyone who wanted to redeem their receipts for gold dust. The crowd dispersed (many of them coming back to my saloon to drink with Big Bart and congratulate him on his impressive handling of Slim), and things settled down for the weekend.

"The next Monday a long line developed in front of Slim's bank by 8:00 a.m. Everyone in town was waiting to cash in the funny green receipts with the purple ink and get their gold dust to put in Big Bart's bank. When the doors didn't open at 8:00 a.m., there was some grumbling. When the doors didn't open by 8:30 a.m., the grumbling turned into action. The doors were kicked in, and we were greeted with



a terrible sight. Slim's vault was open, and the only thing in it was a pile of promissory notes that almost everyone in town had signed. Oh, there was one other thing found in the vault—a sealed letter addressed to me. Sensing the mood of the crowd around me, I didn't think it would be a good idea to take the letter and read it privately. I got up on the counter, yelled at everyone to be quiet, tore open the letter, and began reading aloud.

"My old friend Gus', the letter began, 'I'm writing this to you because you are probably the person in this town who will best understand what has happened. My unfortunate run-in with the impressive Mr. McQueen this afternoon (the letter must have been written Friday evening after the gunfight) has left me unable to handle the financial needs of this community. As you may suspect, Pine Gulch has been in existence financially because everyone used my receipts as their currency. Whenever anyone in town needed money, I was willing to write out new receipts in exchange for their promissory notes which I held in my vault. Over the years more and more people came to me for loans for longer and longer periods of time. I realized that there were far more receipts in circulation in Pine Gulch than I could ever cover with the gold dust that I had available, but as long as people retained their faith in me and didn't all come in to redeem their receipts at the same time, we would have no problems. The people of Pine Gulch no longer have the faith in me that is required, as is evidenced by the fact that they all wish to withdraw their gold dust and place it in Mr. McQueen's new establishment. Well, I am unable to redeem all of the receipts in the community. As you can see by the notes here in this vault, there are almost \$200,000 worth of receipts outstanding in Pine Gulch. Unfortunately, I have never had more than \$40,000 worth of gold dust in my vault. Thus, I am faced with a dilemma. Do I stay in Pine Gulch, pay off the fortunate few who arrive first on Monday morning, and then, after the gold dust is gone, say that I'm sorry to the others who did not get the chance to redeem their receipts? Or do I leave town, realizing that a man of my skills can get away with a two-day head start? If I do the first, I have no doubt that I will be swinging from a tree before lunchtime. If



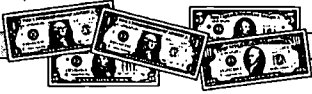
I do the second, I will undoubtedly have a guilty conscience for the rest of my days. After a great deal of reflection (and a generous dose of Doc Adams' pain reliever), I have decided to take the second course. I feel that my conscience can be greatly eased by the gold dust that I feel I am honor-bound to take with me. If I leave the gold, only a small section of the population in Pine Gulch will receive what they feel they are owed, and those who receive none of the gold will feel antagonistic to those who have received some of the gold. If the people of Pine Gulch are to be antagonistic to anyone, let it be me. I wish the people of Pine Gulch well. They are all in the same boat now. I hope that Mr. McQueen will be able to do for them what I have tried to do for the past 20 years. Goodbye, old friend. Please don't think ill of me. Signed, Hector 'Slim' Johnson.'

"As I finished the letter, there was an angry uproar from the crowd around me. There were cries of anguish and shouts of revenge and a push to gather up a posse to chase after Slim and string him up. However, most people in the crowd realized that the chances of catching someone like Slim after he had two days head start were slim indeed and thoughts of chasing after him gradually died out.

"The next few months after Slim vanished, things were tough in Pine Gulch. Most people heard about silver strikes over in Nevada and decided that maybe they should try their luck elsewhere. By the time a year had passed, only about 20 of us still lived in Pine Gulch. I stayed on. The occasional traveler through the valley always wanted to wet his whistle before he moved on. I never was very wealthy again, but I never let anyone else take care of my money (or my gold), either. I always wondered what would have happened if Big Bart had never come to Pine Gulch. I guess I'll never know."

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29. Ask students to conduct research to learn more about deregulation of banking institutions. How has deregulation affected his or her family's life.
30. Have students explore different purchasing situations to compare making a credit purchase and taking out a loan.
31. Have students assess the advantages and disadvantages of repaying a loan over a long period of time.
32. Ask students to brainstorm different reasons people use credit.
33. Have students research to determine the purposes of regulations governing the credit industry.
34. Have students research news articles about credit and its effect on the economy in promoting economic growth (it increases private sector demand; businesses increase production to meet new demand, improve competitiveness, and expand; new businesses form to compete for expanded markets; businesses hire workers for new plants, which creates new demand, starting the cycle again).
35. Have students compare and contrast different kinds of charge accounts and describe the costs of using credit cards (annual percentage rates, finance charges).
36. Discuss information needed in a credit application and the criteria by which credit applications are judged to decide whether a credit card will be granted to the applicant.
37. Have students search bank Web pages for the best certificate of deposit (CD) and mortgage rates. Have students make a table of CD and mortgage rate comparisons and discuss total and monthly mortgage costs. Have students use interest rate charts and data to discuss the varieties of financial instruments and discuss why the interest rates are different for long and short term loans.
38. Discuss why preventing the counterfeiting of money is important and what other counterfeit-proofing measures could have been included in new currency.



39. Discuss how businesses and consumers are realizing the cost and inconvenience of handling money and what effect this will have on how we buy and sell goods and services.
40. Discuss what effect the Electronic Age is having on money, especially currency (e.g., credit cards, debit cards, smart cards, telephone banking, computer banking).
41. Show the film, *The Fed...Our Central Bank*.
42. Plan a visit and a tour of a local bank. In advance, discuss with the bank's representative the topics you would like to have addressed (e.g., loans, interest, credit, checking and savings accounts, ATM, demand deposits, supply and source of currency).
43. Present the following information obtained from *Money, Banking, and the Federal Reserve System*, Federal Reserve Bank of Minneapolis, 1982. Then discuss using the questions below.

In the mid-1880s, the United States was growing and becoming an industrialized nation. As production of goods and services increased, the nation's commerce and trade activity expanded. As commerce expanded, so did the need for financial institutions which would hold money until it was needed and provide money and credit for a growing economy.

New banks were formed practically overnight to serve these needs. Because of the remote areas in which banks were formed and the lack of supervision over them, they were often called *wildcat* banks.

Just as merchants 100 years earlier had issued *bills of credit*, these new banks issued credit in the form of *bank notes*. Some bank notes were issued by large, established banks while others were printed by small, newly established institutions. People often received bank notes issued by two or three different institutions in payment for labor or goods or services. Each financial institution promised to pay back its currency with something of value, such as gold or silver, but often the currency was backed with speculative items such as land, stocks, or bonds. If the value of the speculative items dropped, a financial institution might not honor its bank notes.



Since each financial institution issued its own currency, it was difficult to know whether a particular note would be honored by another bank, merchant, or individual. There was always the possibility that an individual would accept a bank note and then not be able to use it to pay a debt or to buy goods or services. With no unified currency system or central agency to regulate financial institutions and the supply of money and credit, these problems associated with such lack of uniformity plagued the country well into the 19<sup>th</sup> century.

### Questions and Answers:

- In the United States in the mid-1880s there was an increasing need for financial institutions to hold money and to provide currency and credit for a growing economy. New banks were forming practically overnight to serve the needs of the growing economy. What was happening in the United States economy to spark this rapid economic growth? (*Answer: The country was growing and becoming an industrialized nation, and the nation's commerce and trade activity expanded.*)
- Why were these new financial institutions, which were forming at a rapid rate across the country, called "wildcat banks"? (*Answer: Because they were cropping up in remote areas and operating without supervision by the government they were called "wildcat banks."*)
- These institutions issued "bank notes." What purpose did these bank notes serve? (*Answer: They represented credit at the issuing institution and were used to pay for goods and services; they served as money.*)
- What was the value or promise behind these bank notes? (*Answer: Each institution promised to pay back its currency with something of value, such as gold or silver, but at times the notes were backed with speculative items such as land, stocks, or bonds.*)
- At times some of the early financial institutions would refuse to honor their own bank notes. If this happened, what might have been the bank's rationale for not making its notes good? (*Answer: If the notes were backed with speculative items that had decreased in value, the institution might not have items of sufficient value to make the notes good.*)



- Since each financial institution issued its own currency, it was difficult to know whether a particular bank note would be honored by another bank, merchant, or individual. Why might a particular bank's notes not have been accepted in payment on a debt, where another bank's notes might have been accepted in payment on that same debt? (*Answer: If one financial institution had a reputation for not making its notes good, then businesses or individuals might worry that if they accepted that bank's notes as money in payment for goods and services, their bank might refuse to make them good.*)
44. Most of the Federal Reserve Banks specialize in research they conduct because of the characteristics of their area of the country. Have students use the Internet to find as many Federal Reserve Banks they can and learn what economic information and research each one specializes in providing. Have students determine and explain why that is an appropriate specialization for the area of the country that Federal Reserve Banks serves.
  45. Have students use the Internet to research the purpose of the United States Federal Open Market Committee (FOMC) and find out the following: What was decided at their most recent meeting and what was the reaction of the financial or business community? Why is this committee important?
  46. Ask students to assume the role of archaeologists from another planet in the distant future. As archaeologists they find on Earth only one artifact, a small metal disc (a penny, though not identified as such). Have students make inferences about the vanished inhabitants.
  47. See Appendices A, B, and C for other instructional strategies, teaching suggestions, and accommodations/modifications.



## Unit Assessment

Use the list below to complete the following statements.

backing the currency	monopoly
corporation	oligopoly
economic institutions	partnership
gross domestic product (GDP)	public utilities
money	pure competition
monopolistic competition	sole proprietorship

1. In addition to referring to buildings, the phrase \_\_\_\_\_ also refers to the way businesses are *organized* and the way they *compete* in the marketplace.
2. Business competition exists in many forms. In a market which has many independent sellers offering the same goods and services, competition is called \_\_\_\_\_. This form of competition is rare and includes farm producers.
3. When only one seller controls a good or service, the resulting *lack* of competition and exclusive control is called a \_\_\_\_\_.
4. Local governments often grant \_\_\_\_\_ the right to exist without competition from other companies.
5. In one form of competition, there are only a few sellers in a marketplace. Wealthy companies drive out smaller companies. This competition is called \_\_\_\_\_. Examples can be found in the soft drink market and the pain reliever market.



6. A(n) \_\_\_\_\_ exists when only a few sellers have the resources to produce an expensive product, such as an automobile or a ship.
  
7. Businesses organize themselves in different ways. A(n) \_\_\_\_\_, for example, is a business that is owned by a *single person*.
  
8. When *two or more* people own a business, it is called a(n) \_\_\_\_\_.
  
9. The third type of business is owned by *investors*, or shareholders. It is called a(n) \_\_\_\_\_.
  
10. All businesses use \_\_\_\_\_ as a medium of exchange.
  
11. Keeping this medium of exchange valuable is called \_\_\_\_\_.
  
12. The total of all goods and services produced in one year within the borders of a nation is called the \_\_\_\_\_.



Answer the following using complete sentences.

13. How does the government determine how much currency (money) to issue? \_\_\_\_\_

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14. Why are checking accounts called *demand deposits*? \_\_\_\_\_

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15. What does the bank pay to customers with savings accounts?

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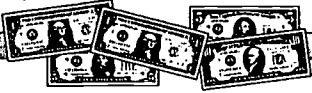
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16. What are customers who take out bank loans charged? \_\_\_\_\_

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17. What are the largest financial institutions in the United States?

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18. What kinds of loans can a savings and loan association make?

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19. What type of bank can take in deposits, make only consumer loans, and are not allowed to make a profit? \_\_\_\_\_

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20. What kind of banking permits customers access to their accounts through automatic teller account cards? \_\_\_\_\_

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Circle the letter of the correct answer.

21. The full name of the *Fed*, or the federal agency that regulates the money supply, is the \_\_\_\_\_ .
- Federal Systems of Reservations
  - Federal Bureau of Investigations
  - Federal Reserve System
  - Federal Money Regulators
22. \_\_\_\_\_ is not a way that the Fed regulates the money supply.
- Setting the GDP
  - Setting the reserve requirement
  - Setting the discount rate for banks
  - Operating the federal open-market operations
23. Members of the Fed's Board of Governors are protected from year-to-year politics of government by receiving \_\_\_\_\_ .
- lifetime pensions
  - round-the-clock police protection
  - million-dollar salaries
  - 14-year appointments
24. The Fed sets the reserve requirement to \_\_\_\_\_ .
- make sure loans are always available
  - make sure the GDP does not decrease from year-to-year
  - make sure the government has enough tax revenue
  - make sure banks have enough funds to cover customers' checks and customers' withdrawals
25. The Fed sets the *discount rate*, or the rate banks must pay \_\_\_\_\_ .
- for getting a licence to do business
  - as interest on money they borrow from reserve banks
  - as interest on their customers' savings accounts
  - on public utilities



26. When the *discount rate* is high, banks will probably grant \_\_\_\_\_ .
- a. more loans to their customers
  - b. fewer loans to their customers
  - c. more CDs to their customers
  - d. fewer checking accounts to their customers
27. A rise in the price of goods and services is called \_\_\_\_\_ .
- a. inflation
  - b. recession
  - c. discount living
  - d. oligopoly
28. \_\_\_\_\_ describes a decrease in the demand for goods and services.
- a. Inflation
  - b. Recession
  - c. Discount living
  - d. Oligopoly
29. The Fed uses the *reserve requirement*, the *discount rate*, and the *open-market operations* to \_\_\_\_\_ .
- a. help banks make a profit
  - b. keep the price of consumer goods low
  - c. increase and decrease the money supply
  - d. guard against monopolistic competition
30. The Fed's purpose is to \_\_\_\_\_ .
- a. adjust the money supply to keep the economy healthy
  - b. adjust the money to keep competition pure
  - c. insure the reelection of the president
  - d. limit foreign trade



## Keys

### Practice (p. 123)

1. F
2. D
3. C
4. E
5. B
6. A

### Practice (pp. 133-134)

1. sole
2. sole
3. mom and pop
4. corporations
5. Corporations
6. unlimited
7. partnerships
8. Professional Associates
9. stockholders

### Practice (p. 135)

1. True
2. False
3. True
4. True
5. False
6. True
7. False
8. True

### Practice (p. 136)

Answers will vary but may include the following:

#### **Sole Proprietorship:**

Advantage—own boss; make all decisions

Disadvantage—source of capital; unlimited liability; limited life

#### **Partnership:**

Advantage—larger source of capital; more money

Disadvantage—limited life; limited assets; unlimited liability

### Corporations:

Advantage—unlimited life; ability to raise revenue; limited liability

Disadvantage—managing larger organization and its resources

### Practice (p. 137)

1. C
2. B
3. C
4. B
5. A
6. B
7. C

### Practice (p. 142)

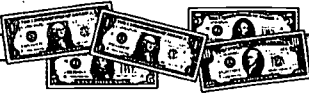
1. barter
2. double coincidence
3. money
4. intrinsic
5. species; token
6. legal tender
7. backing
8. goods and services

### Practice (p. 143)

1. C
2. A
3. D
4. B
5. E
6. F

### Practice (p. 148)

1. deposits
2. demand deposits
3. savings account
4. Certificates of deposit
5. bank loan
6. loaning
7. private banks
8. Private



## Keys

### Practice (p. 149)

1. withdraw
2. Federal Reserve System; Federal Deposit Insurance Corporation
3. house
4. members; commercial
5. charter
6. Electronic

### Practice (p. 150)

1. True
2. True
3. True
4. True
5. True
6. False
7. True
8. True
9. False
10. True
11. True

### Practice (pp. 159-160)

1. lends
2. discount rate
3. loans
4. securities; buys; reserves
5. money supply
6. Fed
7. increases
8. (1) Boston, MA  
(2) New York, NY  
(3) Philadelphia, PA  
(4) Cleveland, OH  
(5) Richmond, VA  
(6) Atlanta, GA  
(7) Chicago, IL  
(8) St. Louis, MO  
(9) Minneapolis, MN  
(10) Kansas City, MO  
(11) Dallas, TX  
(12) San Francisco, CA

### Practice (pp. 161-163)

1. True
2. True
3. False; may not loan out
4. False; reserve requirement or money supply is amount of money in circulation
5. True
6. True
7. False; inflation
8. True
9. False; lower discount rate—more likely or raises discount rate—less likely
10. True
11. True
12. True
13. False; prime interest rate
14. False; inflation—raising discount rate or recession—lowering discount rate
15. True

### Practice (p. 164)

Monetary and Fiscal Policy		
Policy	Fight Inflation	Fight Recession
a. Increase reserve requirements	√	
b. Decrease reserve requirements		√
a. Buy government securities		√
b. Sell government securities	√	
a. Lower the discount rate		√
b. Raise the discount rate	√	
a. Increase government spending		√
b. Reduce Government spending	√	
a. Raise taxes	√	
b. Lower taxes		√

### Practice (pp. 166-168)

1. If a company has total control over market, it can charge whatever it wants to for its good or service. Of course, the consumer could simply refuse to buy the good or service, but if it were something like a telephone service or gasoline, consumers would have little choice but to pay the high cost.



## Keys

2. A public utility is only granted a monopoly because of the physical difficulty of having more than one company offer a utility service. If there were no electrical wires to clutter the environment, then local governments would not have to grant monopolies and different companies could compete for customers.
3. A cashless society would be easier because people would not have to carry cash their savings would always be available to them. On the other hand, we might be more vulnerable to computer criminals who could steal the money in our accounts. This is already a problem but could be a bigger problem in a totally cashless society.

### Practice (p. 169)

1. J
2. F
3. I
4. G
5. H
6. D
7. A
8. B
9. E
10. C

### Practice (p. 170)

1. F
2. H
3. D
4. A
5. B
6. E
7. G
8. C
9. I

### Unit Assessment (pp. 81-86TG)

1. economic institutions
2. pure competition
3. monopoly
4. public utilities
5. monopolistic competition
6. oligopoly
7. sole proprietorship
8. partnership
9. corporation
10. money
11. backing the currency
12. gross domestic product (GDP)
13. The amount of currency issued equals the gross domestic product (GDP) or total value of goods and services produced in a year.
14. When you write a check, you demand that the bank use money from your account to cover it.
15. interest
16. interest
17. commercial banks
18. mortgage loans or loans to buy houses or boats
19. credit unions
20. electronic banking
21. c
22. a
23. d
24. d
25. b
26. b
27. a
28. b
29. c
30. a



## Unit 5: Taxes—Government Revenue

This unit emphasizes how local, state, and national governments collect and use taxes to generate *government revenue* and to pay for services they provide and programs they operate.

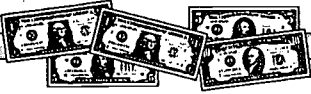
### Unit Focus

- government sources of income: sales tax, income tax, excise tax, and property tax
- ways local, state, and federal governments use taxes
- criteria used to determine the composition of taxes
- three types of taxes: *progressive*, *regressive*, and *proportional* taxes

### Suggestions for Enrichment

1. Ask students to identify activities that local, state, and national governments carry out in the United States economy (e.g., provide for national defense, collect Social Security taxes, pay Social Security benefits, build highways, insure quality food and medicines) and write them on the board. Discuss and list the six economic functions of government: maintaining legal and social frameworks (all levels), providing public goods and services (all levels), maintaining competition (state and national), redistributing income (state and national), correcting for externalities (state and national), and stabilizing the economy (national). Ask students to categorize the activities listed on the board under the appropriate government function. Then gather appropriate newspaper headlines and/or allow students to search for newspaper headlines and classify them under the correct government function.

Have students research conservative and liberal views on what role the government should play in the economy. Ask students to take a personal stand on the issue and explain which position makes the most sense to them and why. Use the headlines the students classified and ask students how they think conservatives and liberals would react to these headlines and why.



2. Ask students to name services provided by the federal, local, and state governments. List the services under the appropriate level of government on the chalkboard. Next, ask for the names of the various types of taxes used to finance these services.
3. Have students work in pairs to generate a list of five taxes, identifying each as *progressive*, *regressive*, or *proportional*.
4. Have students use news articles to discuss what the limits on the economic functions of government should be for the United States.
5. Have students discuss the following: What should be the federal government's role in curing America's social ills? What should be left up to individual state governments? What should be left up to free enterprise, individual effort, and the forces of the marketplace, and why?
6. Have students research the state of the United States economy and write down the inflation rate, the unemployment rate, the gross national product (GNP) growth rate, dollar value of exports and imports, and any other information needed to predict what the federal government will do in the upcoming months, and support these predictions using economic statistics.
7. Have groups select a statement about an economic policy, such as one of the following.
  - The federal government should guarantee a minimum annual income to all United States citizens.
  - The federal government should pursue a policy to control inflation.
  - The federal antitrust policy should be strengthened.
  - The United States should have advertising in order to create mass production.
  - The United States should pursue a policy that will strengthen public enterprise.



- The United States should take steps toward achieving a more nearly balanced budget.
- The federal subsidization of agriculture should be eliminated.

Ask the groups to prepare a list of pros and cons pertaining to the economic policy selected and to also devise and conduct a concept inventory poll to assess the extent of agreement or disagreement with each statement using the rating scale below.

+3	=	strongly agree (SA)
+2	=	tend to agree (A)
0	=	undecided (U)
-3	=	strongly disagree (SD)
-2	=	disagree (D)

Have students sit in a circle with two chairs in the center for a pro and a con representative to sit in. Only the students in these chairs may contribute to the discussion. A student wishing to sit in one of the debate chairs may tap a debater; if the debater wishes to relinquish the seat, he or she may return to the circle. After the argument has continued for a set time, have students exchange chairs and debate the other side of the issue. Allow the discussion to continue until no additional benefit appears to be derived.

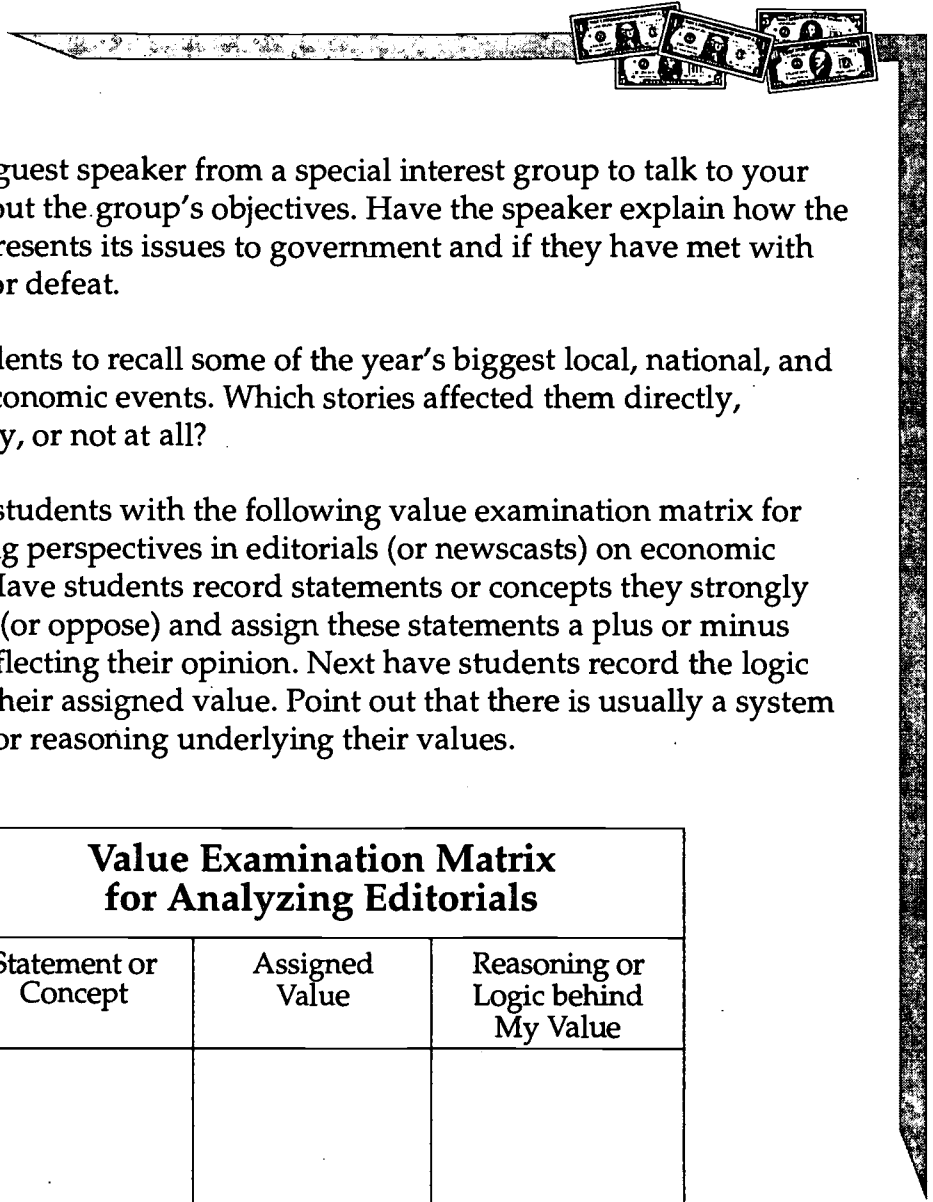
After the issue has been thoroughly discussed, give the concept inventory poll again and tally the scores to see if a significant change in opinions occurred after the discussion. Then have students critique the issue their group discussed, expressing how their group handled the topic, listing pros and cons, stating their own opinions and how they reached their conclusions, and giving ideas about the benefits of using this type of analysis.

8. Have students use the Internet to research and build a case for or against a controversial economic issue (e.g., the minimum wage, Social Security privatization, health care reform, free trade, deregulation, environmental protection, farm subsidies, the Balanced Budget Amendment, the capital gains tax, adjusting the consumer price index).





9. Have students represent the government, the banking industry, the workforce, the industrial sector, and the trade and services sector in the *EcoSim* interactive simulation (<http://ecedweb.unomaha.edu/ecosim.htm>).
10. Gather information and construct a pie graph on state and local taxes. Students can analyze income, various sources of revenue, and expenditures. The Florida Department of Commerce offers a free publication called the *Florida Handbook*, which offers a wealth of information.
11. Discuss the Lottery, impact fees, etc., as sources of revenue and the benefits and problems with each one.
12. List the state's sources of revenue (e.g., sales tax, property tax, corporate income tax, inheritance tax, intangible taxes, state excise taxes [gas, cigarettes], parimutuel, lottery, fees, license plates, parks and licensing fees). Discuss which ones the students have paid and which they know their families have paid. Estimate a year's expenditures, if possible. Make comparison graphs for several years for the State of Florida.
13. Have students examine the case for privatizing public education.
14. Ask students to assume the role of members on the governor's task force and decide the best way to spend 30 million dollars over three years on poverty. Have students create a spreadsheet to keep track of what a family of four needs in order to survive and how much they need to earn, and assess what the government can do.
15. Using a specified (teacher-designated) year for the Federal Budget, ask students to develop a plan to eliminate the deficit. Have them check outcomes against the current budget.
16. Ask students to identify their position on a controversial economic issue. Have groups of students develop an argument to support an opinion contrary to their own and present the argument to the class.
17. Ask students to list 10 sentences from a news article and exchange lists. Have them write next to each statement whether they think it is fact or opinion. Then have students choose any three of the statements and explain their reasonings.



18. Invite a guest speaker from a special interest group to talk to your class about the group's objectives. Have the speaker explain how the group presents its issues to government and if they have met with victory or defeat.
19. Ask students to recall some of the year's biggest local, national, and world economic events. Which stories affected them directly, indirectly, or not at all?
20. Present students with the following value examination matrix for analyzing perspectives in editorials (or newscasts) on economic topics. Have students record statements or concepts they strongly support (or oppose) and assign these statements a plus or minus value reflecting their opinion. Next have students record the logic behind their assigned value. Point out that there is usually a system of logic or reasoning underlying their values.

<b>Value Examination Matrix for Analyzing Editorials</b>		
<b>Statement or Concept</b>	<b>Assigned Value</b>	<b>Reasoning or Logic behind My Value</b>



21. Present students with the following conflict clarification matrix for analyzing values in editorials or newscasts on economic topics. Have students record a statement they support (or oppose) in the first row of the matrix and assign a plus or minus value reflecting their opinion beside the "Assigned Value" subheading in the second row. In the third row, have students identify the logic behind their assigned value. In the fourth row, have students identify an opposing value for the concept or statement. In the fifth row, ask students to describe the logic behind the opposing value. In the last row, have students describe their conclusion or a new awareness of the topic of the editorial and identify some current events for which this process might be useful.

<b>Conflict Clarification Matrix for Analyzing a Current Issue</b>	
Statement or Concept	
Assigned Value	
Reasoning or Logic behind My Value	
Opposing Value	
Reasoning or Logic behind My Opposing Value	
Conclusion/ Awareness	



22. Discuss the problems associated with applying United States laws to a hypothetical "moon colony." Discuss how the moon colonists might be compared with the early American colonists. Discuss potential problems and solutions.
23. Present students with the following decision-making matrix to analyze a teacher-generated "decision question" with choices or alternatives to be considered. Have students rank or weight the criteria in the first column using a three-point numeric ranking or weighting system as follows.

- 3 = very important
- 2 = somewhat important
- 1 = not very important

Next, ask students to determine the degree to which each alternative possesses each of the criteria as follows.

- 3 = totally
- 2 = somewhat
- 1 = a little
- 0 = not at all

Finally, have students calculate the quality points each alternative has by multiplying the criterion weights by the alternative weights. (In other words, multiply the number in each cell by the number at the beginning of each row and then enter that product in each cell.) Tally the quality points for each alternative and determine which alternative has the most points. (Explain to students that after seeing the results of the matrix process, they may legitimately change the weights they are assigned.) Have students make a decision based on their quantification and explain the reasoning behind their decision.



# Decision-Making Matrix

**Decision Question:**

<b>Criteria</b>	<b>Alternatives</b>		
(rank or weight from 1-3) <b>Criteria Weight =</b>	alternative weight x criteria weight = quality points  __ X __ = __	__ X __ = __	__ X __ = __
(rank or weight from 1-3) <b>Criteria Weight =</b>	__ X __ = __	__ X __ = __	__ X __ = __
(rank or weight from 1-3) <b>Criteria Weight =</b>	__ X __ = __	__ X __ = __	__ X __ = __
(rank or weight from 1-3) <b>Criteria Weight =</b>	__ X __ = __	__ X __ = __	__ X __ = __
<b>Total of Quality Points</b>	_____	_____	_____

**Criteria Weight**

Ranking system:

- 3 = very important
- 2 = somewhat important
- 1 = not very important

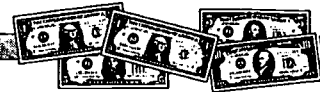
**Alternative Weight**

The degree to which each alternative possesses each criteria:

- 3 = totally
- 2 = somewhat
- 1 = a little
- 0 = not at all



24. Pick an issue of interest and ask students to find articles. List arguments on both sides of the issue. Draw an imaginary line on the floor, with one end representing "for" and the other "against." Ask students literally to "take a stand" on the line where they feel they belong, depending on the strength of their belief. (If all students stand on one side, play "devil's advocate" and stand on the other side.) When everyone is standing along the line, open a debate with spokespersons on each side. The goal is to have students move closer to one point of view. At the end, students may stand anywhere but in the "undecided" middle position. After students are seated, have them write their views on the above issue in an editorial.
25. To review a unit using a *Jeopardy* format, divide topics into five subtopics and students into five groups. Have each group write five questions and answers on index cards with a different color of ink. Assign point values from easiest (100) to hardest (500). Ask students to tape cards on the board under their subtopic. The first group to finish taping cards goes first. Go clockwise from group to group. When a subtopic and point value is chosen by the group, read the question. If correct, assign points; if incorrect, subtract points and put card back on the board. (Students may not choose any questions submitted by their group.)
26. See Appendices A, B, and C for other instructional strategies, teaching suggestions, and accommodations/modifications.



## Unit Assessment

*Circle the letter of the correct answer.*

1. A government receives some of its income by \_\_\_\_\_ .
  - a. running private industries
  - b. providing services to its citizens
  - c. taxing citizens
  - d. the law of supply and demand
  
2. Governments use taxes to \_\_\_\_\_ .
  - a. borrow more money
  - b. pay its expenses
  - c. back its currency
  - d. all of the above
  
3. Governments use \_\_\_\_\_ to run school districts.
  - a. nature taxes
  - b. property taxes
  - c. sales taxes
  - d. income taxes
  
4. Tax dollars received by governments are called \_\_\_\_\_ .
  - a. government economics
  - b. government reserve system
  - c. government factor system
  - d. government revenue
  
5. A(n) \_\_\_\_\_ is the percentage of a person's income paid in taxes.
  - a. effective tax rate
  - b. flexible tax rate
  - c. excise tax rate
  - d. ineffective tax rate



6. If Martina made \$20,000 and paid \$2000 in taxes, her *tax rate* was \_\_\_\_\_ .
- a. 5 percent
  - b. 10 percent
  - c. 0.1 percent
  - d. 0.5 percent
7. If the *tax rate* a person pays increases as her income increases, the tax is called a(n) \_\_\_\_\_ tax.
- a. regressive
  - b. proportional
  - c. progressive
  - d. intuitive
8. If the *tax rate* a person pays decreases as her income increases, the tax is called a \_\_\_\_\_ tax.
- a. regressive
  - b. proportional
  - c. progressive
  - d. intuitive
9. If the *tax rate* stays the same regardless of a person's income, the tax is called a \_\_\_\_\_ rate.
- a. regressive
  - b. proportional
  - c. progressive
  - d. intuitive
10. Taxes should provide the government with adequate revenue, or bring in enough money to \_\_\_\_\_ .
- a. meet government needs
  - b. be understandable
  - c. provide a profit
  - d. be flexible





Decide whether each tax situation described below is **progressive**, **proportional**, or **regressive**. Write the correct term on the line provided.

- \_\_\_\_\_ 11. Nicholas made \$25,000 in 1991 and paid \$5,000 in taxes. In 1993 he made \$70,000 and paid \$10,000 in taxes.
- \_\_\_\_\_ 12. Amelia discovered that the more money she made, the less she paid in taxes.
- \_\_\_\_\_ 13. Cari earned \$40,000 in 1991 and paid an *effective tax rate* of 15 percent. In 1992 she worked part-time, earned \$22,000, and paid an *effective tax rate* of 13 percent.
- \_\_\_\_\_ 14. Xavier paid an *effective tax rate* of 28 percent on the \$100,000 he earned in 1992. Todd, however, paid an *effective tax rate* of 19 percent on the \$60,000 he earned in 1992.
- \_\_\_\_\_ 15. The presidential candidate proposed that no matter how much money you earned, you would pay the same *effective tax rate*.

Write **True** if the statement is correct. Write **False** if the statement is not correct.

- \_\_\_\_\_ 16. *Sales tax* is paid on all goods and services.
- \_\_\_\_\_ 17. *Property tax* is paid by the owners of land and buildings.
- \_\_\_\_\_ 18. The tax on money earned is called an *income tax*.



- \_\_\_\_\_ 19. The government places an *excise tax* on certain goods to regulate their sale or to raise additional revenue.
- \_\_\_\_\_ 20. According to the government, taxpayers should not be able to understand tax laws.



## Keys

### Practice (pp. 182-183)

1. sales
2. income
3. income
4. excise
5. sales
6. property
7. proportional
8. progressive
9. regressive
10. income

### Practice (p. 184)

1. local; state; federal
2. Answers will vary but may include the following: run schools; repair and build roads; fund defense programs; provide health and social benefits
3. sales tax
4. income tax
5. property tax
6. excise

### Practice (pp. 186-187)

1. The tax Chandra and Dan pay on their food bill is considered regressive because Dan earns less than Chandra but he pays a higher effective tax rate—a higher percentage of his earnings—than Chandra pays.
2. Answers will vary.
3. Answers will vary.
4. Shay's Rebellion brought about a change in the way taxes were collected in the United States.

### Practice (p. 188)

1. E
2. A
3. C
4. D
5. G
6. H
7. B
8. F

### Unit Assessment (pp. 101-104TG)

1. c
2. b
3. b
4. d
5. a
6. b
7. c
8. a
9. b
10. a
11. regressive
12. regressive
13. progressive
14. progressive
15. proportional
16. False
17. True
18. True
19. True
20. False



## Unit 6: Examining the American Economy


This unit focuses on ways of measuring the American economy that help economists develop strategies to improve the *rate of economic growth* and to develop solutions to problems in the economy.

### Unit Focus

- *gross domestic product (GDP), consumer price index (CPI), and gross personal income (GPI)* as measurements of the American economy
- how taxes affect disposable or *net personal income*
- concept of *comparative advantage*
- purpose of tariffs that the United States levies
- pros and cons of NAFTA
- how the unemployment rate is measured and factors that affect it

### Suggestions for Enrichment

1. Ask students working in pairs to collect data on the GNP, GDP, CPI, GPI, trade, or unemployment, and prepare graphs on the information they collect.
2. Have students use the Internet (<http://www.census.gov>) and choose five different regional or national economic indicators from the United States Census Bureau's tables. Ask students to record the percentage change of each chosen indicator for the last two consecutive indicators and determine if the indicator expanded (+) or contracted (-). Have students record the percentage change of similar years for the economy's gross domestic product (GDP) and determine if the GDP expanded or contracted. Ask students to compare the percentage changes of each chosen indicator to the percentage change of the GDP by recording whether the chosen indicator grew more or less than the GDP. Have students group those indicators that grew more than the GDP and then group those indicators that grew less than the GDP. Ask students to develop and record a hypothesis on the economic impact of the indicators that



grew less and a hypothesis on the economic impact of the indicators that grew more. Have students decide whether those five randomly chosen indicators influenced an expansion or contraction in the business cycle, or stabilized it.

Have students create a poster summarizing growth results and allow students to defend their hypotheses. Next have students record whether they thought the economy expanded, contracted, or remained stable during the times compared. Tabulate their hypotheses about the economy and allow students to offer a defense of their hypotheses and argue (if necessary) against other students' hypotheses. Have the class agree on which business cycle phase the economy experienced. Have students write an essay defending their hypothesis on the business cycle, using the five randomly chosen indicators. (Optional: Have students research business cycles of the United States. Have students research the business cycle that existed during the times compared and graph the percentages of their chosen indicators. Then have students graph the GDP of those compared years.)

3. Have students research and calculate gross domestic product (GDP) and GDP per capita the United States and South America. Ask students to show the high and low GDP per capita on a choropleth map of the countries using colors or shading to show differences. Discuss how people's well-being could be overestimated in countries with high GDP per capita and underestimated in countries with low GDP per capita. (A choropleth map depicts quantitative spatial data using shading or color variations.)
4. Have students use the Internet (<http://ecedweb.unomaha.edu/lessons/feogx.htm>) to research and calculate the United States gross domestic product (GDP) and compare it to examples of the GDP of South America. Have students use this information to make inferences about per-capita income.
5. Discuss international economics. Distribute the handout on *Atlantis* on the following pages to the students. Read it aloud and direct them to the Policy Alternatives exercise that follows. Assign the class, in groups of four or five, to complete the exercise. When



groups have completed their tasks, have each one report their rankings and explain their choices. At the conclusion of the activity, each student should select one policy initiative and write a letter to the editor of the *Atlantis Dispatch*, arguing for or against that policy. In their letters, students should use economic reasoning.

After the groups have made their reports, discuss the concepts of trade-offs and opportunity costs. Remind students that they constantly make trade-offs in their own daily lives; likewise, businesses and countries make trade-offs when making economic choices, as in the fictional country of Atlantis.

## Atlantis

**Directions:** *Read the information on Atlantis. In your group, discuss the advantages and disadvantages of each policy alternative. Place a check next to those favored by your group.*

You are a newly elected political leader of Atlantis, located in Central America. The hope of your administration is to end the repressive policies of the previous dictator and to institute reforms to revitalize a depressed economy. Opposition groups at both ends of the political spectrum are ready to capitalize on any mistakes you make or any ineffectiveness you show in moving the country forward.

The Middle East crisis has already raised the price of oil, and future increases could worsen an already troubled economy. Examine the additional information below about your economy and evaluate your policy alternatives. Rank in order of preference, with a number 1 for the best choice, 2 for second, etc.

Here is some additional information about your country.

This year's projections:

- Per capita income is \$600.
- The economic growth rate is forecast to be -3 percent.



- Fifty-three percent of the land is used for agriculture and 44 percent of the labor force is employed in agriculture.
- Natural resources include timber and fisheries.
- Imports include machinery, chemicals, pharmaceuticals, transportation equipment, clothing, and petroleum.
- Exports include coffee, cotton, seafood, bananas, food, and nonfood agricultural products.

### Policy Alternatives

- \_\_\_\_\_ Put a tax on gasoline to force conservation.
- \_\_\_\_\_ Invest in research for alternative fuels.
- \_\_\_\_\_ Allow the market to adjust prices.
- \_\_\_\_\_ Allocate funds to develop and encourage public transportation.
- \_\_\_\_\_ Seek loans from other countries to finance the building of nuclear power plants.
- \_\_\_\_\_ Nationalize all industries.
- \_\_\_\_\_ Allocate funds for vocational and technical education and training.

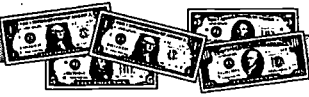
Source: Dwight Groce and Abbejean Kehler, "Economic Ripples of World Events," *National Council on Economic Education*, Vol. 9, No. 1, Sept. 1993, 11.

6. Ask students to make a list of 20 imported items in their homes and state what country the items came from. Have students work in groups or as a class to create a graphic organizer of the number of items and their countries of origin.



7. Give students an index card with the name of a country. Have students research that country's exports and trading partners. Have students stand in a circle with the name of his or her country attached to the front of their shirt (blouse). Give one student a ball of string and ask him or her to hold one end of the string and to throw the ball to a trading-partner country and name the export. Have the second student do the same until the string has crisscrossed the circle and each person is holding part of the string. Now have the first student relate some problem that affects his or her export (e.g., a drought hurt the fruit crop and exports have been drastically reduced) and tug on his or her string. Ask each student who feels the tug to raise his or her hand, then tug his or her string. Continue the tugs until the effects "travel around the world" (e.g., Afghanistan-dried fruit-Libya; Libya-oil-Norway; Norway-fish-Sweden; Sweden-wood-West Germany).
8. Have students compile a list of essential resources used in the United States. Have them include whether or not these resources are controlled by other countries and what the United States would do if these supplies were cut off or depleted.
9. Have students research two countries and products they trade with each other. Ask students to explain why these countries chose to produce and trade these products in terms of absolute advantage and comparative advantage.
10. Have students pretend they have just been hired in the international division of a multinational corporation that makes consumer goods. Their first responsibility in this capacity is to become an expert on a specific country where their company is considering building a branch plant for producing a consumer good. Decide upon the specific country and product. Ask students to research the country's economic profile and report to the boss whether a new plant should be built there.
11. Explain that despite the benefits of international trade, many nations restrict the free flow of goods and services through trade barriers, including tariffs and quotas. Discuss how public policies on foreign trade impose costs and benefits on different groups of people and how decisions on these policies reflect economic and political interests. Have students answer the following: Who gains from





import quotas on automobiles? Who loses as a result of import quotas on automobiles? If there are many more automobile buyers than automobile producers, why would the United States government negotiate a deal with Japan to reduce the purchasing power of the United States consumer? Discuss why protectionist legislation supported by special interest groups is often passed by Congress even when it is not in the common interest.

12. Discuss why nations choose to limit trade, different ways to restrict trade (e.g., tariffs, quotas, embargoes, licensing requirement standards, subsidies), and the effects of each of these restrictions, including who benefits and who is hurt by tariffs. Compare these limitations to those imposed on the first 13 colonies by the British Parliament.
13. Have students choose an imported good and take the role of a foreign producer of the product, a domestic importer of the product, a domestic consumer of the product, a domestic producer of the same product, or a worker in a domestic factory producing the same product, and discuss how the passage of a trade restriction will affect his or her life.
14. Have students collect articles from the local newspaper or business magazines on NAFTA or other international trade issues. Form debate teams and ask the groups to present and defend their positions.
15. Have students research and report on recent actions of the United States that restricted international trade.
16. Discuss what effect globalization will have on the dollar and other countries' currencies (e.g., European common currency, North American currency, world currency).
17. Have students gather information about local unemployment. Invite a guest speaker from the local office of the Florida Department of Labor and Employment Security to come to the class and discuss employment issues and trends.
18. Prepare and distribute a sample budget for a family of four that lists monthly income, taxes, and expenditures. Set up a problem so that students can identify fixed and variable expenses or wants and needs and calculate net personal income.



19. Since comparative advantage can be applied to people as well as countries and the skills of a country's residents help to define its comparative advantage, have students discuss the following: Should you do only what you do better than anyone else, following your absolute advantage? Should you do only what you do best, following your comparative advantage? Should you try to be self-sufficient, producing everything?
20. Have students pretend that they have received job offers in Omaha, Denver, and Seattle. Ask students to use the Internet to research important characteristics of these cities (e.g., economic situation in the city; cost of living compared to the salary offers, housing costs and availability, general economic well-being) so they can decide where to go for their new job. (Optional: Have students do the same research, using London, Paris, and New York, which will involve calculating exchange rates.)
21. Invite a representative from a local employment office to visit the class. Students could ask the representative about jobs and educational requirements in today's labor market. (Or they could use a newspaper to find out what kinds of jobs are available in the local area.)
22. Have students use the Internet to research careers and learn who employs persons in this career and salary information. Have students research résumé and cover letter advice. Have them prepare one of each.
23. Ask students what major economic events have been occurring nationally and internationally. Record their responses on the board. Direct students to [www.cagle.com](http://www.cagle.com), selecting the editorial cartoons page. Ask students for opinions about events depicted. Discuss and compare with the list of events previously generated. Have students look at all the pages of editorial cartoons and record depicted events. (They may write a general description if they are not aware of a depicted event.) Compare and contrast generated lists and speculate on the differences in the lists. Have students write about the significance of one of the events depicted. Ask students to predict the next recurring topic of editorial cartoons based on their perception of important current news stories.



24. Ask students to analyze and critique news articles and newscasts on economic issues by comparing and contrasting of content and presentation.
25. Have students use the Internet to link to English-language newspapers worldwide (<http://ecola.com/>) and compare newspaper coverage of the same current economic event in different cities, states, and/or countries.
26. Have students answer who?, what?, where?, when?, why?, how?, concerning an article on the economy from a current newspaper, and discuss its implications. Then have students use their answers to rewrite the article from another viewpoint. Challenge students to find follow-up articles on succeeding days.
27. Have students bring in political cartoons on economic issues and offer their interpretations.
28. Have one student stand up and start a debate or discussion. The student can state an opinion or write it on the board. Then select the next person to speak or write until all students have had a chance.
29. Have students examine a current economic political cartoon and assess its meaning. Who is being lampooned? What point is it making? Is it funny? Why or why not? Then have students critique political cartoons from another era.
30. Have students debate or write a persuasive essay about the most significant economic event from last year.
31. Discuss what people in developed countries should do, if anything, to assist people in less developed countries. Do developed countries have a responsibility to help less developed countries? Why or why not?
32. Have students research and report on the trade and human rights policies of the United States government toward China over the past 10 years.
33. Have students create a flow chart to analyze a specific economic situation.



34. Ask students to identify their position on a controversial issue. Have groups support an opinion contrary to their own and present this argument to class.
35. Have students brainstorm ways to make their opinions heard (e.g., e-mail politicians, write local or national newspapers or journals, inform friends about issues, organize and take part in projects, make posters, speak to groups, go to town meetings, publish own Web page). Ask students to choose two ways to express their positions on the issue. Have students write a brief paragraph on the activities they choose and the outcome of their actions.
36. Discuss how bumper stickers reflect people's opinions. Have students design a bumper sticker addressing a current economic issue.
37. Have students prepare a mural, montage, or series of pictures or drawings that depict the goods available due to the technological revolution of the 1920s (radios, cars, etc.). Try to get prices for the items shown.
38. Show a film such as *The Grapes of Wrath*, *Wild at Heart*, or another film showing life during the Great Depression.
39. Have students interview a person who lived through the Great Depression. Have students ask questions about living conditions—jobs, income, school, entertainment, and race relations. Present the report orally.
40. Have students identify key factors that contributed to the 1929 stock market crash and the Great Depression and how these factors affected the economy and led to the Depression.
41. Have students write a research paper about the impact of the Great Depression on Florida.
42. Have students write an essay describing how the Depression may have affected an imaginary family in a specific part of the United States and how specific government policies designed to counteract the effects of the Depression impacted this family.



43. Ask students to reflect on the events of the late 1920s and early 1930s and whether they think public confidence is important to the health of the economy.
44. Have students compare what happened to city dwellers and farmers during the Great Depression.
45. Have students create a graphic organizer and list at least three different groups of people and the effects the Great Depression had on them. For example: American women, African Americans, Mexican Americans, Native Americans, unionized workers, and urban Americans.
46. Have students create a graphic organizer to show how the Dust Bowl affected the entire country.
47. Ask students to research what President Herbert Hoover said and did in response to the Depression. Have students list the responses on a cluster diagram and then put a plus by the most helpful response and a minus by the least helpful.
48. Have students create an illustration or political cartoon that depicts an aspect of life that was radically changed by the 1929 stock market crash with a caption that expresses the change.
49. Have students create a collage representing life during the Great Depression.
50. Have students research and compare how liberals and conservative critics differed in their opposition to the New Deal.
51. Discuss why the Social Security Act might be considered the most important achievement of the New Deal. Discuss issues with Social Security as it currently exists and ask students to collect and summarize current news articles about the topic.
52. Discuss public reaction to movies and radio programs during the Great Depression.
53. Ask students to create a four-column chart to list three important movie stars, radio performers, painters, and writers from the 1930s and then tell what contributions each artist made during the Great Depression.



54. Have students find the written lyrics to a song from the 1930s and analyze how these lyrics describe events or personalities during the Great Depression.
55. Discuss significant progress women have made economically from the 1930s to now.
56. Discuss what federal programs instituted in the 1930s, and later discontinued, might be of use to the nation today.
57. Have students examine diaries and read first-hand experiences about the Great Depression at <http://ipad.mcsc.k12.in.us/mhs/social/madedo/>.
58. Invite a bank employee to relate problems of the banks in the 1930s to conditions today (or take a tour of a local bank to see it in operation).
59. Have students survey their parents to learn how many have used the FHA mortgage plan and some of the benefits provided by this program today.
60. Have students research the Civilian Conservation Corps (CCC) and Public Works Administration (PWA) to determine whether these programs could ease the unemployment problems in the country today.
61. Ask students to briefly outline what a chief economic advisor in 1947 would say to President Truman, who was concerned with how the discontinuation of wartime production and spending might cause the American economy to slide back into depression.
62. Invite a speaker from a local investment or stock company to discuss the problems of the stock market in the 1930s and now.
63. Ask students to relate the problems of unemployed and homeless persons in 1930 to those today. Students may present reports orally or in writing. They might gather information by reading papers, watching news programs, and interviewing managers of homeless shelters.



64. Have students role-play individual representatives of several economic groups: farmers, unskilled workers, or businessmen. Debate whether direct government relief is more effective than "rugged individualism."
65. Prepare photocopies of slides depicting the Great Depression with captions of each picture on the back. Assign one slide for each group of three and give groups several minutes to write dialogue for their slide and present it to the class.
66. Have students discuss what it would have been like to be a young teen during the Great Depression.
67. Have students research the economic effects of the Depression on their community using newspapers, official employment records, or interviews.
68. Have students make a chart of groups of European immigrants during this time period. Ask students to include dates, main reasons for immigrating, where different groups settled, their financial status, and types of communities they developed.
69. Have students find articles about new immigrants to the United States. Discuss what life might be like for these new Americans: new language, new schools, new jobs. What day-to-day problems might they face? Have students write a letter to a new American discussing cultural changes to expect and offer suggestions on how to help him or her adjust.
70. Arrange for recent immigrants to speak to the class about what it was like to leave one country for another or invite a representative from a local immigration department to talk about challenges faced by new immigrants.
71. Ask students to create collages for teaching non-Americans about American culture (e.g., attitudes, beliefs, behaviors of various groups of people).



72. Have students role-play rationing in the United States during World War II. Have them make a list of items which might be valuable today, but in short supply. Set up a system for rationing the items. Use the system for a week. Find out if a "black" market develops. Have students discuss their behaviors.
73. Have students imagine themselves as a woman with two children in 1946 who had taken a factory job during the war and was then laid off when men came home from World War II. Ask students to respond in a diary to this situation.
74. Have students prepare a bulletin board that shows gains by minorities and women during World War II.
75. Ask students to interview five people who lived in the 1950s about inventions in this period that had an impact on the lifestyle and culture of the American people. Ask students to write questions about the economic impact, cultural impact, and political impact of these inventions. After students have gathered their classmates' responses, ask them to draw conclusions about the impact of technological change in the 1950s.
76. Ask students to assume the role of a feature writer in 1957 and write a piece on how and why the lifestyle and economic situation of a local resident has changed in the past 20 years.
77. Have students research the amount of money spent by different countries on national defense and security. Ask students to illustrate their findings graphically. Have students compare countries and discuss why amounts spent on defense are so varied.
78. Have students research and graph how the United States government allocates and spends its money for defense and national security.
79. Women have made gains in 20<sup>th</sup> century industrialized countries. Ask students to list questions they would ask women in other countries about women's roles in that society and what predictions they would make about the future of women in that country.





80. Have students make a chart listing changes or improvements experienced by women in the 20<sup>th</sup> century. Include the following categories: workplace, political status, fashion, interests, education, legislation, and expectations.
81. Have students poll their classmates about the following topics: their interest in attaining leadership positions, in running for political office, in pursuing traditionally male lines of work and traditionally female lines of work, and in traditionally male and female hobbies. Have students analyze the data for differences among male and female responses. Ask students to conduct follow-up interviews to examine reasons behind responses.
82. Have students examine a caricature of a popular political figure in the field of economics and compare it with a photograph of that person to see what is being exaggerated. Discuss whether the caricature is positive or negative.
83. Give students a political cartoon dealing with economics without a caption and ask them to write one.
84. See Appendices A, B, and C for other instructional strategies, teaching suggestions, and accommodations/modifications.



## Unit Assessment

Circle the letter of the correct answer.

1. All of the following are used to measure *economic growth* except \_\_\_\_\_ .
  - a. interdependence and tariff rates
  - b. gross national product
  - c. gross personal income
  - d. consumer price index
  
2. The *gross domestic product* (GDP) of a country is the measurement of the dollar value of all \_\_\_\_\_ .
  - a. goods and services exported within one year
  - b. consumer goods bought within one year
  - c. consumer and capital goods bought within one year
  - d. goods and services produced in one year within the borders of that country
  
3. The government gathers figures for the GDP from \_\_\_\_\_ .
  - a. personal income tax forms
  - b. leading corporations and small businesses
  - c. government revenue figures
  - d. reports on exported goods
  
4. The *per capita* GDP refers to the gross domestic product \_\_\_\_\_ .
  - a. per business
  - b. per person
  - c. per business and per person
  - d. per corporation
  
5. An increase in the *per capita* GDP usually means that the economy is \_\_\_\_\_ .
  - a. growing
  - b. shrinking
  - c. in a depression
  - d. in a recession



6. *Prosperity* describes periods of growth in personal income, whereas \_\_\_\_\_ describes a drop in personal income.
- inflation
  - interdependence
  - recession
  - a tariff
7. A shrinking economy, high unemployment, and widespread loss of income are characteristics of a \_\_\_\_\_.
- period of prosperity
  - depression
  - period of inflation
  - consumer price index
8. \_\_\_\_\_ is a measurement of how much money people have after paying taxes.
- The consumer price index
  - Gross personal income
  - Net personal income
  - Per capita GDP
9. In the vocabulary of economics, the phrase "cost of living" describes what it costs for a person to buy \_\_\_\_\_.
- health care
  - a house
  - needed and wanted goods to live a wealthy lifestyle
  - needed and wanted goods to live a pleasant lifestyle
10. The \_\_\_\_\_ shows changes in the *cost of living*.
- comparative advantage
  - per capita GDP
  - gross personal income
  - consumer price index



Use the list below to complete the following statements.

<b>comparative</b>	<b>international trade</b>
<b>exports</b>	<b>NAFTA</b>
<b>imports</b>	<b>tariff</b>
<b>interdependence</b>	<b>transportation</b>

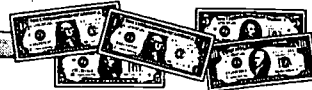
11. Before the 20<sup>th</sup> century, most of the goods people bought were grown or produced nearby. In the 20<sup>th</sup> century, improved \_\_\_\_\_ has made it possible to ship goods long distances.
12. Raw materials and finished goods from one country are now needed by people in other countries. The notion that countries depend on one another is called \_\_\_\_\_.
13. Trade between countries is called \_\_\_\_\_.
14. Products that a country trades to other countries are called \_\_\_\_\_.
15. Products that a country buys from other countries are called \_\_\_\_\_.
16. Countries tend to produce goods that give them a \_\_\_\_\_ advantage over other countries.



17. Countries may charge a \_\_\_\_\_ on certain goods that enter from other countries. These taxes help to protect certain industries and jobs in the receiving country.
18. \_\_\_\_\_ is a trade agreement recently signed by the United States, Canada, and Mexico.

Write **True** if the statement is correct. Write **False** if the statement is not correct.

- \_\_\_\_\_ 19. A downturn in the GDP, GPI, and CPI often means that many people are unemployed.
- \_\_\_\_\_ 20. To be considered *unemployed* by the government, a worker must have left his or her old job through no fault of his or her own.
- \_\_\_\_\_ 21. After a certain number of weeks without a job, a person will no longer be counted as *unemployed* by the government.
- \_\_\_\_\_ 22. There are usually fewer people unemployed than are indicated by government statistics.
- \_\_\_\_\_ 23. *Frictional unemployment* usually follows a pattern of seasonal shifts that eventually corrects itself.
- \_\_\_\_\_ 24. In *structural unemployment*, a person's job has been eliminated because it is no longer valuable or necessary.
- \_\_\_\_\_ 25. *Cyclical unemployment* results from a downturn in the economy. It is the easiest type of unemployment to reverse.



## Keys

### Practice (pp. 199-200)

1. 1997; 1986
2. about \$10,000
3. The GPI has increased.
4. Answers will vary but may include the following: The GPI would increase to about \$30,000.

### Practice (p. 201)

1. five years
2. 1972
3. rapid growth
4. Answers will vary but may include the following: The CPI will increase to about 180 or greater.

### Practice (pp. 208-209)

1. Install more ceiling fans; you have a comparative advantage in installing fans but not in bookkeeping.
2. a tax on imported goods
3. to protect their own industries and jobs
4. labor is cheaper in Mexico
5. The United States has more capital and experience in capital-intensive products.
6. raw materials available and the skills and education of people
7. huge deposits of iron ore and coal, capital resources of money and machinery, and the labor or workers
8. oil
9. education
10. Answers will vary.

### Practice (pp. 210-211)

1. transportation
2. interdependence
3. international
4. imports
5. exports
6. comparative

7. resources
8. Canada; Mexico
9. tariffs

### Practice (pp. 218-219)

1. 5 percent
2. unemployment rate decreases as the age of males increase
3. males and females 45 to 64 years old
4. males ages 16 to 19; females ages 16 to 19

### Practice (p. 220)

1. frictional
2. frictional
3. cyclical
4. structural
5. frictional
6. structural
7. cyclical
8. none apply
9. none apply

### Practice (pp. 222-223)

1. If net personal income dropped, I would make fewer mowers because people would have less money to spend. If net personal income rose, I would make more money because people would have more money to spend on mowers.
2. Computers have affected structural unemployment in two ways: (1) Computers have eliminated many jobs, and (2) some people cannot or will not learn to use computers now necessary to perform their jobs.
3. If a person's GPI rose and his or her taxes rose an equal amount, his or her net personal income would remain the same.



## Keys

4. Answers will vary but may include the following: some industries couldn't compete using their old equipment; farmers produced more than they could sell at a profit; availability of easy credit enabled people to go into debt; too little money earned and in the hands of the working people who were the majority of the consumers.

### Practice (pp. 224-225)

1. recession
2. consumer price index (CPI)
3. gross domestic product (GDP)
4. prosperity
5. depression
6. inflation
7. comparative advantage
8. gross personal income (GPI)
9. disposable personal income (GPI)
10. gross national product (GNP)

### Practice (p. 226)

1. G
2. B
3. C
4. E
5. D
6. A
7. F
8. H

### Unit Assessment (pp. 121-124TG)

1. a
2. d
3. b
4. b
5. a
6. c
7. b
8. c
9. d
10. b

11. transportation
12. interdependence
13. international trade
14. exports
15. imports
16. comparative
17. tariff
18. NAFTA
19. True
20. True
21. False
22. False
23. True
24. True
25. True

# Appendices



## Instructional Strategies

Classrooms include a diverse population of students. The educator's challenge is to structure the learning environment and instructional material so that each student can benefit from his or her unique strengths.

Instructional strategies adapted from the Florida Curriculum Frameworks are provided on the following pages as examples that you might use, adapt, and refine to best meet the needs of your students and instructional plans.

### **Cooperative Learning Strategies—to promote individual responsibility and positive group interdependence for a given task.**

**Jigsawing:** each student becomes an “expert” on a topic and shares his or her knowledge so eventually all group members know the content.

Divide students into groups and assign each group member a numbered section or a part of the material being studied. Have each student meet with the students from the other groups who have the same number. Next, have these new groups study the material and plan how to teach the material to members of their original groups. Then have students return to their original groups and teach their area of expertise to the other group members.

**Corners:** each student learns about a topic and shares that learning with the class (similar to jigsawing).

Assign small groups of students to different corners of the room to examine and discuss particular topics from various points of view. Have corner teams discuss conclusions, determine the best way to present their findings to the class, and practice their presentation.

**Think, Pair, and Share:** students develop their own ideas and build on the ideas of other learners.

Have students reflect on a topic and then pair up to discuss, review, and revise their ideas. Then have the students share their ideas with the class.

**Debate:** students participate in organized presentations of various viewpoints.

Have students form teams to research and develop their viewpoints on a particular topic or issue. Provide structure in which students can articulate their viewpoints.

**Brainstorming—to elicit ideas from a group.**

Have students contribute ideas about a topic. Accept all contributions without initial comment. After a list of ideas is finalized, have students categorize, prioritize, and defend their contributions.

**Free Writing—to express ideas in writing.**

Allow students to reflect on a topic, then have them respond in writing to a prompt, a quotation, or a question. It is important that they keep writing whatever comes to mind. They should not self-edit as they write.

**K-W-L (Know-Want to Know-Learned)—to provide structure for students to recall what they know about a topic, deciding what they want to know, and then after an activity, list what they have learned and what they still want or need to learn.**

Before engaging in an activity, list on the board under the heading “What We Know” all the information students know or think they know about a topic. Then list all the information the students want to know about a topic under, “What We Want to Know.” As students work, ask them to keep in mind the information under the last list. After completing the activity, have students confirm the accuracy of what was listed and identify what they learned, contrasting it with what they wanted to know.

**Learning Log—to follow-up K-W-L with structured writing.**

During different stages of a learning process, have students respond in written form under three columns:

“What I Think”

“What I Learned”

“How My Thinking Has Changed”

**Interviews—to gather information and report.**

Have students prepare a set of questions in interview format. After conducting the interview, have students present their findings to the class.

**Dialogue Journals—to provide a way to hold private conversations with the teacher or share ideas and receive feedback through writing (this activity can be conducted by e-mail).**

Have students write on topics on a regular basis. Respond in conversational writing to their writings with advice, comments, and observations.

**Continuums—to indicate the relationships among words or phrases.**

Using a selected topic, have students place words or phrases on the continuum to indicate a relationship or degree.

**Mini-Museums—to create a focal point.**

Have students work in groups to create exhibits that represent, for example, the setting of a novel.

**Models—to represent a concept in simplified form.**

Have students create a product, like a model of a city, or a representation of an abstract idea, like a flow chart of governmental procedures.

**Reflective Thinking—to reflect on what was learned after a lesson.**

Have students write in their journals about a concept or skill they have learned, comment on the learning process, note questions they still have, and describe their interest in further exploration of the concept or skill. Or have students fill out a questionnaire addressing such questions as: Why did you study this? Can you relate it to real life?

**Problem Solving—to apply knowledge to solve problems.**

Have students determine a problem, define it, ask a question about it, and then identify possible solutions to research. Have them choose a solution and test it. Finally, have students determine if the problem has been solved.

**Predict, Observe, Explain—to predict what will happen in a given situation when a change is made.**

Ask students to predict what will happen in a given situation when some change is made. Have students observe what happens when the change is made and discuss the differences between their predictions and the results.

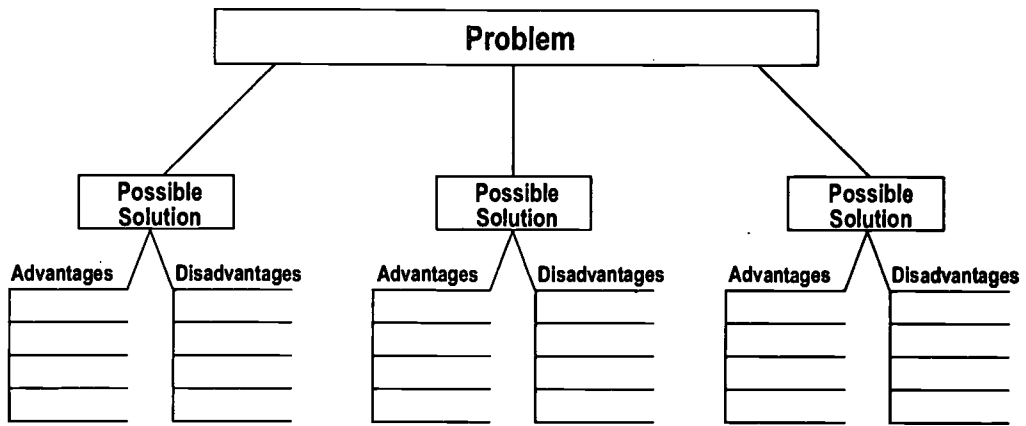
**Literature, History, and Storytelling—to bring history to life through the eyes of a historian, storyteller, or author, revealing the social context of a particular period in history.**

Have students locate books, brochures, and tapes relevant to a specific period in history. Assign students to prepare reports on the life and times of famous people during specific periods of history. Ask students to write their own observations and insights afterwards.

**Graphic Organizers**—to transfer abstract concepts and processes into visual representations.

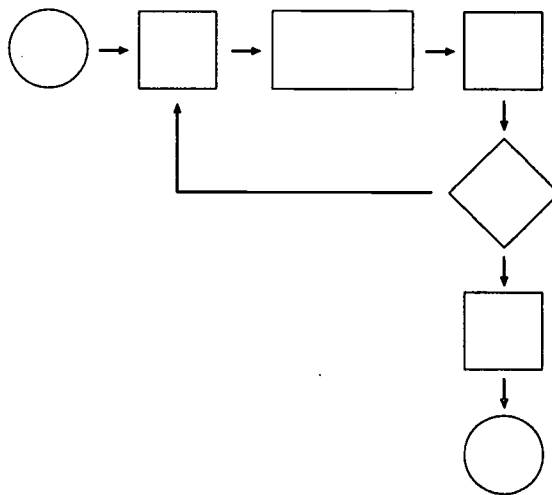
**Consequence Diagram/Decision Trees:** illustrates real or possible outcomes of different actions.

Have students visually depict outcomes for a given problem by charting various decisions and their possible consequences.



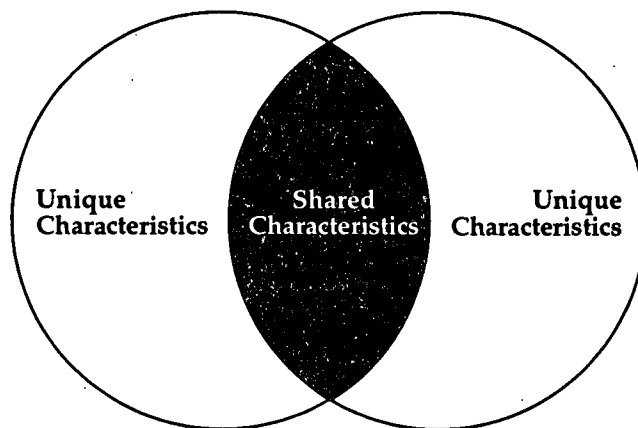
**Flowchart:** depicts a sequence of events, actions, roles, or decisions.

Have students structure a sequential flow of events, actions, roles, or decisions graphically on paper.



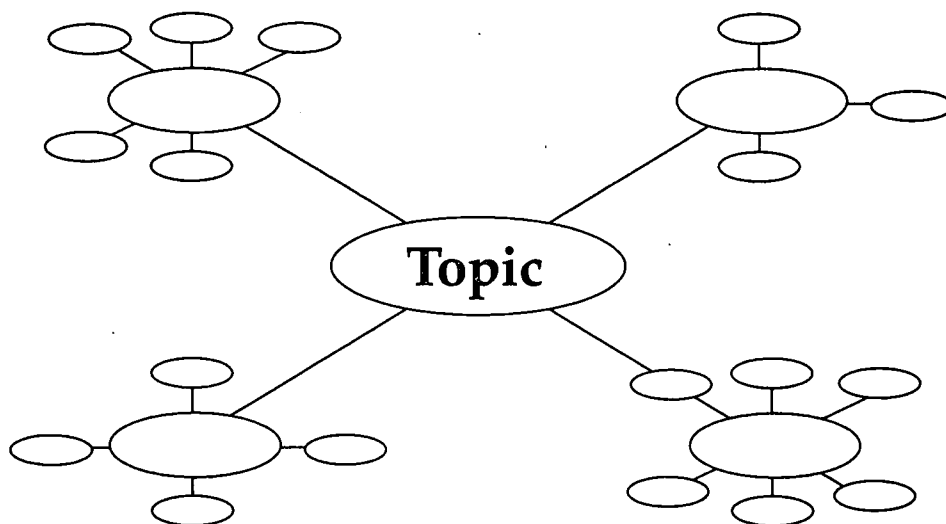
**Venn Diagram:** creates a visual analysis of the similarities and differences among, for example, two concepts, objects, events, or people.

Have students use two overlapping circles to list unique characteristics of two items or concepts (one in the left part of the circle and one in the right); in the middle have them list shared characteristics.



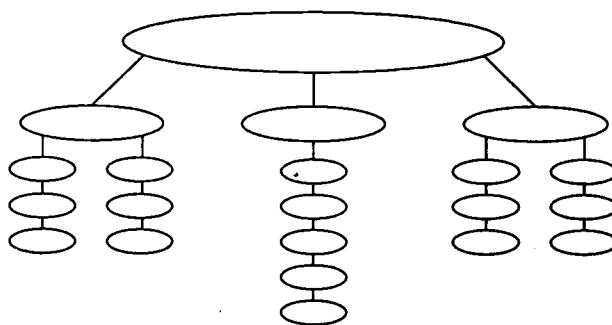
**Webbing:** provides a picture of how words or phrases connect to a topic.

Have students list topics and build a weblike structure of words and phrases.



**Concept Mapping:** shows relationships among concepts.

Have students select a main idea and identify a set of concepts associated with the main idea. Next, have students rank the concepts in related groups from the most general to most specific. Then have students link related concepts with verbs or short phrases.



**Portfolio**—to capture the extent of students' learning within the context of the instruction.

Elements of a portfolio can be stored in a variety of ways; for example, they can be photographed, scanned into a computer, or videotaped. Possible elements of a portfolio could include the following selected student products:

**Written Presentations**

- expressive (diaries, journals, writing logs)
- transactional (letters, surveys, reports, essays)
- poetic (poems, myths, legends, stories, plays)

**Representations**

- maps
- graphs
- dioramas
- models
- mock-ups
- displays
- bulletin boards
- charts
- replicas

**Oral Presentations**

- debates
- addresses
- discussions
- mock trials
- monologues
- interviews
- speeches
- storytelling
- oral histories
- poetry readings
- broadcasts

**Visual and Graphic Arts**

- murals
- paintings
- storyboards
- drawings
- posters
- sculpture
- cartoons
- mobiles

**Performances**

- role playing, drama
- dance/movement
- reader's theater
- mime
- choral readings
- music (choral and instrumental)

**Media Presentations**

- films
- slides
- photo essays
- print media
- computer programs
- videotapes and/or audiotapes

**Learning Cycle—to engage in exploratory investigations, construct meanings from findings, propose tentative explanations and solutions, and relate concepts to our lives.**

Have students explore a concept, behavior, or skill with a hands-on experience and then explain their exploration. Through discussion, have students expand the concept or behavior by applying it to other situations.

**Field Experience—to use the community as a laboratory for observation, study, and participate.**

Before the visit, plan and structure the field experience with the students. Engage in follow-up activities after the trip.



## Teaching Suggestions

The standards and benchmarks of the Sunshine State Standards are the heart of the curriculum frameworks and reflect Florida's efforts to reform and enhance education. The following pages provide samples of ways which students could demonstrate achievement of specific benchmarks through the study of Economics.

### Time, Continuity, and Change

1. Have students analyze the failure of institutions over time to adequately confront serious problems resulting from the relocation of peoples. (SS.A.1.4.2.a)
2. Have students analyze a major global trend, such as immigration, by identifying connections among individuals, ideas, and events within and across a region or a span of time. (SS.A.1.4.2.b)
3. Have students examine foreign newspapers or magazines (in translation) that report on the same event. (SS.A.1.4.3.a)
4. Have students research and report on alternative systems of recording time (e.g., Egyptian, Indian, Mayan, Muslim, and Jewish), and the astronomical systems upon which they are based (e.g., solar, lunar, or semilunar). Have students provide an example for comparison, such as how the same astronomical event might have been recorded in each system. (SS.A.1.4.4.a)
5. Have students choose one of the events listed below as a topic for a research paper. (SS.A.3.4.9.a)
  - the causes and effects of World War I and World War II
  - the Russian Revolution
  - the rise, aggression, and human costs of totalitarian regimes in the Soviet Union, German, Italy, and Japan
  - the political, social, and economic impact of world wide depression in the 1930s
  - the Nazi Holocaust and other genocides

6. Have students select a major political, military, or economic event since the 1950s (such as the development of atomic power, the rise of Germany and Japan as economic powers, revolutionary movements, or the independence of various African and Asian countries) and research its impact on international relations. (SS.A.3.4.10.a)
  
7. Have students choose one of the following economic, political, and/or cultural effects of the Industrial Revolution listed below and present an oral report that describes how it changed life around the turn of the century and how it continues to affect life in our society now. (SS.A.5.4.1.a)
  - new inventions and industrial production methods
  - new technologies in transportation and communication
  - incentives for capitalism and free enterprise
  - the impact of immigration on the labor supply and the movement to organize workers
  - government policies affecting trade, monopolies, taxation, and the money supply
  - expansion of international markets
  - the impact of industrialism, urbanization, and immigration on American society
  
8. Have students select one of the topics listed below and present an oral report in which they explain the topic's significance to society in the 1920s and 1930s and present society. (SS.A.5.4.4.a)
  - music, dance, and entertainment
  - the Harlem Renaissance
  - the automobile
  - prohibition, speakeasies, and bootlegging
  - women's suffrage

9. Have students identify key factors that contributed to the 1929 Stock Market Crash and the Great Depression and explain how these factors affected the economy leading up to the Depression. (SS.A.5.4.4.b)
10. Have students write an essay describing how the Depression affected a family (real or imaginary) in a specific part of the United States and explaining how specific government policies designed to counteract the effects of the Depression impacted this family. (SS.A.5.4.4.c)
11. Have students write a research paper about the impact of the Great Depression on the state of Florida (e.g., in terms of social, political, economic, environmental, or cultural impacts), present their findings in an oral presentation, and field questions from the class. (SS.A.5.4.4.d)

### **People, Places, and Environments**

1. Have students examine the characteristics of regions that have led to regional labels and how they have changed over time and present their findings to the class. (SS.B.2.4.1.a)
2. Have students write a short report on how regional landscapes reflect the cultural characteristics of their inhabitants as well as historical events. (SS.B.2.4.1.b)
3. Have students discuss how technological advances have led to increasing interaction among regions. (SS.B.2.4.1.c)
4. Have pairs of students research some of the consequences of mining the rutile sands along the coast of eastern Australia near the Great Barrier Reef and develop some possible solutions to this problem. (SS.B.2.4.7.a)
5. Have small groups of students discuss some of the consequences of cutting the rain forests in Indonesia in response to a demand for lumber in foreign markets and brainstorm possible solutions to this problem. (SS.B.2.4.7.b)

## **Government and the Citizen**

Have students argue for or against the notion that poverty, unemployment, and urban decay limit both political and economic rights. (SS.C.2.4.6.a)

## **Production, Distribution, and Consumption**

1. Have students interview people in different jobs and/or career paths and determine the important factors motivating each person to choose his or her particular job or career path. Then, using this information, have students explain how various financial and nonfinancial factors affect a person's occupational choice. (SS.D.1.4.1.a)
2. Have students explain the differences between the neighborhood fire department and the neighborhood grocery store in terms of goods and services provided, ownership, and the role of profits. (SS.D.1.4.1.b)
3. Have small groups of students create a possible credit history of an individual. Have each member of the group take this credit history and interview some type of loan officer (e.g., a loan officer at a bank or a finance manager at a furniture store) to determine the effects that a credit history can have on future credit. Then, have the group compare their findings and draw general conclusions about the role of the credit history. (SS.D.1.4.2.a)
4. Have students describe how setting the relative pay for dentist and for electricians would be handled in command, tradition-based, and market economies. Have the students then discuss how each of these economic systems works to affect goal of its society such as freedom, equity, and security. (SS.D.1.4.1.a)
5. Have students prepare a report explaining the relationships between price and supply and price and demand for the following situation: how will producers of car tires change their supply if 1) new technology reduces the cost of making tires; 2) the price of tractor tires rises sharply; 3) the price for raw materials for making tires (e.g., rubber) goes up? (SS.D.2.4.2.a)

6. Using the following scale—A = very positive; B = somewhat positive; C = neutral; D = somewhat negative; E = very negative—have students evaluate the effect the following policy changes would have on the economy of Florida and on the economy of Kentucky.

- federal government greatly increases military spending
- federal government decreases aid to schools in large urban areas
- federal government stops tobacco exports to another country
- federal government loosens restrictions on illegal immigrant workers

Have students explain their reasoning for the rating and describe the effects of these policy changes on the economy of Florida and Kentucky. (SS.D.2.4.3.a)

7. Have small groups of students write a report explaining the effects on the national economy, on big business, and on the region they live in, if the government raises taxes and reduces spending, while at the same time the Federal Reserve sells securities in the open market. (SS.D.2.4.2.a)
8. Have students explain the term “stagflation” and how stagflation differs from the traditional business cycle. (SS.D.2.4.5.a)
9. Have students identify, explain, and give an example of several common flaws in the use of the Consumer Price Index as a measure of how inflation affects individual households. (SS.D.2.4.5.b)
10. Have small groups of students identify three items that are not typically produced in the United States (e.g., bananas, wool, and coffee), even though they could be produced here. Have each group develop and defend an explanation for why the United States should continue to import or begin to produce the items here, using economic terms and concepts (e.g., opportunity costs, relative prices, and absolute advantage). (SS.D.2.4.6.a)

## **Accommodations/Modifications for Students**

The following accommodations/modifications may be necessary for students with disabilities and other students with diverse learning needs to be successful in school and any other setting. Specific strategies may be incorporated into each student's individual educational plan (IEP) or 504 plan, or academic improvement plan (AIP) as deemed appropriate.

### **Environmental Strategies**

- Provide preferential seating. Seat student near someone who will be helpful and understanding.
- Assign a peer tutor to review information or explain again.
- Build rapport with student; schedule regular times to talk.
- Reduce classroom distractions.
- Increase distance between desks.
- Allow student to take frequent breaks for relaxation and small talk, if needed.
- Accept and treat the student as a regular member of the class. Do not point out that the student is an ESE student.
- Remember that student may need to leave class to attend the ESE support lab.
- Additional accommodations may be needed.

### **Organizational Strategies**

- Help student use an assignment sheet, notebook, or monthly calendar.
- Allow student additional time to complete tasks and take tests.
- Help student organize notebook or folder.
- Help student set timelines for completion of long assignments.
- Help student set time limits for assignment completion.
- Ask questions that will help student focus on important information.
- Highlight the main concepts in the book.
- Ask student to repeat directions given.
- Ask parents to structure study time. Give parents information about long-term assignments.
- Provide information to ESE teachers and parents concerning assignments, due dates, and test dates.
- Allow student to have an extra set of books at home and in the ESE classroom.
- Additional accommodations may be needed.

## Motivational Strategies

- Encourage student to ask for assistance when needed.
- Be aware of possibly frustrating situations.
- Reinforce appropriate participation in your class.
- Use nonverbal communication to reinforce appropriate behavior.
- Ignore nondisruptive inappropriate behavior as much as possible.
- Allow physical movement (distributing materials, running errands, etc.).
- Develop and maintain a regular school-to-home communication system.
- Encourage development and sharing of special interests.
- Capitalize on student's strengths.
- Provide opportunities for success in a supportive atmosphere.
- Assign student to leadership roles in class or assignments.
- Assign student a peer tutor or support person.
- Assign student an adult volunteer or mentor.
- Additional accommodations may be needed.

## Presentation Strategies

- Tell student the purpose of the lesson and what will be expected during the lesson (e.g., provide advance organizers).
- Communicate orally and visually, and repeat as needed.
- Provide copies of teacher's notes or student's notes (preferably before class starts).
- Accept concrete answers; provide abstractions that student can handle.
- Stress auditory, visual, and kinesthetic modes of presentation.
- Recap or summarize the main points of the lecture.
- Use verbal cues for important ideas that will help student focus on main ideas. ("The next important idea is....")
- Stand near the student when presenting information.
- Cue student regularly by asking questions, giving time to think, then calling student's name.
- Minimize requiring the student to read aloud in class.
- Use memory devices (mnemonic aids) to help student remember facts and concepts.
- Allow student to tape the class.
- Additional accommodations may be needed.

## Curriculum Strategies

- Help provide supplementary materials that student can read.
- Provide *Parallel Alternative Strategies for Students (PASS)* materials.
- Provide partial outlines of chapters, study guides, and testing outlines.
- Provide opportunities for extra drill before tests.
- Reduce quantity of material (reduce spelling and vocabulary lists, reduce number of math problems, etc.).
- Provide alternative assignments that do not always require writing.
- Supply student with samples of work expected.
- Emphasize high-quality work (which involves proofreading and rewriting), not speed.
- Use visually clear and adequately spaced work sheets. Student may not be able to copy accurately or fast enough from the board or book; make arrangements for student to get information.
- Encourage the use of graph paper to align numbers.
- Specifically acknowledge correct responses on written and verbal class work.
- Allow student to have sample or practice test.
- Provide all possible test items to study and then student or teacher selects specific test items.
- Provide extra assignment and test time.
- Accept some homework papers dictated by the student and recorded by someone else.
- Modify length of outside reading.
- Provide study skills training and learning strategies.
- Offer extra study time with student on specific days and times.
- Allow study buddies to check spelling.
- Allow use of technology to correct spelling.
- Allow access to computers for in-class writing assignments.
- Allow student to have someone edit papers.
- Allow student to use fact sheets, tables, or charts.
- Tell student in advance what questions will be asked.
- Color code steps in a problem.
- Provide list of steps that will help organize information and facilitate recall.
- Assist in accessing taped texts.
- Reduce the reading level of assignments.
- Provide opportunity for student to repeat assignment directions and due dates.
- Additional accommodations may be needed.



## Testing Strategies

- Allow extended time for tests in the classroom and/or in the ESE support lab.
- Provide adaptive tests in the classroom and/or in the ESE support lab (reduce amount to read, cut and paste a modified test, shorten, revise format, etc.).
- Allow open book and open note tests in the classroom and/or ESE support lab.
- Allow student to take tests in the ESE support lab for help with reading and directions.
- Allow student to take tests in the ESE support lab with time provided to study.
- Allow student to take tests in the ESE support lab using a word bank of answers or other aid as mutually agreed upon.
- Allow student to take tests orally in the ESE support lab.
- Allow the use of calculators, dictionaries, or spell checkers on tests in the ESE support lab.
- Provide alternative to testing (oral report, making bulletin board, poster, audiotape, demonstration, etc.).
- Provide enlarged copies of the answer sheets.
- Allow copy of tests to be written upon and later have someone transcribe the answers.
- Allow and encourage the use of a blank piece of paper to keep pace and eliminate visual distractions on the page.
- Allow use of technology to check spelling.
- Provide alternate test formats for spelling and vocabulary tests.
- Highlight operation signs, directions, etc.
- Allow students to tape-record answers to essay questions.
- Use more objective items (fewer essay responses).
- Give frequent short quizzes, not long exams.
- Additional accommodations may be needed.

## Evaluation Criteria Strategies

- Student is on an individualized grading system.
- Student is on a pass or fail system.
- Student should be graded more on daily work and notebook than on tests (e.g., 60 percent daily, 25 percent notebook, 15 percent tests).
- Student will have flexible time limits to extend completion of assignments or testing into next period.
- Additional accommodations may be needed.

# Correlation to Sunshine State Standards

## Course Requirements for Economics Course Number 2102310

These requirements include, but are not limited to, the benchmarks from the Sunshine State Standards that are most relevant to this course. Benchmarks correlated with a specific course requirement may also be addressed by other course requirements as appropriate.

<p><b>1. Demonstrate understanding of the basic economic problems and questions that must be answered by every society.</b></p>		
<b>Benchmarks</b>	<b>Addressed in Unit(s)</b>	<b>Addressed in Class on Date(s)</b>
<p><b>SS.A.1.4.2</b> Identify and understands themes in history that cross scientific, economic, and cultural boundaries.</p>	1, 2	
<p><b>SS.D.1.4.1</b> Understand how many financial and nonfinancial factors (e.g., cultural traditions, profit, and risk) motivate consumers, producers, workers, savers, and investors to allocate their scarce resources differently.</p>	1, 2, 3	
<p><b>2. Classify economic systems in terms of how a society answers the basic economic questions.</b></p>		
<b>Benchmarks</b>	<b>Addressed in Unit(s)</b>	<b>Addressed in Class on Date(s)</b>
<p><b>SS.D.2.4.1</b> Understand how wages and prices are determined in market, command, tradition-based, and mixed economic systems and how economic systems can be evaluated by their ability to achieve broad social goals such as freedom, efficiency, equity, security, and growth.</p>	2, 3	
<p><b>3. Demonstrate understanding of how economic and government institutions apply basic economic concepts and the possible results.</b></p>		
<b>Benchmarks</b>	<b>Addressed in Unit(s)</b>	<b>Addressed in Class on Date(s)</b>
<p><b>SS.D.2.4.2</b> Understand how price and quantity demanded relate, how price and quantity supplied relate, and how price changes or controls affect distribution and allocation in the economy.</p>	3	
<p><b>SS.D.2.4.3</b> Understand how government taxes, policies, and programs affect individuals, groups, businesses, and regions.</p>	5	
<p><b>SS.D.2.4.4</b> Understand how United States fiscal policies and monetary policies reinforce or offset each other and how they affect levels of economic activity, the money supply of the country, and the well being of individuals, businesses, regions, and the nation.</p>	4, 6	

# Correlation to Sunshine State Standards

## Course Requirements for Economics

Course Number 2102310

<b>4. Demonstrate understanding of concepts essential for measuring economic performance and explaining economic phenomena.</b>		
<b>Benchmarks</b>	<b>Addressed in Unit(s)</b>	<b>Addressed in Class on Date(s)</b>
<b>SS.A.1.4.4</b> Use chronology, sequencing, patterns, and periodization to examine interpretations of an event.	2, 6	
<b>SS.B.2.4.1</b> Understand how social, cultural, economic, and environmental factors contribute to the dynamic nature of regions.	2, 6	
<b>SS.D.2.4.5</b> Understand basic terms and indicators associated with levels of economic performance and the state of the economy.	1, 2, 3, 4, 5, 6	

<b>5. Demonstrate understanding of the complementary and competing objectives between and within economic systems.</b>		
<b>Benchmarks</b>	<b>Addressed in Unit(s)</b>	<b>Addressed in Class on Date(s)</b>
<b>SS.A.3.4.8</b> Understand the effects of the Industrial Revolution.	1	
<b>SS.D.2.4.6</b> Understand factors that have led to increased international interdependence and basic concepts associated with trade between nations.	6	

<b>6. Demonstrate understanding of the economic dimensions of historical and contemporary issues.</b>		
<b>Benchmarks</b>	<b>Addressed in Unit(s)</b>	<b>Addressed in Class on Date(s)</b>
<b>SS.A.3.4.9</b> Analyze major historical events of the first half of the 20th century.	1, 6	
<b>SS.A.3.4.10</b> Understand the political, military, and economic events since the 1950s that have had a significant impact on international relations.	2, 6	
<b>SS.A.5.4.1</b> Know the causes of the Industrial Revolution and its economic, political, and cultural effects on American society.	1	
<b>SS.A.5.4.4</b> Understand social transformations that took place in the 1920s and 1930s, the principal political and economic factors that led to the Great Depression, and the legacy of the Depression in American society.	6	
<b>SS.B.2.4.7</b> Understand the concept of sustainable development.	1, 6	

## Correlation to Sunshine State Standards

### Course Requirements for Economics Course Number 2102310

<b>7. Demonstrate understanding of personal economic practices.</b>		
<b>Benchmarks</b>	<b>Addressed in Unit(s)</b>	<b>Addressed in Class on Date(s)</b>
<b>SS.C.2.4.6</b> Understand the argument that personal, political, and economic rights reinforce each other.	1, 2, 6	
<b>SS.D.1.4.1</b> Understand how many financial and nonfinancial factors (e.g., cultural traditions, profit, and risk) motivate consumers, producers, workers, savers, and investors to allocate their scarce resources differently.	1, 2, 3	
<b>SS.D.1.4.2</b> Understand credit history and the positive and negative impacts that credit can have on an individual's financial life.	4	

<b>8. Apply research, study, critical-thinking, and decision-making skills and demonstrate the use of new and emerging technology in problem solving.</b>		
<b>Benchmarks</b>	<b>Addressed in Unit(s)</b>	<b>Addressed in Class on Date(s)</b>
<b>SS.A.1.4.3</b> Evaluate conflicting sources and materials in the interpretation of a historical event or episode.	1, 2, 3, 4, 5, 6	

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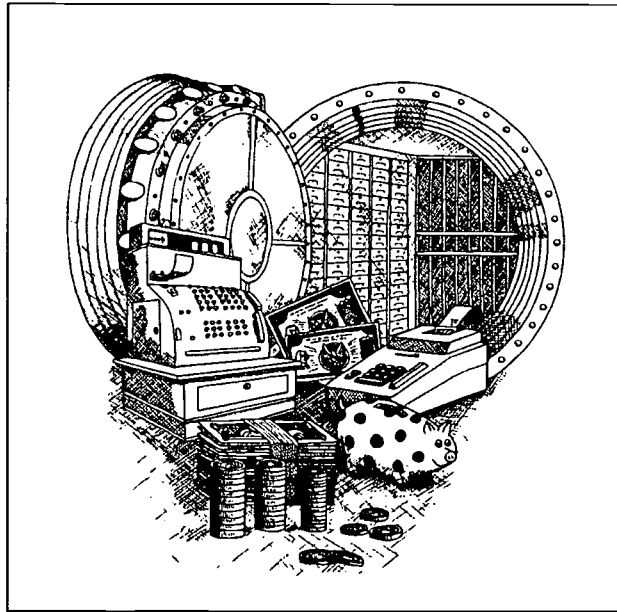
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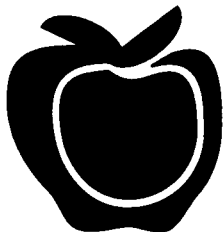
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# Economics

Course No. 2102310



2000



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# Economics

Course No. 2102310

**Bureau of Instructional Support and Community Services  
Division of Public Schools and Community Education  
Florida Department of Education**

2000

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## **Course No. 2102310**

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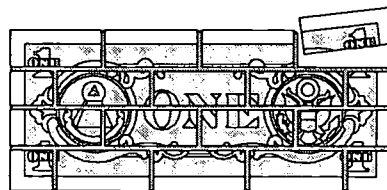
This student book is dedicated to the memory of Joel Goldfarb, who helped to develop the previous *Parallel Alternative Strategies for Students (PASS)* revised volume of *Focus on Economics*.

## Unit 1: Introduction to Economics

This unit emphasizes a basic understanding of *economics*, which will enable us to make informed decisions about our nation's economy and our own role as earners and consumers.

### Unit Focus

- the role economics plays in our everyday lives
- the difference between a *want* and a *need*
- how *scarcity* forces us to make choices
- four basic economic questions all societies must answer
- difference between *goods* and *services*
- difference between *consumer* and *capital goods*
- meaning of *opportunity cost*, *supply*, *demand*, *entrepreneur*, *real property*, *intangible property*, *personal property*, *economic rent*, *natural*, *human*, and *capital resources*





## Vocabulary

*Study the vocabulary words and definitions below.*

- capital** ..... goods used to produce other goods and services; it can also mean *financial capital* or money  
*Examples:* tools, machinery, buildings, money
- capital goods** ..... goods used to make or transport other goods and services  
*Examples:* tools; machinery; factories; facilities for storing, transporting, and selling goods
- consumer** ..... an individual who buys and uses goods and services
- consumer goods** ..... goods used for personal needs and wants  
*Examples:* clothing, food, appliances, automobiles
- demand** ..... the amount of goods or services that consumers are willing and able to buy at a given price
- durable goods** ..... goods that are not used up and do not quickly wear out after they are purchased  
*Examples:* automobiles, appliances, furniture
- economic rent** ..... payment that people receive for the use of resources that they own or control
- economics** ..... the study of people trying to satisfy their wants in a world of scarcity



- efficient** ..... getting the job done with the least amount of effort; producing the most with the least amount of resources
- entrepreneur** ..... an individual who creates something new and earns a profit by combining land, labor, and capital resources to produce goods and services
- entrepreneurship** ..... special talent some people have for searching out new business opportunities and developing new products and new ways of doing things
- financial capital** ..... money used to buy factors of production  
*Examples:* tools, machinery, buildings
- goods** ..... items that can be bought or sold that are tangible (you can actually hold them in your hands) and provide satisfaction; sometimes referred to as products
- labor** ..... human effort, both mental and physical, that goes into the making of goods and services
- land** ..... the geographic territory and natural resources that go into the making of goods and services  
*Examples:* fields, forests, minerals, water
- necessity** ..... goods or services considered essential to a person's well-being; a need
- needs** ..... goods and services that are necessities  
*Examples:* food, clothing, shelter, medical care



- nondurable goods** ..... goods that are used up or quickly wear out after they are purchased  
*Examples: gasoline, food, clothing*
- opportunity cost** ..... whatever is given up to get something in return
- resources** ..... anything used to produce goods and services; also known as factors of production or productive resources  
*Examples: land (minerals, timber, rivers); labor (blue collar, white collar); capital (machinery, buildings); and some economists consider entrepreneurship (special personal talent for finding and creating new business opportunities) a resource*
- scarcity** ..... limited resources for production in relation to wants for goods and services
- services** ..... activities performed for others for money; things that people want done for them but are unwilling or unable to do for themselves  
*Examples: teaching, selling*
- supply** ..... the amount of goods or services that consumers are willing and able to produce at a given price
- trade-off** ..... giving up one thing to gain another when economic goals are in conflict
- wants** ..... goods and services that a consumer may desire or want to buy but that are not necessities



## Introduction



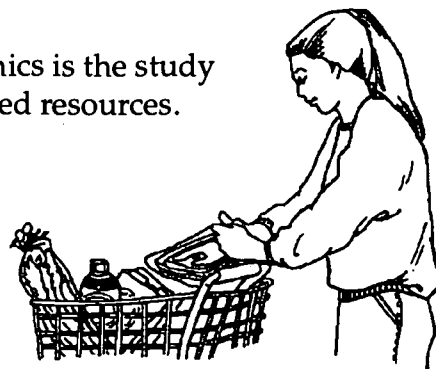
**Economics** may strike us as a big, important, and hard-to-define concept. In our day-to-day lives, all three of these reactions are true. Whether we realize it or not, we are surrounded by economic forces. Check your local newspaper and chances are that much of the front and following pages contain articles about economic growth or economic decline. Articles may also be about inflation, taxation, or effect of prices on the supply of items. There may be debate in your community about how to lower the unemployment rate and help all your neighbors find good jobs. Perhaps your family has discussed how the government should respond to various economic problems such as our national health-care crisis.

*Economics* is a powerful concept. Just consider the way it affects nearly all of us. Economics will influence who has jobs, what their rate of pay is, and how much is charged for goods such as that car we may want or those clothes in the mall that have caught our eye.

*Economics* is hard to define, partly because it is so all encompassing. Even the many pages in this book can do little more than introduce the basic principles of economics. Although the history of economics is thousands of years old and a full explanation of economics would be literally impossible to provide in one book, two books, or even three books, the book you're holding in your hands is designed to provide a basic understanding of economics that will help anyone better understand this field that affects most of us so often.

Let's begin with a basic definition. Economics is the study of the way people choose to use their limited resources. Resources such as **land, labor, capital, and entrepreneurship** do not exist in endless supply.

Economics developed to solve what appears to be a rather simple problem: There is a gap between what people and societies **need** and **want** and what they can afford. The classical way of stating



*Needs are necessities or things necessary for living.*



this problem is that people have unlimited needs and wants, but there are only limited **resources** to fulfill those needs and wants.

**Needs** are **necessities** or things necessary for living—food, clothing, shelter, and medical care. **Wants** are things people would like to have if they had the *resources* to buy them. There is only so much land on which to grow crops or so much oil to be pumped from the earth. There is only so much skilled labor to develop high-tech equipment such as computers or aircraft.

Economics studies the way people in the past have chosen to use their limited resources. It also studies our present limited resources and the best ways we can use them. In short, economics is the study of how people, nations, and the world make choices to satisfy their wants and desires with their limited resources.



*Wants are things people would like to have but do not need in order to survive.*

All studies of economic systems have discovered that the gap between our wants and our resources can only be managed. The gap can never be eliminated. Obviously, some people, corporations, and nations do it better; some do it worse.

As **consumers**—people who use their resources to obtain goods and services—we constantly make economic decisions. There is probably not a day in most of our lives when we don't make a choice of how to use our personal and limited resources. The more we know about economics, the better informed, the more responsible, and the wiser consumers we will be now and in the future.

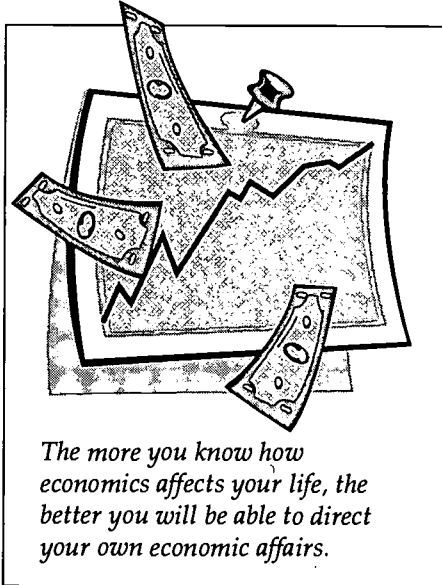
## Why Study Economics?

Soon you will be out of school and become a full-fledged participant in the economic system of the United States. The State of Florida made economics a required course in order to increase your economic understanding and help you become a more informed citizen. If this course helps you understand articles in the newspaper on economics and use the information to make informed decisions, then this course will have succeeded in one of its aims.





Another important reason to study economics is that the more you know about your role in the economic system of the United States, the better you will be able to prepare yourself for the career and lifestyle you want to achieve.



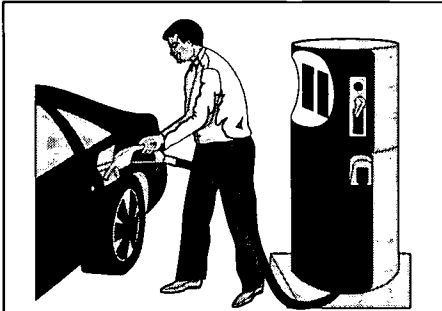
Economics is happening all around you. What you learn today, you can apply tomorrow. The more you know how economics affects your life, the better you will be able to direct your own economic affairs. The more education in economics you have, the better the chance is that you will be able to use and control your money, and understand how shifts in the economy will affect your life as a worker and a consumer.

### The Basic Economic Problem: Scarcity and Meeting People's Needs

Countries attempt to find solutions to the most human of problems: how to feed, clothe, house, and in general provide for the common good of their populations. Even though rich and powerful countries provide high standards of living for most of their populations, they still have poverty, homelessness, and undereducated people in their population. The poorest nations have a few rich people and little in the way of **goods and services** to provide for the poor. All countries, rich or poor, use the principles of economics to search for the solutions to these most common yet difficult problems.

For a nation's economy to survive, it must meet its people's basic needs for food, shelter, and clothing. But economies are used not only to meet people's basic needs but also to meet people's wants. *Wants* are things that people would like to have but do not *need* in order to survive. Wants are unlimited—people always want more goods and services to make their lives better.

The basic economic problem of all societies is known as **scarcity**. All economic resources have one characteristic in common: they are scarce. Only a certain amount of resources are available to produce things that people *want* or *need*. In short, there is only so much of everything to go around. Consequently, the basic economic problem is *how to meet the*



*Since our continuous want for oil cannot be satisfied when our old sources are used up, we'll begin searching for new ways to satisfy this want.*

*unlimited demands of the people with limited resources.* Oil companies produce millions of gallons of gasoline to fuel our cars. This oil, however, does not come from a bottomless hole in the ground. Eventually—sooner rather than later—the old sources of oil will be used and new sources will be harder and harder to find. Then our continuous want for oil will no longer be satisfied, and we'll begin searching for new ways to satisfy this want.

Although *wants, needs, and demands* are the basic terms of economics, you must continue your studies to include history, geography, and government to fully understand the role played by economics in creating a human drama of rich and poor, the elite and the masses, the *haves* and the *have nots*.

In summation, scarcity exists everywhere. Individuals, businesses, and governments must make wise decisions based on the **efficient** use of their limited resources. It is important to understand that personal, political, and economic rights all must reinforce each other to help us make the most informed and wisest choice. Choices are very important. The wiser the choice, the better able we are as nations to meet the goal of growing, sustaining, and increasing development.

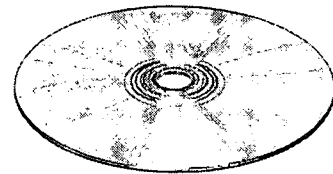
#### **Four Questions: What to Produce? How to Produce? For Whom to Produce? Are We Efficient?**

Since scarcity exists everywhere, all economic systems must answer these four questions.

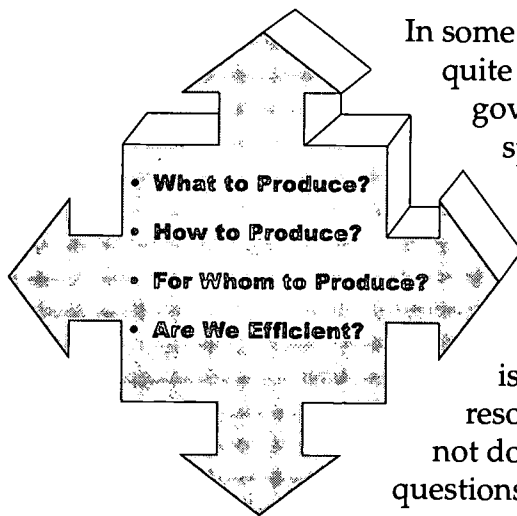
- What goods and services will be produced?
- What methods will be used to produce those goods and services?
- For whom will those goods and services be produced?
- Are we *efficient*?



In the United States economy, deciding what goods and services will be produced is a complex process. Take the example of a big record company. First its board of directors meets at corporate headquarters. They may discuss whether they will continue producing recorded music or go into another business, such as making movies. Their decision will be largely based on whether there are consumers who can afford to buy and will buy recorded music. If they decide to make recorded music, the company must pay close attention to which kinds of music and musicians consumers will be willing to pay money for and whether consumers are more likely to buy tapes or CDs or perhaps a newer technological way of listening to recorded music. As you can see from this discussion, the questions of "What to produce?" and "For whom to produce?" are really the same question. One cannot be answered without considering and answering the other.



Once these two questions have been answered, the record company's board of directors will decide the most cost-efficient method of manufacturing recorded music.



In some instances, this entire process will be quite simple. If, for example, the government or a corporation needs a specific item—say an aircraft that can land on a battleship or a press that can print money—then the answers to "What to produce?" and "For whom to produce?" will not involve much decision-making. Remember, our goal is to produce the most with our scarce resources, and thus, be efficient. If we are not doing this, then we need to reconsider questions one, two, and three.



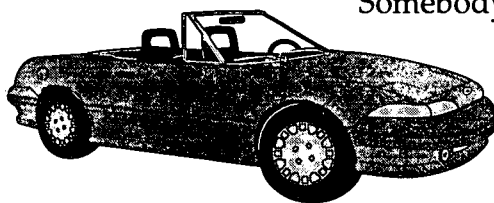
## Scarcity: The Problem of Too Little to Go Around

People want more things than they can obtain. *Scarcity* is the basic problem for *all* economic systems and nearly all people. Even wealthy people find they cannot afford all they desire. The poor, however, often desire but cannot afford the necessities of life: food, clothing, shelter, and medical attention. The rich are able to afford the basics; however, they may desire but cannot afford all the luxuries they would like.

Scarcity is a problem you will always have to face because you can never meet all of your needs and wants. You will always have to choose between this good and that good or this service and that service. You will continually have to make **trade-offs** and use the resources you have to choose the goods and services you desire the most and can afford. The brief story below illustrates this point.

When you were younger, how did you decide who was the coolest guy in the neighborhood? Maybe it was the kid with the most toys, the biggest water gun, the neatest bike, and the newest fashion clothes. This kid lacked for nothing. As you've gotten older, the toys changed. You still can't afford them, but somebody still seems to have everything you want. One of the differences between children and adults is the cost of their toys. But think back to those younger days. Did the coolest kid really have everything?

Human nature is such that you want what the coolest person has, while the coolest person wants the toys not yet acquired.



Somebody always had a better bike when you were younger, and as you grow older, somebody will always have a bigger car, a larger house, and nicer clothes. As you grew older, you began to understand that you continued to want more and more goods. You probably have also noticed that those people who own the larger cars and



houses also want still larger and more luxurious cars and houses. We want it all! But common sense told you long ago that neither you nor your neighbors are going to get it *all*.



Very few people in any economic system have enough money or resources to satisfy all their wants. Not only are your own personal resources limited, but the steel, plastic, glass, and other materials to make that new car or truck are also limited. So both your own resources and the resources to make the truck are *scarce* resources. In short, you and most other people have more wants than any economy can provide—thus the scarcity problem.

The basic economic problem is ongoing: There will always be more wants than goods and resources. Economists call this *scarcity*. The solution is more a journey—a never-ending one—than a destination. The solution is a day-by-day, year-by-year set of choices you will make throughout your life.

“What goods will I buy with the money I have? What trade-off will I have to make? Should I buy that wonderful \_\_\_\_\_?” (Fill in the blank with your current want.) “But if I buy that wonderful \_\_\_\_\_, I can't buy that wonderful \_\_\_\_\_.” (Fill in the blank with another current want.)

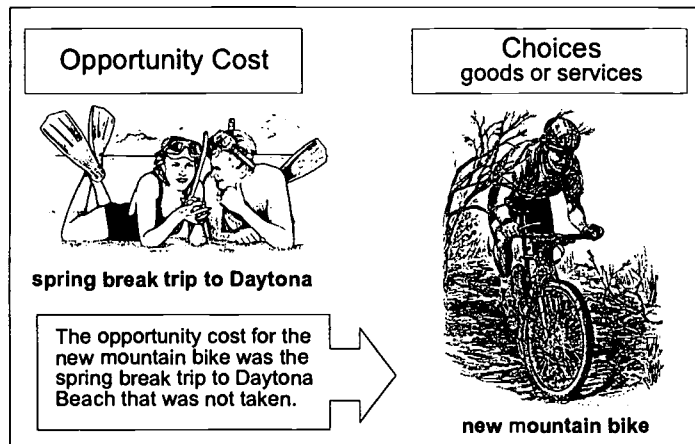
Now that you have a better understanding of the problem, you know that there is no simple solution. You will always have more wants than you have resources. *Scarcity* is a problem that will always exist. We will always have to make choices and trade-offs.

## Opportunity Cost: Arranging Your Priorities

Since we have to make choices, we have to give some things up to receive our desired wants or needs. What we give up is known as **opportunity cost**. Opportunity cost is defined as *the cost of giving up the next best thing in order to obtain something else*. If you went on a date on Friday, you might have had to give up going out to lunch on Thursday. *Opportunity cost* should always be expressed as that thing you had to give up in order to obtain a particular want or need: I would say the *opportunity cost* for my new mountain bike was that spring break trip to Daytona Beach I *didn't*



take. *Opportunity cost* does not refer to the amount of money a particular want or need costs. Therefore, the *opportunity cost* principle states that in order to get some *goods and services* you really want, you must give up some *goods or services* you want almost as much.



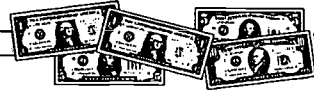
Opportunity cost is not only experienced by individuals but also by families, corporations, and even governments. Imagine, for example, that your local government owns a plot of land. The government wants to use this land to fulfill one of its citizens' needs. Its citizens, however, need both a golf course *and* a nature park. If the government decides to develop the nature park, then we would say that the opportunity cost was the golf course. People, businesses, and governments are constantly making trade-offs to fulfill their wants as well as they can.

Remember, opportunity costs can be measured in anything. It is whatever you give up to get something in return. For example, if you spend two hours of your time to do your homework, what else could you have done in those two hours, (sleep, talk to your friends, watch television)?

## Case Study: Choices and Changes

### The Industrial Revolution

We have stated in this section that nations have to make choices to satisfy their people's wants and needs. These choices are not always easy because of scarce resources. In the United States, a major choice was made in the early 1800s which resulted in what became known as the Industrial Revolution.



When the United States became an independent country after the Revolutionary War with Great Britain, most Americans were farmers. It soon became apparent that the United States would have to produce goods which in the past were obtained from Great Britain. To encourage production of these goods, great importance was placed on new ideas and methods of production and the machines to carry out these ideas. One of the greatest ideas was Eli Whitney's method of using interchangeable parts. This approach took industry out of households and workshops and into factories.



*Eli Whitney*

Samuel Slater started a textile factory in the United States. The factory system made mass production possible. People could produce more products faster and cheaper.

During the War of 1812, Americans had to invest their capital in areas other than international trade and shipping because the British navy blocked much of our coastline. The United States realized that in order for the new nation to survive a choice must be made to use scarce resources to further industrialize and build machinery, tools, and factories to manufacture goods that could no longer be imported. The opportunity cost was less farmland, yet the benefit was worth the cost.

With new ideas and methods of production, industry in the United States grew rapidly in the early 1800s. The United States also grew stronger politically, economically, and socially. The cotton industry in the South was aided by the invention of the cotton gin, but this also increased the demand for slave labor. The North and South grew in different directions. The Northeasterners chose to invest their capital in factories and manufacturing. Southerners chose profits from cotton. These choices and differences would later play an important part in the Civil War.



## Practice

Use the **Case Study** on pages 14-15 to answer the following using complete sentences.

1. What factors led to the start of the Industrial Revolution in the United States? \_\_\_\_\_

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2. What do you think are the positive impacts of the Industrial Revolution? \_\_\_\_\_

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3. What do you think are the negative impacts of the Industrial Revolution? \_\_\_\_\_

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## Practice

Use the list below to write the correct term for each definition on the line provided.

<b>capital</b>	<b>necessity</b>
<b>economics</b>	<b>needs</b>
<b>entrepreneurship</b>	<b>resources</b>
<b>labor</b>	<b>supply</b>
<b>land</b>	<b>wants</b>

- \_\_\_\_\_ 1. human effort, both mental and physical, that goes into the making of goods and services
- \_\_\_\_\_ 2. goods and services that a consumer may desire or want to buy but that are not necessities
- \_\_\_\_\_ 3. goods or services considered essential to a person's well-being; a need
- \_\_\_\_\_ 4. the amount of a good or service that producers are willing and able to produce at a given price
- \_\_\_\_\_ 5. goods used to produce other goods and services, such as tools, machinery, buildings, and money
- \_\_\_\_\_ 6. the geographic territory and natural resources that go into the making of goods and services
- \_\_\_\_\_ 7. anything used to produce goods and services, such as land, labor, capital, and entrepreneurship



- \_\_\_\_\_ 8. special talent some people have for searching out new business opportunities and developing new products and new ways of doing things
- \_\_\_\_\_ 9. goods and services that are necessities, such as food, clothing, shelter, and medical care
- \_\_\_\_\_ 10. the study of people trying to satisfy their wants in a world of scarcity



## Practice

Use the list below to write the correct term for each definition on the line provided.

consumer	opportunity cost
demand	scarcity
efficient	services
goods	trade-off

- \_\_\_\_\_ 1. getting the job done with the least amount of effort
- \_\_\_\_\_ 2. whatever is given up to get something in return
- \_\_\_\_\_ 3. the amount of goods or services that consumers are willing and able to buy at a given price
- \_\_\_\_\_ 4. items that can be bought or sold that are tangible
- \_\_\_\_\_ 5. giving up one thing to gain another
- \_\_\_\_\_ 6. activities performed for others for money such as teaching and selling
- \_\_\_\_\_ 7. limited resources for production in relation to wants for goods and services
- \_\_\_\_\_ 8. an individual who buys and uses goods and services



## Practice

Write the letter **E** in front of each activity that would be included in the study of economics.

- \_\_\_\_\_ 1. the study of employment rates
- \_\_\_\_\_ 2. the study of languages
- \_\_\_\_\_ 3. the study of trade between United States and Japan
- \_\_\_\_\_ 4. the study of the periods during which consumers save money
- \_\_\_\_\_ 5. the study of mental illness
- \_\_\_\_\_ 6. the study of penguins in Alaska
- \_\_\_\_\_ 7. the study of inflation rates and why they change
- \_\_\_\_\_ 8. the study of how advertising influences the sales patterns of bicycles
- \_\_\_\_\_ 9. the study of taxation principles in the United States
- \_\_\_\_\_ 10. the study of the effect of price changes on the supply of bicycles



## Practice

Listed below are sets of alternatives. Identify each set as an example of one of the economic questions: what to produce? how to produce? or for whom to produce? Write **what, how, or for whom** on the line provided.

- \_\_\_\_\_ 1. assembly line production or individual crafts
- \_\_\_\_\_ 2. city park or road resurfacing
- \_\_\_\_\_ 3. tourism or agricultural goods
- \_\_\_\_\_ 4. goods or services
- \_\_\_\_\_ 5. making goods by hand or machine
- \_\_\_\_\_ 6. union labor or robots
- \_\_\_\_\_ 7. shipping fish by truck freight or by air freight
- \_\_\_\_\_ 8. Rosanna is replaced at the telephone company by a computer.
- \_\_\_\_\_ 9. luxury cars or economy cars
- \_\_\_\_\_ 10. Americans are going crazy over computers.



## Practice

Write **True** if the statement is correct. Write **False** if the statement is not correct.

- \_\_\_\_\_ 1. Many people have greater wants than their resources allow them to satisfy.
- \_\_\_\_\_ 2. Our world has enough resources to produce all the goods people want.
- \_\_\_\_\_ 3. A consumer is a person who sells goods in the marketplace.
- \_\_\_\_\_ 4. Scarcity occurs because there are limited resources to fulfill the unlimited wants of people and countries.
- \_\_\_\_\_ 5. Everyone plays at least one role in the economic system of the United States.
- \_\_\_\_\_ 6. In the United States, only the government decides what goods and services will be produced.
- \_\_\_\_\_ 7. The United States doesn't have a scarcity of any goods or services.
- \_\_\_\_\_ 8. For a nation's economy to survive, it must meet its people's basic needs for food, shelter, and clothing.
- \_\_\_\_\_ 9. Consumers help determine what goods and services will be produced.



## Practice

*In each pair of items below place a check by the one you would choose, and put an O by the opportunity cost.*

- |  |   |
|--|---|
| 1. <input type="checkbox"/> play video games | 6. <input type="checkbox"/> basketball        |
| <input type="checkbox"/> go to a movie       | <input type="checkbox"/> baseball             |
| 2. <input type="checkbox"/> skating          | 7. <input type="checkbox"/> biking shorts     |
| <input type="checkbox"/> bowling             | <input type="checkbox"/> two t-shirts         |
| 3. <input type="checkbox"/> CD               | 8. <input type="checkbox"/> book              |
| <input type="checkbox"/> two video tapes     | <input type="checkbox"/> board game           |
| 4. <input type="checkbox"/> small pizza      | 9. <input type="checkbox"/> swimming          |
| <input type="checkbox"/> submarine sandwich  | <input type="checkbox"/> biking               |
| 5. <input type="checkbox"/> outdoor sandals  | 10. <input type="checkbox"/> ice cream sundae |
| <input type="checkbox"/> dress shoes         | <input type="checkbox"/> cheesecake           |

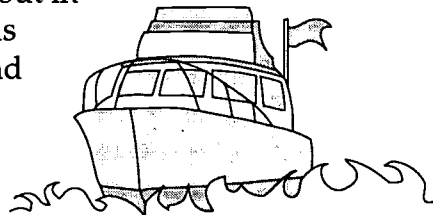


## Practice

Read and answer the following using short answers.

### Over the Ocean Blue

Imagine that your best friend stops by your house on a sunny Saturday morning in August and invites you to go on a deep-sea fishing trip in his new boat. You quickly put on your cutoffs, tennis shoes, and T-shirt, and go off for a fun day of fishing and sun. By late afternoon, the boat is several miles out in the ocean when suddenly a storm begins to blow. The seas become very rough and the boat begins to take on water. You head toward a small island seen earlier in the day. Unfortunately, the motor dies and you are swept helplessly across a coral reef. The boat begins to sink and you and your friend start swimming toward the island. Both of you manage to swim to shore safely with a few minor injuries. Neither of you is sure where you are or how far it might be to the mainland. Luckily, you find a small shack with a skiff (a small boat) nearby. Although it provides shelter from the storm, the shack has few food supplies and no way to contact help. You soon realize that you cannot hope to stay until you are rescued since no one knows where to start looking for either of you. Therefore, after the storm passes, you decide to leave and head for the mainland. Fortunately, the shack has some supplies you can take. You have no idea how long it will take you to reach shore or be rescued, and there is not much room in the skiff. Your survival will depend on how carefully you choose your supplies.



1. What time of the year does the story take place? \_\_\_\_\_
2. Why can't you wait to be rescued? \_\_\_\_\_  
\_\_\_\_\_
3. What happened to your boat? \_\_\_\_\_  
\_\_\_\_\_





4. What is a *skiff*? \_\_\_\_\_
5. Why did you go out in a boat? \_\_\_\_\_
- \_\_\_\_\_
6. Listed below are some of the supplies the shack contains and their imaginary size-weight unit (SWU). Decide which of the items you will take in your skiff. You cannot take more than 25 SWUs. Circle each item of your choice. Remember: your total may not exceed 25 SWUs.

**Over the Ocean Blue Supply List**

- |                           |                           |
|---------------------------|---------------------------|
| hat (1)                   | bottle of sunblock (3)    |
| shirt (1)                 | book of matches (1)       |
| plastic canteen/water (5) | 3 flares (3)              |
| first aid kit (5)         | battery-powered radio (5) |
| 50 feet of rope (7)       | flashlight (2)            |
| rifle (6)                 | CD-player battery (10)    |
| snorkel (2)               | plastic dishes (2)        |
| fishing pole (3)          | sunglasses (2)            |
| fishing tackle (1)        | plastic tarp (5)          |
| scuba gear (25)           | pound of sugar (5)        |
| air mattress (5)          | bucket (2)                |
| blanket (5)               | 5 pound can of caulk (4)  |
| boxes of dry cereal (2)   | spear gun (2)             |
| can of soup (2)           | 6-pack of soda (2)        |
| wool jacket (5)           | 3-horsepower motor (20)   |
| knife with can opener (3) | kerosene lantern (3)      |
| 2 novels (3)              | sleeping bag (10)         |

**Total SWU from column one:** \_\_\_\_\_

**Total SWU from column two:** \_\_\_\_\_

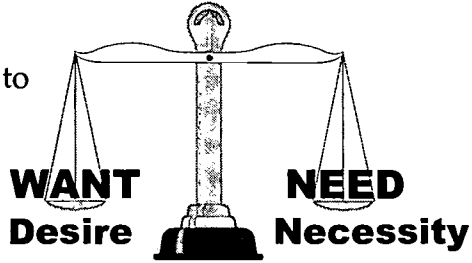
**Total SWU:** \_\_\_\_\_

Discuss your choices with a partner. Give a rationale for the items you chose. Be prepared to share with the class.



## Want and Need: The Difference between Desire and Necessity

So far we have learned that we all have to make choices because of scarcity. When we make choices, we have costs involved called *opportunity costs*.



Although we want many things, our limited resources will force us to make choices. We sometimes must choose between a want, or something we would like to have, and a need, or something we must have.

Using the specialized vocabulary of economics, *want* and *need* become important terms used by economists to describe the desires of consumers. The economist uses the term *want* to mean you would like to have a certain good or service that is not necessary for your life, your safety, or your home.

The term *need*, on the other hand, is used by economists to refer to a more essential and necessary *good* than those goods described by a *want*. A *good* or *service* that is a *necessity of life* is considered a *need*. Economists consider a *need* to be either food, clothing, shelter, or medical attention. A *need* is essential.

Here are two examples of the sometimes strange usage of economics terms.

### Two Case Studies: *Want* and *Need*

#### The Ice Cream Contest

Five students went to Francisco's Ice Cream Parlor to eat some ice cream. Lester and Dexter both claimed that they could eat more ice cream than anyone else. Dexter then challenged Lester to an ice-cream-eating contest. After both Dexter and Lester had eaten more than they could possibly *want* to eat, Dexter could win the contest with just one more bite of ice cream.

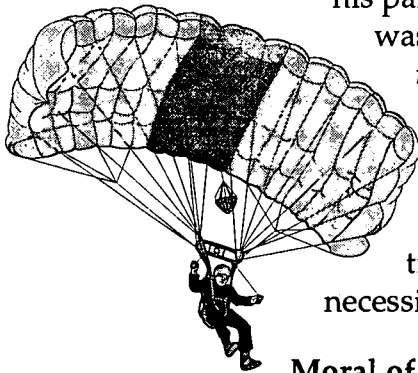


Did Dexter *want* or *need* another bite? An economics test would tell you that the correct answer was that "Dexter *needed* another bite." Ice cream meets the criterion of being *food*, and food is a *need*. So, speaking as economists, we call this bite of ice cream that sent Dexter home a little green in the face a *need*.



## The Parachute Jump

Buster and Natasha decided to learn how to parachute jump. Natasha made a wonderful jump with a fluffy parachute above her head. Buster, however, was not so lucky. He looked up and saw that his parachute had not opened and the ground was rushing towards him. Did Buster *want* or *need* a parachute? The answer in the language of economics is that "Buster *wanted* a parachute." A parachute is *not* food, clothing, shelter, or medical attention. Buster only hoped that transportation was added to the list of necessities before he hit the ground.



**Moral of the story:** Sometimes what we think of as our *needs* are actually only our wants. The dilemma in the story: As Buster was floating towards the ground he may have decided that he would be willing to give up his wish for a new leather jacket in order to buy a parachute that worked—one that would open. In this instance, Buster would be choosing to buy a want (the parachute) instead of a need (the new leather jacket). Another way of explaining Buster's *trade-off* is to say that the *opportunity cost* of a parachute that opened would be a leather jacket.

Even though these two examples seem simple, on a larger scale nations sometimes have a tough time distinguishing between the two. For example: Do we *want* or *need* to feed the homeless? Do we *want* or *need* to build nuclear weapons? Remember, food is a necessity to nourish and food is also one of our scarce resources, while weapons are, *economically speaking*, a want.

Choices have to be made to satisfy these wants and needs because of *scarcity*. Those people and nations who understand economics tend to make wiser choices. Now let's look at some factors that help determine our choices.

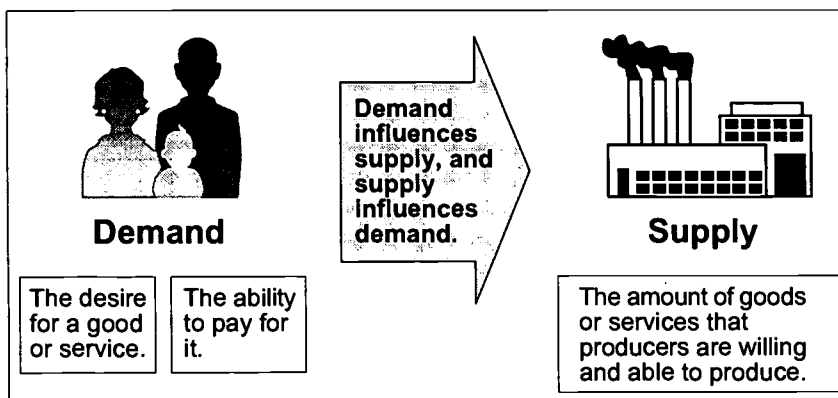


## Supply and Demand: Producers Make Goods and Provide Services—Consumers Use Them

We have been taught as children that to *demand* something is not nice. In economics, however, *demand* is what causes manufacturers to produce more goods. Producing goods employs people who make the goods and provides consumers with goods they would like to buy. Therefore, demand is not a *bad word*, instead demand is part of the mechanism that drives our economic system.

*Demand* consists of two basic factors: the desire for a good or service and the ability to pay for it. *Demand* for goods shows companies which goods the consumers would like to buy. Companies that respond the best to consumers' demands are often able to stay in business and earn a profit. Companies want consumers to demand goods and services. Trust me, if you walk into a car dealership and *demand* a new car, the salesperson will not dislike you.

*Supply* is the amount of goods or services that producers are willing and able to produce. Consumers can only buy what producers produce, and what is available to consumers will often influence their demand. You may imagine a certain kind of clothing item, but when you walk into a store, you may often be willing to alter your demand to fit the available supply. So, as you can see, demand influences supply, and supply influences demand. Thus, supply and demand help us to determine our choices.



*Supply and demand help us to determine our choices.*



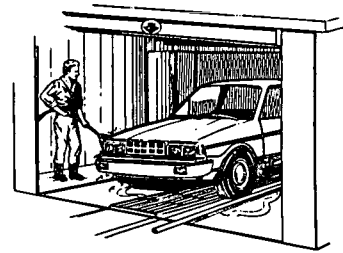
## Goods and Services: What We Make and the Tasks We Do



*Goods such as a hamburger are tangible; that is, you can see them, feel them, touch them, or eat them.*

*Goods and services* make up the two broad, general categories of the things and activities provided by businesses for consumers to purchase. *Goods* are *tangible*; that is, you can see them, feel them, touch them, or eat them. Examples include hamburgers sold by McDonalds or automobiles produced by Chevrolet.

Unlike goods, *services* are *intangible*. Although you can see them being done and you can experience them, you cannot take them with you. You can own a service contract, but as a consumer you cannot own a service, as you can own a good. Rather, services are activities, such as the amusement park rides at Disney World. You don't buy the ride; you just get the use of that ride for a short period of time. Dry cleaning, car washes, a rental car, and the use of a hotel room for the night are common services that people use on a regular basis.



*Services such as a car wash are intangible. Although you can see them being done and you can experience them, you cannot take them with you.*

### Types of Goods: Consumer and Capital

**Consumer goods.** *Consumer goods* are goods purchased by consumers to satisfy their own personal needs and wants. They include any type of good that after purchase has value only to the person who bought or uses the good. Some consumer goods satisfy immediate wants and needs and have little or no resale value. These consumer goods, such as food and clothes, are called **nondurable goods**. They are eventually worn out or used up by the consumer who purchases them. Other consumer goods, such as automobiles and refrigerators, are not used up after their purchase and do not wear out quickly. These consumer goods are called **durable goods**. They tend to be larger and more expensive. Nearly all types of consumer goods lose their value over a period of time. The process of losing value over time is *depreciation*. Depreciation is the value lost from goods. For example, if you buy a new car for \$20,000 and three years later, you sell it for \$8,000, the difference of \$12,000 is called *depreciation*.



**Capital goods.** A *capital good* is any type of good that either *appreciates*, or increases in value over time, or creates more wealth for its owner than it costs its owner to buy. A capital good can be as large as a factory or as small as a carpenter's tool. The most common capital good owned by the average consumer is a house. Houses tend to appreciate, and when they do they are called *capital goods*.

The *use* of the good, not the good itself, determines whether it is considered a *consumer* or *capital* good. For example, a car sitting on a car lot can be either a consumer or capital good, depending on who purchases it. For a rental car company, the car will become a *capital good* because the company will earn profits by renting the car. The car you purchase, however, will be a *consumer good* because you buy the car to satisfy your own want and will sell it at a lower, depreciated value.

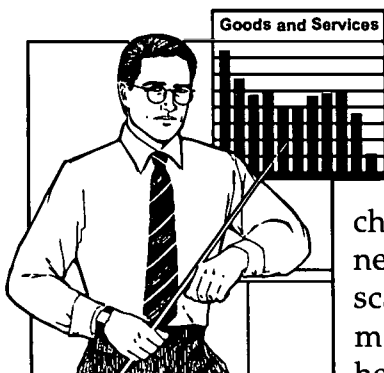
Remember, a good must be tangible, meaning you can touch it. If it is designed to use now it is a consumer good. If it is designed to use to make other goods, it is a *capital good*.

### Services: Paying Money for Other People's Time and Skill

Services, unlike goods, are *not* manufactured. Services are *intangible*; that is, they cannot be held or carried away. They are things people desire but either cannot provide for themselves or are unwilling to provide.

Many of the stores that crowd the malls and line our streets sell services. Some businesses will cut your hair, fix your shoes, or provide fun through their video games. Some businesses will sell both goods—such as clothes—and services—such as alterations on the clothes you buy.

In our present economy, most *new* jobs that are created will be service-oriented jobs. The growing tourist industry in Florida, for example, primarily provides *services*, rather than *goods*. The money spent for travel, hotel rooms, and tickets to attractions—all of these are *services*.



In summation, we as individuals make choices about what goods and services we want or need. Many factors like supply and demand, scarcity, and opportunity costs will help us to make those choices. Understanding economics will help us make wise choices.



## Practice

*Write W if the item is a want. Write N if the item is a need.*

- \_\_\_\_\_ 1. x-rays of sprained ankle
- \_\_\_\_\_ 2. hamburger and soft drink
- \_\_\_\_\_ 3. new jacket
- \_\_\_\_\_ 4. sneakers
- \_\_\_\_\_ 5. chocolate cake
- \_\_\_\_\_ 6. manicure
- \_\_\_\_\_ 7. house
- \_\_\_\_\_ 8. shack
- \_\_\_\_\_ 9. haircut
- \_\_\_\_\_ 10. car



## Practice

Write **G** if the item is a good. Write **S** if the item is a service.

- \_\_\_\_\_ 1. new car
- \_\_\_\_\_ 2. admission to Universal Studios
- \_\_\_\_\_ 3. haircut
- \_\_\_\_\_ 4. washing machine
- \_\_\_\_\_ 5. car wash
- \_\_\_\_\_ 6. U.S. mail
- \_\_\_\_\_ 7. hamburger
- \_\_\_\_\_ 8. commercial airline ride to Atlanta
- \_\_\_\_\_ 9. roll of film
- \_\_\_\_\_ 10. food at a supermarket






## Practice

Identify each good below as a **capital good** or **consumer good**. Write the correct answer on the line provided.

- \_\_\_\_\_ 1. pizza
- \_\_\_\_\_ 2. microwave oven in your neighbor's kitchen
- \_\_\_\_\_ 3. rental car
- \_\_\_\_\_ 4. perfume
- \_\_\_\_\_ 5. house
- \_\_\_\_\_ 6. hotel room
- \_\_\_\_\_ 7. saw used by a carpenter
- \_\_\_\_\_ 8. washing machine in a relative's house
- \_\_\_\_\_ 9. commercial airplane
- \_\_\_\_\_ 10. college t-shirt



## Resources: Natural Resources, Human Resources, and Capital Resources

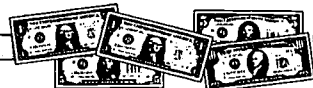
Now that we know the difference between wants and needs and that all people have to make choices, let's look at something that helps us make our choices. A magician pulls the rabbit out of a hat and the audience applauds. "Wait," he says. "You can't feed, clothe, or house yourself with magic." Is there an economics magician who provides for our needs? Unfortunately... NOT! Unlike magicians, we cannot pull goods and services out of a hat. We must work with our resources so that people will be clothed, fed, and housed.



*The value of a painting such as Leonardo da Vinci's Mona Lisa lies in its finished glory and not in the non-intrinsic value of the paint and canvas that were used by the artist.*

The great bounty of land, human skill, and money make up the resources that we transform into goods and services. *Resources* become valuable in many different ways. Some resources, such as gold, are so easily converted into products, such as jewelry and coins, that we call them *intrinsically valuable* or valuable for their own sake without regard to anything else. Even after gold has been converted by a manufacturing process into a finished product, it can be returned to its original state. Other resources have no intrinsic value because they cannot be returned to their natural state, as can gold, and their value is dependent on our need or desire for them. If we no longer drove cars or needed petroleum products, oil would lose its value. An artistic painting is an extreme example of a product made from resources with *non-intrinsic value*. The value of a painting such as Leonardo da Vinci's *Mona Lisa* lies in its finished glory and not in the non-intrinsic value of the paint and canvas that were used by the artist.

There are three types of resources that are factors of production: natural resources, human resources, and capital resources. Some economists also consider *entrepreneurship* to be a fourth resource or factor of production. Entrepreneurship involves an **entrepreneur**, or a person with a special talent for creatively combining the three other factors of production. To acquire these resources, it takes **financial capital**. Financial capital is not a real resource like land (natural resources), labor, and capital (machinery and buildings). Financial capital enables the purchase of any of the factors of production.



## Natural Resources: Land, Minerals, Water, and Soil



*A natural resource can be defined as any natural object that can be used to produce goods that people would be willing to buy.*

A *natural resource* can be defined as any natural object that can be used to produce goods that people would be willing to buy. Land is a *natural resource*—it occurs naturally. Examples of this type of resource are farmland, clean water, iron ore and other minerals, and even wind power. People who own property that has a valuable natural resource can charge other people who want to use that resource. Remember, land is a limited resource, and limited resources are both scarce and very valuable.

*Land* is a good example of the specialized vocabulary used in economics. The general vocabulary use of the word *land* would inform you that land is dry and that it is definitely *not* water. The specialized vocabulary used in economics defines *land* as any natural object, including water, that can be used to produce goods that people are willing to buy. Master the specialized vocabulary used in economics, and you will understand that *land* can mean a *river*!

## Human Resources: Labor and Skills

*Labor* is a human resource. People go to school or do apprenticeships to gain the education and skills they will need to earn a living and buy the goods and services they want. The more skills and the better your education, the more others will be willing to pay you a good income for the use of your labor and skills. Remember, *you* are in control of this scarce resource.

## Capital Resources: Machine-made Objects

*Capital* is a specialized vocabulary word when used in economics. Used in the phrase *capital goods* it means human-made goods that can be used to create wealth. Some books will define *capital* as a human-made good used to manufacture other goods. Either definition will help you to understand that a carpenter's hammer and a very large 747 airplane are both examples of *capital goods*.



*Capital resources* are goods that are machine-made and are, in turn, used in either a person's job (such as hand tools) or are big machines located in factories. The definition for *capital resources* is identical to the definition of *capital*.

## **Entrepreneurship: Combining the Factors of Production**

*Entrepreneurship* refers to the special talent some people have for searching out and taking advantage of new business opportunities.

Entrepreneurship is different from most ordinary talents of people.

*Entrepreneurs* take new business opportunities and develop new products and new ways of doing things. The entrepreneur is a person with a special skill who can and often does earn very high profits in the American economy. Few people have the skills needed or the opportunity to combine natural, human, and capital resources to produce goods and services people will buy. Entrepreneurs are the owners or managers of companies. The company may be as small as a two-chair barber shop or as large as IBM. The president of Ford Motor Company, as well as the owner of a small gasoline station that repairs a few cars a day, are both *entrepreneurs*.

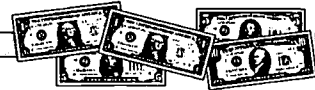
One of the developers of the first personal computer, Steve Jobs, showed entrepreneurship when he saw the need for a personal computer and helped to develop it. Hundreds of thousands of consumers purchased his product—the Apple computer.

## **Property: Ownership of Resources**

Property is anything that has value and that can be owned. Some property is owned privately and some property is shared by the public. There are *three types of property: real property, intangible property, and personal property*.

**Real Property.** *Real property* is made up of land, buildings, or anything that is a part of a building or is permanently attached to the building. Real property can be a school, a factory, or a farmer's fields. People who sell real property are called *real estate agents*. The fact that you can see the land, touch buildings, and hear the noise made in a factory makes *real* a proper description of this type of property.

**Intangible Property.** *Intangible property* includes documents that represent things having value. Property such as a deed to a house, stock certificates, and U.S. savings bonds are types of intangible property.

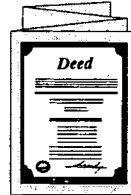


**Personal Property.** *Personal property* is simply any property that doesn't fit into the above two groups. Money, for example, is neither a type of good or a type of property. Money is the property that can buy all types of goods and all types of property.



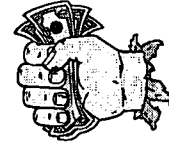
### Real Property

*Real property* is made up of land, buildings, or anything that is a part of a building or is permanently attached to the building.



### Intangible Property

*Intangible property* includes documents that represent things having value.



### Personal Property

*Personal property* is simply any property that doesn't fit into the above two groups. Money, for example, is neither a type of good or a type of property.

## Economic Rent: The Use of Property

Anyone who owns or controls a resource has the power to charge others **economic rent** for the use of that resource. Economic rent is charged for the use of all three types of resources. Ordinary land in the country is worth only a small amount of money per acre. Find oil on that land and the owner will charge a fee for companies to drill for that oil. The fee charged for drilling oil is called *economic rent*.

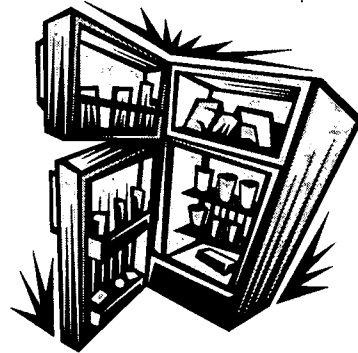
*Economic rent* is also charged by people for their labor. If a famous football player is paid two million dollars a season, his high salary is also a form of economic rent. A recent high school graduate earns a salary but cannot charge economic rent—what he earns is close to the minimum wage. Go to a vocational school or college, and you will acquire the education and skills demanded by others who will be willing to pay you a salary. This salary will be the *economic rent* you will charge for the use of your labor.

Economic rent, therefore, can be defined as *the money people charge to others for the use of a resource they own*. These resources may take the form of a person's reputation, a person's labor, some type of natural resource they own, or a capital good that can be used for a fee. Charging people *economic rent* is another way of saying: "I have something you want. I am willing to let you use it, but I want to make some money on the deal."


## Case Study: Economic Rent

### The Noisy Refrigerator

Rebecca heard a loud noise coming from the refrigerator. She went to the kitchen and discovered that the refrigerator was making lots of noise and was not keeping the food cold. Quickly she called up the appliance repair store. A repairwoman was sent out to Rebecca's house and repaired the refrigerator within the hour.



Rebecca was so worried about the food spoiling in the refrigerator that she forgot to ask the repairwoman the cost of fixing the refrigerator. Rebecca was astounded when the bill for \$140.00 came in the mail a few days later.

	<b>BEST REPAIR</b> 186 Handy Way Profit, Florida 30345	<b>INVOICE</b>	
		0053689	
Customer name <u>Rebecca A. Noyed</u> Address <u>112 Lukewarm Street</u> Phone <u>555-6560</u> Time Called <u>2:15 p.m.</u> Repair Requested <u>refrigerator making noise, not cooling</u>			
QTY	PARTS AND SERVICE	PRICE	
	service call	\$60	00
	tightening screw	\$ 1	00
	knowing what screw to tighten	\$79	00
	TOTAL	\$140	00
Service person <u>Betty Turnscrew</u>			


Rebecca had watched the repair being made. The repairwoman only worked for a couple of minutes. She opened the refrigerator, took out a screwdriver, and turned a screw. Wow, the refrigerator was fixed!

Rebecca demanded an itemized bill—a bill listing all the items that made up the \$140.00 cost. This is what the bill looked like:

*Knowing what screw to tighten—that's economic rent!*



Here's what a *real-life* bill might look like:

	<b>BEST REPAIR</b> 186 Handy Way Profit, Florida 30345	<b>INVOICE</b> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50%; height: 20px;"> </td><td style="width: 50%;"> </td></tr> <tr><td colspan="2" style="text-align: center;">0053689</td></tr> </table>			0053689	
0053689						
<p>Customer name <u>Rebecca A. Noyed</u></p> <p>Address <u>112 Lukewarm Street</u></p> <p>Phone <u>555-6560</u> Time Called <u>2:15 p.m.</u></p> <p>Repair Requested <u>refrigerator making noise,</u> <u>not cooling</u></p>						
QTY	PARTS AND SERVICE	PRICE				
	service call	\$60 00				
	parts and labor	\$80 00				
	<b>TOTAL</b>	<b>\$140 00</b>				
Service person <u>Betty Turnscrew</u>						



## Practice

Use the list below to write the correct term for each definition on the line provided.

<b>capital goods</b> <b>consumer goods</b> <b>durable goods</b> <b>economic rent</b>	<b>entrepreneur</b> <b>financial capital</b> <b>nondurable goods</b>
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- \_\_\_\_\_ 1. an individual who creates something new and earns a profit
- \_\_\_\_\_ 2. goods that are not used up and do not quickly wear out after they are purchased
- \_\_\_\_\_ 3. money used to buy factors of production, such as tools, machinery, and buildings
- \_\_\_\_\_ 4. goods used to make other goods and services, such as tools, machinery, factories, and facilities
- \_\_\_\_\_ 5. payment that people receive for the use of resources that they own or control
- \_\_\_\_\_ 6. goods that are used up or quickly wear out after they are purchased
- \_\_\_\_\_ 7. goods used for personal needs and wants, such as clothing, food, appliances, and cars





## Practice

Use the list below to complete the following statements.

consumer goods	land	real
demand	limited	scarcity
economic rent	money	trade-off
entrepreneurship	necessity	unlimited
intangible	personal	want

1. \_\_\_\_\_ is a basic problem for all economic systems.
2. People have \_\_\_\_\_ wants, but there are only \_\_\_\_\_ resources.
3. \_\_\_\_\_ is a want or a need plus money.
4. \_\_\_\_\_ are products commonly used such as furniture and clothing.
5. Because it can be exchanged for any good, \_\_\_\_\_ is not a type of good.
6. \_\_\_\_\_ is any type of natural resource that goes into the making of goods and services.
7. A school, factory, or farmer's field are types of \_\_\_\_\_ property.
8. What you would *like* to have is called a \_\_\_\_\_.



9. Anyone who owns or controls a resource has the power to charge \_\_\_\_\_ for the use of that resource.
10. A \_\_\_\_\_ is the choice of giving up one thing to gain another.
11. Some economists consider \_\_\_\_\_ to be a fourth resource or factor of production.
12. A \_\_\_\_\_ or a need is a good or service considered essential to a person's well-being.
13. A deed to a house, stock certificates, and U.S. savings bonds are types of \_\_\_\_\_ property.
14. Money is a type of \_\_\_\_\_ property.



## Practice

Answer the following using complete sentences.

1. What economic problem does *scarcity* refer to? \_\_\_\_\_

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2. What are three types of resources? \_\_\_\_\_

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3. Which kind of good tends to *depreciate*, and which kind of good tends to *appreciate*? \_\_\_\_\_

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4. What four questions must all economic systems answer? \_\_\_\_\_

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5. What is the difference between a *want* and a *need*? \_\_\_\_\_

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6. What does the word *real* refer to in the term *real property*? \_\_\_\_\_

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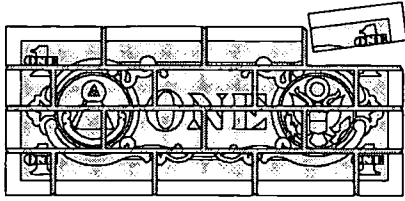
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## Summary

Having a basic understanding of *economics* enables us to make informed decisions about our nation's economy and our own role as earners and consumers. The basic problem that nations and people constantly face is "How can we satisfy unlimited *wants* and *needs* with limited resources?"



A more concrete way to express this would be "How do we feed, clothe, house, and provide for ourselves with the *goods* and *services* we can produce?" This gap between our limited economic resources and our unlimited wants is called *scarcity*.

Scarcity forces us to make *trade-offs*—to choose between one good or service and another. The good or service we must give up in order to obtain something else is called the *opportunity cost*.

Consumers can only buy what producers produce, and producers will only produce what they believe consumers can and will buy. Producers try to understand the *demands* of consumers and use this knowledge to regulate their *supply*.

Producers create different kinds of goods. A *consumer good* satisfies consumers' wants and needs and tends to depreciate; a *capital good* creates wealth for its owner and tends to appreciate.

To create goods and services, producers use *natural resources*, *human resources*, and *capital resources*. Natural resources include land and minerals. Human resources are the labor and skill people use in the production of goods and services. And capital resources are the goods used to manufacture other goods. The *entrepreneur* is a person who has the special skills to combine and manage these three resources to produce goods and services consumers will buy.

Economists refer to three different types of property. *Real property* includes land and building or any permanent attachments. *Intangible property* includes documents that represent things of value. And *personal property* includes money. Owners often collect *economic rent* on their property. Owners can charge for the use of their land, buildings, their knowledge, or even for the use of their own reputations.



## Practice

*Answer the following using complete sentences.*

1. Most countries attempt to use their limited resources to satisfy some of their people's unlimited needs and wants. How is a family's basic economic problem similar to that of a country? \_\_\_\_\_

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2. Until just recently economists considered a *need* to include only food, clothing, shelter, and medical attention. Do you think economists should add *transportation* to the list of needs? Explain your reasoning. \_\_\_\_\_

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3. Consider a nearby hotel. In what situation would you be using that hotel as *service*? In what situation would you be using that hotel as a *good*? \_\_\_\_\_

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## Practice

Match each definition with the correct term. Write the letter on the line provided.

- |           |  |                      |
|-----------|--|----------------------|
| _____ 1.  | goods and services that a consumer may desire or want to buy but that are not necessities        | A. capital goods     |
| _____ 2.  | activities performed for others for money, such as teaching and selling                          | B. durable goods     |
| _____ 3.  | an individual who creates something new and earns a profit                                       | C. entrepreneur      |
| _____ 4.  | goods and services that are necessities, such as food, clothing, shelter, and medical care       | D. financial capital |
| _____ 5.  | giving up one thing to gain another  | E. labor             |
| _____ 6.  | human effort, both mental and physical, that goes into the making of goods and services          | F. land              |
| _____ 7.  | goods used to make other goods and services, such as tools, machinery, factories, and facilities | G. needs             |
| _____ 8.  | the geographic territory and natural resources that go into the making of goods and services     | H. nondurable goods  |
| _____ 9.  | goods that are not used up and do not quickly wear out after they are purchased                  | I. services          |
| _____ 10. | goods that are used up or quickly wear out after they are purchased                              | J. trade-off         |
| _____ 11. | money used to buy factors of production, such as tools, machinery, and buildings                 | K. wants             |





## Practice

Match each definition with the correct term. Write the letter on the line provided.

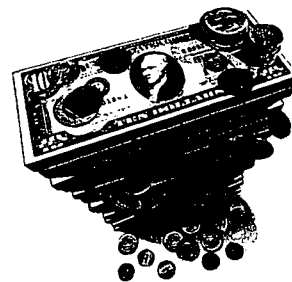
- |           |   |                     |
|-----------|---|---------------------|
| _____ 1.  | payment that people receive for the use of resources that they own or control                   | A. capital          |
| _____ 2.  | goods used for personal needs and wants, such as clothing, food, appliances, and cars           | B. consumer goods   |
| _____ 3.  | the amount of goods or services that consumers are willing and able to buy at a given price     | C. demand           |
| _____ 4.  | the amount of goods or services that producers are willing and able to produce at a given price | D. economic rent    |
| _____ 5.  | limited resources for production in relation to wants for goods and services                    | E. economics        |
| _____ 6.  | the study of people trying to satisfy their wants in a world of scarcity                        | F. efficient        |
| _____ 7.  | whatever is given up to get something in return   | G. goods            |
| _____ 8.  | items that can be bought or sold that are tangible  | H. opportunity cost |
| _____ 9.  | goods used to produce other goods and services, such as tools, machinery, buildings, and money  | I. resources        |
| _____ 10. | anything used to produce goods and services, such as land, labor, capital, and entrepreneurship | J. scarcity         |
| _____ 11. | getting the job done with the least amount of effort  | K. supply           |

## Unit 2: Economic Systems

This unit emphasizes the economic elements of *traditional*, *market*, and *command* economic systems and describes one measurement of a nation's economy, its *gross domestic product (GDP)*.

### Unit Focus

- characteristics of the three economic systems and their present uses by different nations
- meaning of *barter*, *capitalism*, *economist*, *economic elements*, *command elements*, *mixed economies*, and *GDP*





## Vocabulary

*Study the vocabulary words and definitions below.*

- barter** ..... a system of exchange in which one type of good or service is traded for another type of good or service without the use of money
- capitalism** ..... an economic system based upon private property and free enterprise
- command economic system** ..... an economic system in which the government decides *what* goods or services to produce, *how* to produce them, and for *whom* to produce them
- command elements** ..... the new terminology for *command economic system*
- democracy** ..... government by the people
- economic elements** ..... rules, rights, and practices that govern consumers and producers
- economist** ..... a person who studies economics
- gross domestic product (GDP)** ... the total value of goods and services produced in one year within the borders of a nation by whoever produces them
- gross national product (GNP)** ..... the total value of goods and services produced in one year by a nation's residents no matter where they are located



**market economic system** ..... an economic system in which the types and costs of goods and services are determined by consumers and producers

**mixed economic system** ..... an economic system in which elements of all three economic systems (traditional, market, and command) are present

**traditional economic system** ..... an economic system in which goods and services are exchanged or bartered



## Introduction

Consider the last time you exchanged money for something—whether it was a good or service—that satisfied a want or need. This exchange of money for a good or service probably seemed quite simple, but beneath this transaction was an economic system. An economic system is the way a government and its people use its resources to satisfy its people's needs and wants. With all the diversity in the world, it is nice to know that there are only three types of economic systems: the *traditional*, *market*, and *command* economic systems. Sure, there are variations on these three types, but as they say, "That's All, Folks!"



### The Traditional System: Primitive Humans Find a Way to Co-exist with Nature and Each Other

Primitive people met their needs—food, clothing, and shelter—in very simple ways. They grabbed a weapon and killed animals for food, often using the hides and remains to fashion clothing and cover. They may have staked out suitable caves or tree cover for shelter.

Meeting their basic needs was quite difficult and dangerous for primitive people. *Economics* to primitive humans was about the constant search for food and strategies to avoid ever-present dangers.

Danger abounded for primitive people, so they grouped together in *tribes* for protection against enemies—both human and natural. When humans began to live in groups, they had to consider issues larger than feeding themselves and their families. The tribe developed leaders who made decisions to help the tribe survive. For example, the chief of the tribe probably told the tribespeople that they must share their kills with everyone. Perhaps the chief began to divide important tasks. Some people hunted; others made clubs for hunting, and others cooked the meals.

The tribal system was the first political system that people developed to help them increase their ability to survive. The tribal system is an example of how politics influence and develop primitive economic systems. As time went on, tribes began trading goods, both within their own tribes



and with other tribes. Food may have been traded for clothing. One piece of clothing may have been traded for another. There was no money to buy goods from one another; only *things* had value.

**Barter** is the exchange of goods without using money. Barter first occurred in societies that did not have money. It is the only form of trade in a **traditional economic system**. For two people to barter, both must have property that is desired by the other, and both must be willing to exchange their property for that of the other person. Bartering is still used by individuals and even giant corporations that wish to trade goods or services owned by another individual or corporation. Think of yourself—you probably traded something today.

In traditional economic systems, few goods are produced. Most of the goods produced are those necessary for food, shelter, and clothing. In this economic system, human-made goods are usually produced by hand rather than by machines. The big problem in this system is called *double coincidence of wants*. Simply, this means someone has to want to trade you for your products. Trading in a barter economy is not always easy.

### The Market System: Money Replaces Barter

The **market economic system** developed along with the earliest governments in Greece and Rome. In a market system, goods are exchanged for money. A market system allows people to buy the goods they want and producers to make the goods they feel people will buy. Money allows corporations to accumulate the vast amount of wealth required to build products such as automobiles and aircraft. No corporation could efficiently barter for all the necessary resources to build these goods.

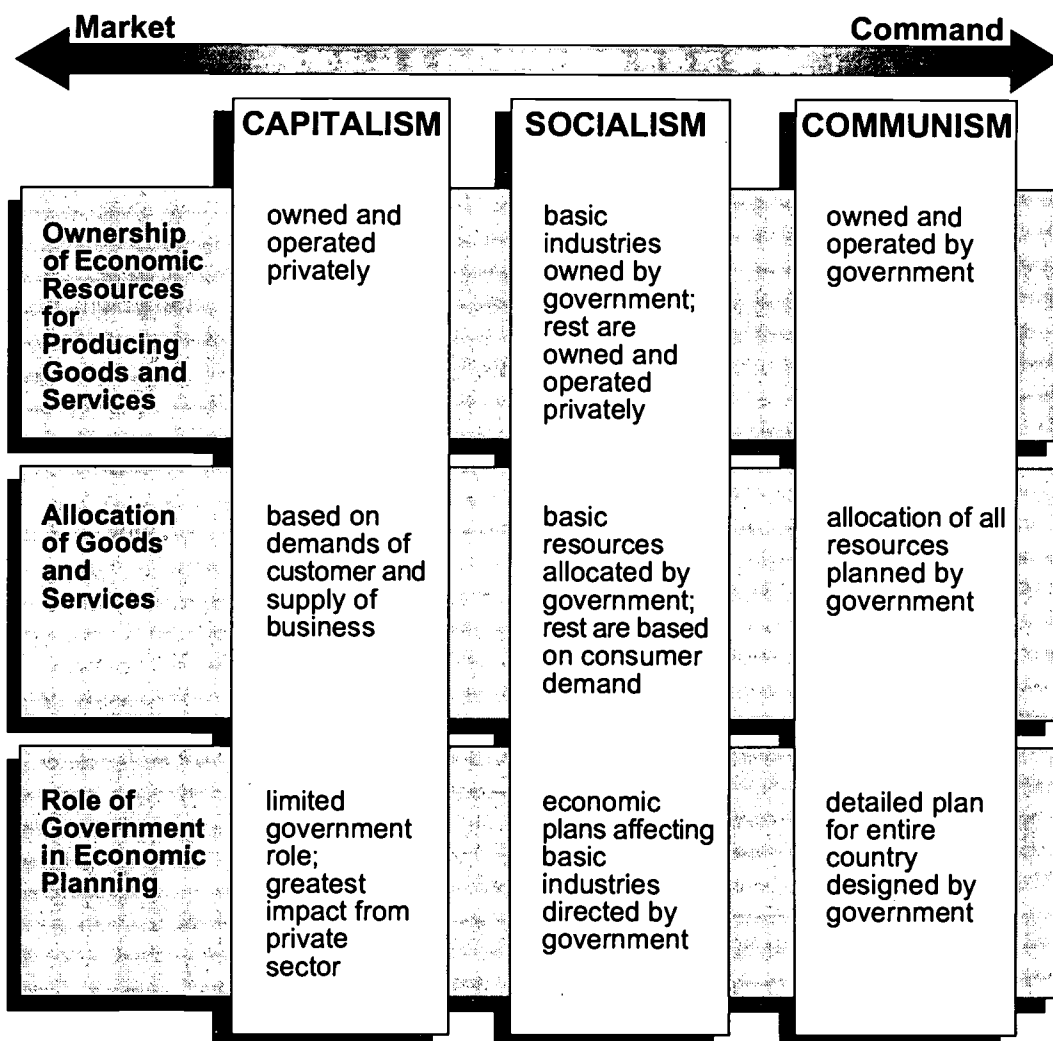
Most societies that have developed market economies are **democracies**. *Democracies* stress the rights of individual citizens to make and buy almost any goods they wish to produce or demand. Democracies fit well with the market economic system. Market economic systems permit wide-ranging political





and economic freedom. By promoting money as a medium of exchange for buying and selling goods, market systems have developed the wealthiest civilizations on Earth. **Capitalism** is the name often given to describe this freedom to buy and sell goods of one's choice and the right to own private property.

## Comparison of Major Economic Systems





## The Command Economic System: Total Government Control

Some civilizations have chosen to control the buying and selling of goods with either very rigid sets of rules or government-owned factories, and in some cases, both. These economic systems are called **command economic systems**. People use money to buy and sell goods just as they would in the market system, but they have less freedom to become wealthy because the government restricts them from starting their own business or investing their incomes.

With the breakup of the Soviet Union and the changes in China today, the last of the command economic systems are converting to market economic systems. Although **economists** agree that the process has begun, they cannot predict how long it will take for these countries to move from government rule and ownership to *free enterprise*.

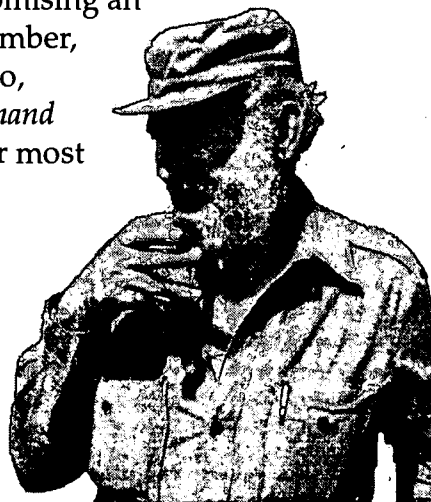
### Case Study: Government Controlled Command Economy

#### Cuba

About 90 miles off the southern Florida coast lies a country known as Cuba. Before Cuba was colonized it had a *traditional economy* with people trading or bartering for survival. Most nations start this way; however, as Cuba grew, so did the need for a more advanced economic system.

A crude market system grew until the late 1950s when current leader Fidel Castro came to power promising an industrialized market economy. Remember, we all have to make choices and Castro, once in power, chose a primarily *command economy* with government control over most everything.

In a command economy, the government makes decisions about what to produce, how much to charge, and how much to pay workers. Cuba's command economy and political differences have severely delayed Cuba's economic growth and international relations with the United States. Throughout



*Fidel Castro came to power promising an industrialized market economy.*





the years, the *market economy* of the United States and the Cuban command economy have clashed over issues with the United States prevailing. Today through the economic choices of its leader, Castro, Cuba has one of the poorest economies in the world.

All nations have to choose some type of economic system. Elements of all three economic systems need to be present in a mixed economic system, or there is a likelihood of delayed economic growth.

### Mixed Economies: Combining Basic Types

No country in the world has a *pure* traditional, market, or command economic system. By using some of the basic **economic elements** of each system, countries have developed their own unique economic systems. That is, all countries take certain basic elements and mix them together to create an economic system that meets their specific needs. In the end, each system evolves into a unique *mixed* economy that is not based on a pre-determined plan.

In the United States, just as in all countries, a *mixed economy* has evolved. Most of the elements used to develop our economic system came from the *market economic system*, but we also have elements from the *command* and

*traditional* systems. The Canadian economic system has a few more **command elements** than ours—their government has more control over their industries and health care. In Switzerland, industries have more economic freedom than do companies in the United States. The countries of the former Soviet Union are just beginning to adopt market elements to transform their command economic system into a mixed economy. Their current system, however, still has more government control, especially over industry, than the American system.





If an economy is entirely free of government rules, it is called a *pure market system*. Such systems do not actually exist. Both producers and consumers need rules to provide for the safety of products, or to insure fair pay and safe working conditions. Mixed economies vary in the amount of government control. In some societies, mixed economies lean very heavily towards government control; others, such as the Swiss, have very few rules that control their economies.

If an economy is not free and the government owns and operates all production, it is called a *pure command economic system*. The four basic economic decisions of what to produce, how to produce, and to a great extent, for whom to produce and how efficiently are in the hands of the government. In a *modified command system*, however, the government allows the people to make some decisions about what, how, for whom to produce, and how efficiently. A modified command system is one type of mixed economy—it contains a *mixture* of different basic economic elements. Presently, all economic systems are mixed.

#### All Economic Systems Must Answer These Four Questions

- What goods and services will be produced?
- What methods will be used to produce those goods and services?
- For whom will those goods and services be produced?
- Are we efficient?

Traditional economic systems, or pure barter systems, do not survive once they come into contact with economically *advanced* civilizations. Their economic systems do not become modified—there is no such thing as a modified traditional economic system—rather they eventually disappear and are replaced by more recently developed systems. A good example of such an event occurred when people from the mainland of the United States met the original settlers of the Hawaiian Islands. Mainlanders introduced a new lifestyle to the Hawaiians. The goods and services that were part of this new lifestyle forever changed the Hawaiians' traditional economic system. Money was introduced, and the traditional barter system all but disappeared. Money became the dominant medium in the exchange of goods. The people of the traditional economic system began



supplying raw materials for the economically advanced mainlanders in return for manufactured goods, including weapons, clothes, and jewelry. Soon the traditional economy disappeared, and the native Hawaiians adopted the mainlanders' economic system.

In summation, all nations have a mixed economic system with tendencies toward a market or command system. Traditional systems have all but disappeared, but the barter system still exists in mixed societies. No matter what system nations may choose, they all are answering the same questions and dealing with scarcity.



## Practice

Identify each numbered paragraph on the next page as describing a **command**, **market**, or **traditional** economic system. Refer to the information given below to help you decide. Write the correct term on the line provided.

### Three Methods of Coordinating Economic Activity

Out of the need to decide what, how, and for whom goods and services should be produced emerged the various economic systems. Influenced by culture, geography, and differing values, three types of economic systems developed.

The oldest of these is the *traditional* economic system. In this system there is no money. Goods and services are bartered, or traded.

The *command* economic system uses money as a medium of exchange. Governments make nearly all economic decisions and allow people little or no choice in the kinds of goods and services produced and offered. Command economic systems tended to develop in countries with socialist or communist political systems.

The *market* economic system emphasizes people's freedom to choose what goods and services are produced and offered. In this type of system, the activity of the people in buying and selling answers the basic economic questions of what, how, and for whom. This type of system tends to develop in countries with capitalist political systems.

No economy is a pure type, since elements of each may be found in all three systems.



- 1. All farmers will plant  $\frac{1}{3}$  of the assigned land in wheat,  $\frac{1}{3}$  in rye, and  $\frac{1}{3}$  in soybeans for the next three years.
  
- 2. The demand for new sports cars has reached such a high level that some of the automakers have decided to retool and produce more sports models and fewer four-door sedans.
  
- 3. When the price of beef cattle fell to new lows, the farmers brought their complaints to the government and requested price supports and grants for feed. After discussion in the legislature, the government decided not to intervene in this situation.
  
- 4. A tribal family wanted some warmer fur skins for the upcoming winter season. Unfortunately, they had nothing to trade for the fur skins. The head of the family went out in search of a valuable plant used as medicine, to be used for barter.
  
- 5. The citizens wanted more meat, but the government decided that the land should be used for growing produce rather than for grazing cattle.
  
- 6. Record albums disappeared as people began buying cassettes instead. After cassettes, CDs became the choice of consumers.



## Practice

Write **C** for **command economy**, **M** for **market economy**, or **B** for **both** to identify the type of economy described below.

- \_\_\_\_\_ 1. money is medium of exchange
- \_\_\_\_\_ 2. government determines production
- \_\_\_\_\_ 3. farmers cannot choose what to grow
- \_\_\_\_\_ 4. prices determined by interaction of buyers and sellers
- \_\_\_\_\_ 5. main economic system of the former Soviet Union
- \_\_\_\_\_ 6. economic resources controlled by government
- \_\_\_\_\_ 7. four basic economic questions
- \_\_\_\_\_ 8. supply and demand determines prices
- \_\_\_\_\_ 9. people have many choices
- \_\_\_\_\_ 10. people have few or no choices
- \_\_\_\_\_ 11. people can own factories
- \_\_\_\_\_ 12. main economic system in United States
- \_\_\_\_\_ 13. scarcity of resources



## Practice

Use the Case Study: Government Controlled Command Economy on Cuba on pages 58-59 to answer the following using complete sentences.

Write how you think Cuba's *command economic system* might change after the death of Fidel Castro.

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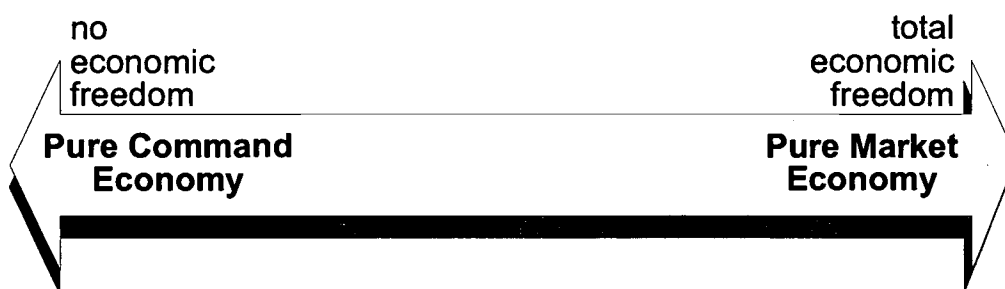
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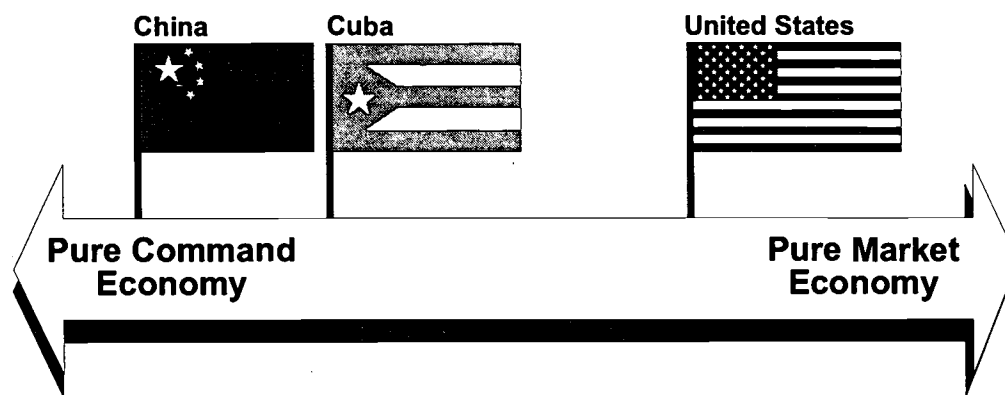


## The Economic Spectrum: From Pure Command to Pure Market

It is possible to look at economic systems along a spectrum or continuum. The illustration below shows the range between a pure market system that allows total economic freedom and a pure command system that allows no economic freedom.



On a scale, the economy of our country would be placed closer to the right-hand side of the line than the left-hand side. China would be placed much closer to the left-hand side of the scale. Cuba would be placed closer to China than the United States. However, this could change as the future world economy changes.



The illustration above indicates that the economy of the United States is not a pure market but instead is a *modified* market system. What is not shown is that besides some market elements in our economy, we also have some elements of a traditional economic system in our economy. Barter, or the exchange of goods without the use of money, still exists to a small extent in our economy. Visit a nearby flea market and watch the exchange or bartering of property. The United States also has some command elements, such as when the government controls the production of some goods (like nuclear weapons) or decides who will get some goods (such as the distribution of food stamps).

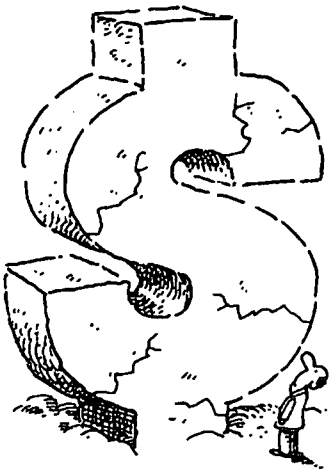




In summary, the economy of the United States is a modified market economy. All existing economic systems in the world are either modified market economies or modified command systems. Some economies lean more towards a pure command system; some lean more towards a pure market system. Some traditional elements such as barter still exist, but that is about all that is left of the traditional economic system.

### **Changing Terminology: From Command Economy to Command Elements**

The former Soviet Union was the largest modified command economic system. The government of the former Soviet Union operated most of the factories in the country. Rules were made in Moscow about what goods to produce, how those goods were to be made, and which citizens could obtain which goods.



With the collapse of the Soviet Union, the 15 former member republics of the Union of Soviet Socialist Republics (USSR) began to change their own economic systems into a modified market economy—a movement to the right along the continuum (see previous page). In addition, countries formerly under domination of the Soviet military have also begun to shift towards modified market economies. Countries such as Poland, East Germany, which is now part of the Federal Republic of Germany, and Hungary have begun the process of allowing their citizens to decide what goods they wish to buy and sell.

The collapse of the Soviet Union has forced economists to come up with new ways to discuss government controls in an economy. The old term *command economic system* no longer accurately describes the situation.

Current usage is now changing from the term *command economic system* to the term *command economic elements*. This new term means that there is still some government control over the economy, but there are no longer large countries, such as the former Soviet Union, that dictate a command system to their people. Some small countries, such as Cuba, still have command economies.

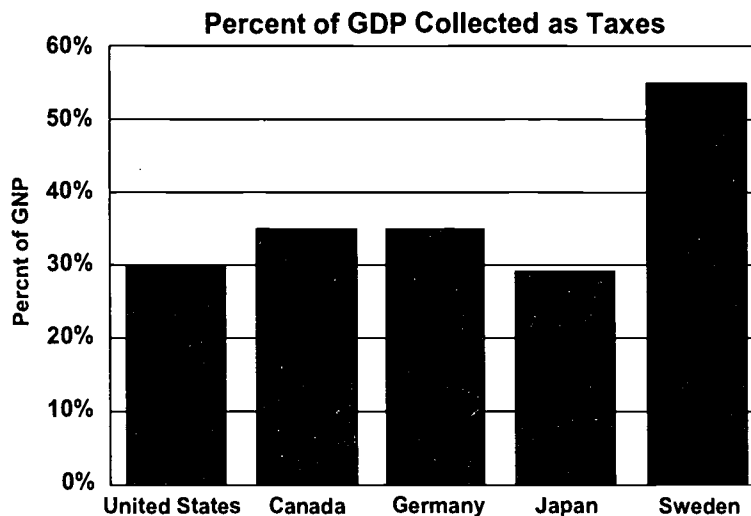


## Measuring Government Control of the Economy: A Closer Look at Government Control of the Economy

The more goods produced under government direction, the more command elements are functioning in that economy. The **gross domestic product (GDP)** of a country is the total value of all final or finished goods and services produced in one year *within a nation's borders*, by whoever produces them. The **gross national product (GNP)** of a country is the total value of all final or finished goods and services produced in one year *by a nation's residents*, no matter where they are located. Beginning in November of 1991, the United States Department of Commerce switched emphasis to gross domestic product from gross national product. The shift reflects that GDP has become more closely related to changes in economic factors, such as employment.

Another way to look at the command elements of an economy is to find out what percentage of the average citizen's salary is spent on taxes. Consider that tax money is spent by the government on goods and services directed by a

country's leaders; what is left after taxes is used by consumers to buy the goods and services they wish to buy. The graph above compares countries' tax rates as a percentage of their gross national product.



Note, for example, that in the United States 30 percent of the nation's GDP is collected by the government in taxes. In other words, the government controls and spends about 30 percent of all the wealth created by Americans. In Sweden the government collects about 55 percent of the country's GDP. The Swedish government controls more of its country's wealth than its citizens do. Thus, Sweden would be considered more of a command economy than the United States. However, remember all economic systems are *mixed*.



## Practice

Write **True** if the statement is correct. Write **False** if the statement is not correct.

- \_\_\_\_\_ 1. The former Soviet Union had a *command economy*.
- \_\_\_\_\_ 2. In a *market economic system* the buyer has more freedom of choice than in a *command economic system*.
- \_\_\_\_\_ 3. In a *command economic system* the government makes most of the economic decisions.
- \_\_\_\_\_ 4. Presently, all economic systems are *mixed* or *modified*.
- \_\_\_\_\_ 5. *Traditional economic systems* usually produce goods by machines.
- \_\_\_\_\_ 6. The United States is a *pure market economy*.
- \_\_\_\_\_ 7. *Barter* involves the exchange of money.
- \_\_\_\_\_ 8. Tribes often had a *market type economy*.
- \_\_\_\_\_ 9. Economic elements of the *traditional economic system* still exist.
- \_\_\_\_\_ 10. Another name for a *modified market economy* is *traditional economic system*.



## Practice

Answer the following using complete sentences.

1. What economic rights usually exist in a *democracy*? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. What is a common name given to describe the people's freedom to buy and sell goods and to own property? \_\_\_\_\_  
\_\_\_\_\_
3. How does a government protect workers and consumers in a modified market system? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. Why do countries take economic elements and mix them together to create unique systems? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. What key element from a market economy has replaced the barter system? \_\_\_\_\_  
\_\_\_\_\_



## Summary

*Barter* is the only form of trade in a *traditional economic system*. Although bartering is still one *economic element* in economic systems, traditional economic systems no longer exist. The *market economic system* is thousands of years old and is the system nearly every nation presently uses or is moving towards. It allows consumers and producers to determine the types and costs of goods and services. *Capitalism* is the philosophy of the free market—buying and selling goods and services of one's choice. It is considered an essential practice in market systems.

If a government controls the buying, producing, and selling of goods, its citizens live in a *command economic system*. No command economic systems still exist, though *command elements* have survived. Nearly all economic systems are *mixed*—they contain economic elements of traditional, market, and command economic systems. One measurement of a nation's economy is its *gross domestic product (GDP)*—the total value of goods and services produced within a year within a nation's borders.



## Practice

Answer the following using complete sentences.

1. Would you most likely see *bartering* in elementary-school-age children or working adults? Why? \_\_\_\_\_

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What kinds of objects or labor would they barter? \_\_\_\_\_

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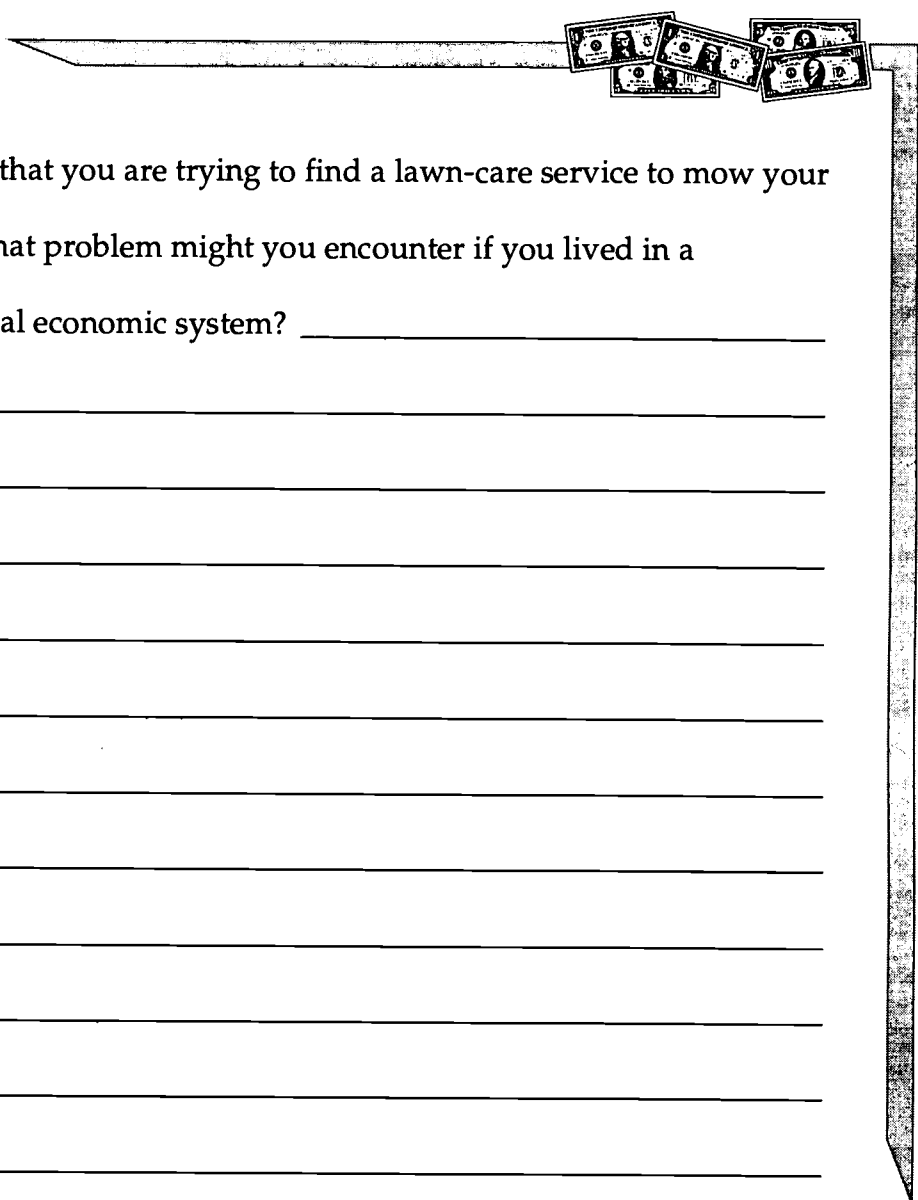
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2. Imagine that you are trying to find a lawn-care service to mow your yard. What problem might you encounter if you lived in a traditional economic system? \_\_\_\_\_

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Why wouldn't you encounter the same problem in a market economic system? \_\_\_\_\_

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3. When would the rewards for chores a child does at home resemble the bartering found in a traditional economic system? \_\_\_\_\_

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When would the exchange resemble a market economic system?

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## Practice

Match each definition with the correct term. Write the letter on the line provided.

- |          |   |                                |
|----------|---|--------------------------------|
| _____ 1. | a system of exchange in which one type of good or service is traded directly for another type of good or service without the use of money | A. barter                      |
| _____ 2. | an economic system in which goods are exchanged or bartered   | B. capitalism                  |
| _____ 3. | an economic system in which the types and costs of goods are determined by consumers and producers  | C. democracy                   |
| _____ 4. | an economic system based upon private property and free enterprise  | D. market economic system      |
| _____ 5. | government by the people  | E. mixed economic system       |
| _____ 6. | an economic system in which elements of all three economic systems (traditional, market, and command) are present                         | F. traditional economic system |



## Practice

Match each definition with the correct term. Write the letter on the line provided.

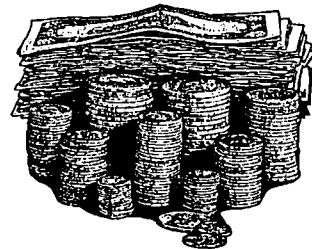
- |          |  |                                 |
|----------|--|---------------------------------|
| _____ 1. | a person who studies economics   | A. command economic system      |
| _____ 2. | an economic system in which the government decides <i>what</i> goods or services to produce, <i>how</i> to produce them, and for <i>whom</i> to produce them | B. command elements             |
| _____ 3. | rules, rights, and practices that govern consumers and producers   | C. economic elements            |
| _____ 4. | the new terminology for <i>command economic system</i>   | D. economist                    |
| _____ 5. | the total value of goods and services produced in one year by a nation's residents no matter where they are located  | E. gross domestic product (GDP) |
| _____ 6. | the total value of goods and services produced in one year within the borders of a nation by whoever produces them   | F. gross national product (GNP) |

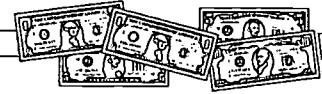
## Unit 3: Supply and Demand

This unit discusses two different kinds of *markets* that exist on the national level, the *law of supply and demand*, and the government use of *tax revenue*.

### Unit Focus

- difference between the factor market and the product market
- major parts of the circular flow model
- how entrepreneurs use specialization of labor to produce goods
- why profits are necessary to business
- goods as either *private* or *public*
- concept of *elastic* and *inelastic* demand
- law of supply and demand
- ways local, state, and federal governments use tax revenue
- profit described as *gross profit* and *net profit*
- meaning of *fair market price* or *competitive market price*

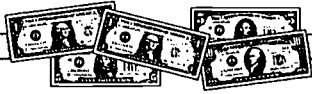




## Vocabulary

*Study the vocabulary words and definitions below.*

- elastic demand** ..... a situation when a change in price causes a large change in quantity demanded
- fair market price** ..... the price that results from competition between buyers and sellers
- inelastic demand** ..... a situation when a change in price causes little change in the quantity demanded
- law of supply and demand** ..... an economic theory which states that consumers' quantity demand for a product will increase as the price decreases and vice versa; producers' quantity supply will increase as the price increases and vice versa
- market** ..... place where people buy, sell, or trade goods and services
- private goods** ..... property that people own
- profit** ..... a company's earnings after paying all its costs; the reward a company receives for taking risks; difference between money received and money spent
- public goods** ..... goods managed by governments but made available to everyone



**quantity demand** ..... amount of goods or services that consumers are willing to buy at a particular price

**tax revenue** ..... the money the government collects through various taxes



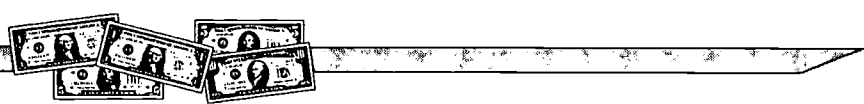
## Introduction

While we can't say that our economy runs itself, we can identify a basic principle (a kind of motor) in economics that keeps the system running. This principle is the **law of supply and demand**. It works by creating interaction between those who wish to earn money by selling goods or services and those who wish to buy those goods and services.

## The Market: A Place Where Consumers Buy and Producers Sell

As a part of the specialized vocabulary used in economics, a **market** is a place where people buy, sell, or trade goods and services. In international markets people from all over the world come together to buy and sell products such as coffee, gold, and oil. However, most of the markets consumers visit are local, such as your local grocery store or the stores in your nearby mall. Look at the chart below. Notice the kind of markets or stores in which products and consumers come together.

The Marketplace		
The Products	The Consumers	The Markets
<b>Compact Discs</b>	<ul style="list-style-type: none"><li>• adults</li><li>• teenagers</li><li>• disc jockeys</li><li>• classical musicians</li><li>• jazz musicians</li></ul>	<ul style="list-style-type: none"><li>• record shops</li><li>• department stores</li><li>• discount music stores</li><li>• mail order catalogs</li></ul>
<b>Parachutes</b>	<ul style="list-style-type: none"><li>• military personnel</li><li>• skydivers</li><li>• aircraft owners</li></ul>	<ul style="list-style-type: none"><li>• Army/Navy stores</li><li>• mail order catalogs</li><li>• military suppliers</li></ul>
<b>Disposable Diapers</b>	<ul style="list-style-type: none"><li>• parents with infants and toddlers</li><li>• day care personnel</li><li>• hospital personnel</li><li>• adult elderly/disabled dependents</li><li>• nursing home personnel</li></ul>	<ul style="list-style-type: none"><li>• department stores</li><li>• grocery stores</li><li>• children's stores</li><li>• drug stores</li><li>• hospital supply stores</li></ul>
<b>Insulin</b>	<ul style="list-style-type: none"><li>• diabetics</li><li>• doctors</li><li>• hospital personnel</li><li>• pharmacy personnel</li><li>• parents with diabetic children</li></ul>	<ul style="list-style-type: none"><li>• pharmaceutical manufacturers</li><li>• pharmacies</li><li>• department store pharmacies</li><li>• grocery store pharmacies</li><li>• pharmaceutical distributors</li></ul>



Two different kinds of markets exist on the national level: the *factor market* and the *product market*. In the *factor market* companies exchange money as either wages, rent, interest, and profits to the people in return for labor, natural resources, capital, and entrepreneurial skills. In the *product market*, companies sell *goods* or *services* to the consumer in return for money.

The chart on the next page is an economic model. It shows one of the ways that money, goods, services, and resources flow between resource owners, consumers, producers, factor markets, and product markets. Because this chart shows the flow of something, it is called a *flow chart*. In this flow chart, there are two circular flows of economic activity.

The inner circle follows the flow of resources and goods and services. Follow the inner circle from the point of the resource owners.

- Resource owners offer their resources—labor, land, capital, and entrepreneurial skills—in the factor markets.
- Producers buy people’s resources from the factor markets to produce goods and services.
- Producers then offer those goods and services for sale in the product markets.
- Consumers locate those goods and services for sale in the product markets.

The outer circle follows the flow of money. Follow the outer circle from the point of the consumers.

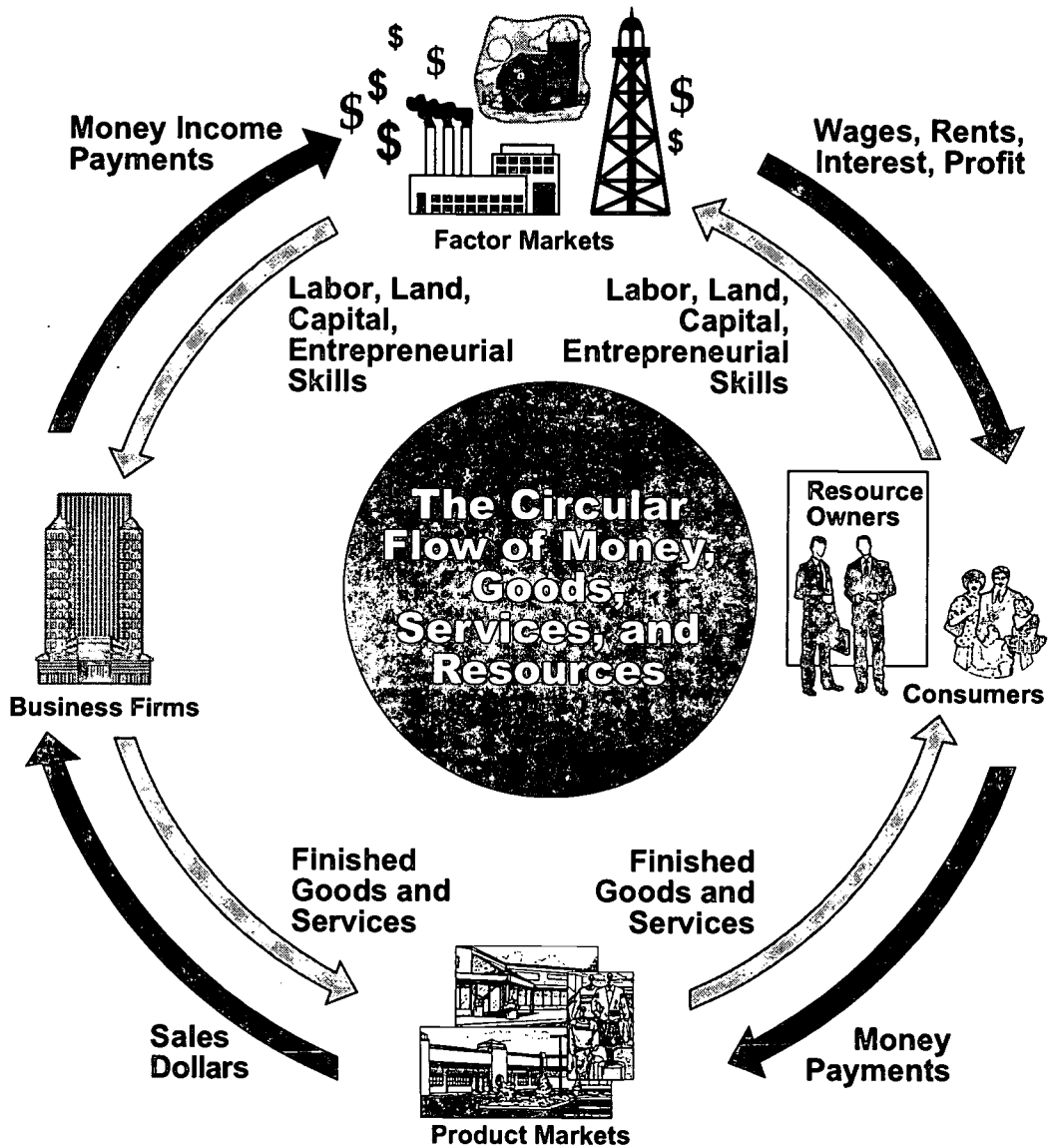
- As consumers, people spend money on goods and services in the product markets.
- Producers receive this money in the product markets as payment for goods and services.
- Producers use some of this revenue in the factor markets to buy resources from resource owners.
- Resource owners receive money in factor markets for selling their resources.

In short, the circular flow model shows how our economy operates. Businesses buy factors of production (land, labor, capital, entrepreneurial




skills) in the factor market with wages, rents, interest, and profits. Businesses then use the factors to make products and sell in the product market.

Furthermore, consumers sell factors of production in the factor market and buy in the product market. This is a continuous non-stop interaction.







## Case Study: The Story of How Factories Began

### A Story of Factors

You are probably more familiar with the word *factory* than the word *factor*. Both words have the same origin. The story of how *factor* became *factory* is an interesting one. In England from the 14<sup>th</sup>–17<sup>th</sup> centuries, a group of entrepreneurs found a way to make money by organizing workers' labor.

The *factor*, or entrepreneur, brought to each worker's cottage, or home, a piece of work to be done. Each cottage-family did only one part of the entire job necessary to make a particular good. The separation of an entire job into its parts is called *specialization of labor*.

Because families specialized in only one task, they became fast and efficient. One family spun the wool into yarn. One family dyed the yarn for the rug. Another family wove the rug, and so on. Because the workers lived in cottages, these home workplaces were called *cottage industries*.



Woman spinning wool into yarn.

The factor combined the labor of the workers with his capital, or money, and natural resources, in this instance the wool, to produce a product. In this example, the final product was a human-made rug. The entrepreneur then sold the finished goods at the county fairs that regularly took place in England.

Water power and then steam power brought an end to cottage industries. The factor moved production from the cottages to a single building that had access to the power—water and steam. This building became known as a *factory*.

The *factor market* was created when the factor exchanged capital, or money, for the labor of the workers. A *product market* was created when the factor sold the finished products at the county fairs.

Today teenagers are part of the factor market when they sell their labor and receive a paycheck—for example when working at a fast-food restaurant or for a lawn-care service. Teenagers are part of the product market when they buy goods and services from manufacturers—for example, when they spend part of their paycheck on that CD they've had their eye on.



## Practice

Answer the following using complete sentences.

1. What is the basic principle in economics? \_\_\_\_\_

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2. What two kinds of *markets* exist on the national level? \_\_\_\_\_

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3. What is the *difference* between these two markets? \_\_\_\_\_

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4. What is an *entrepreneur*? \_\_\_\_\_

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5. What is *specialization of labor*? \_\_\_\_\_

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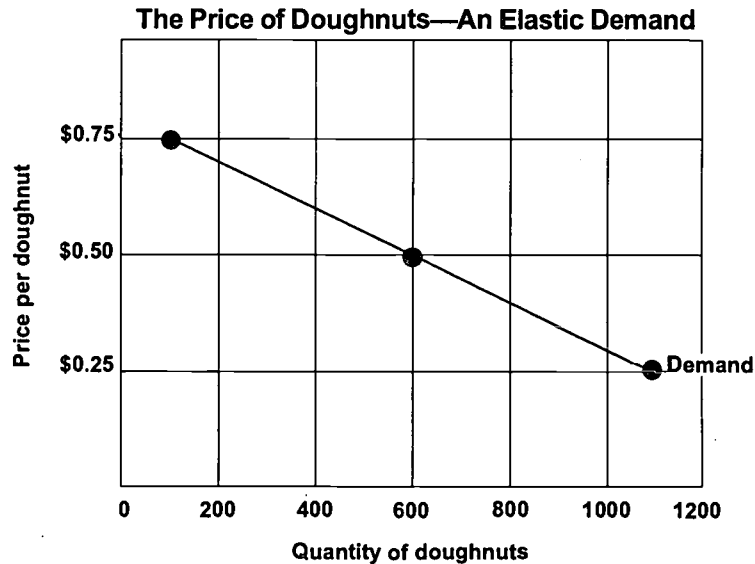
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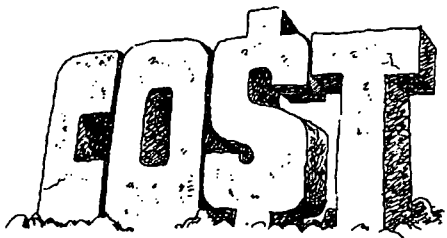
## Types of Demand: Elastic and Inelastic


Producers try to supply goods and services to meet the demands made by consumers. If producers lower or raise the price of a good and consumers respond by increasing or decreasing their **quantity demand** (amount of goods or services that consumers are willing to buy at a particular price) for that good, then the demand is called *elastic*.



The graph on this page illustrates **elastic demand**. The graph shows that as the price of doughnuts goes down from a price of 75 cents each to 25 cents each, consumers quantity demand more doughnuts. This is called an *elastic demand* because quantity demand for the product changes as the price of the product changes.

The more substitutes there are for a product, the more elastic the demand for that product will be. Note on the graph that as the price of that doughnut went up, consumers probably began satisfying their sweet tooth with substitutes such as cookies. If any product is too high-priced, consumers will choose substitutes instead—if they are available.



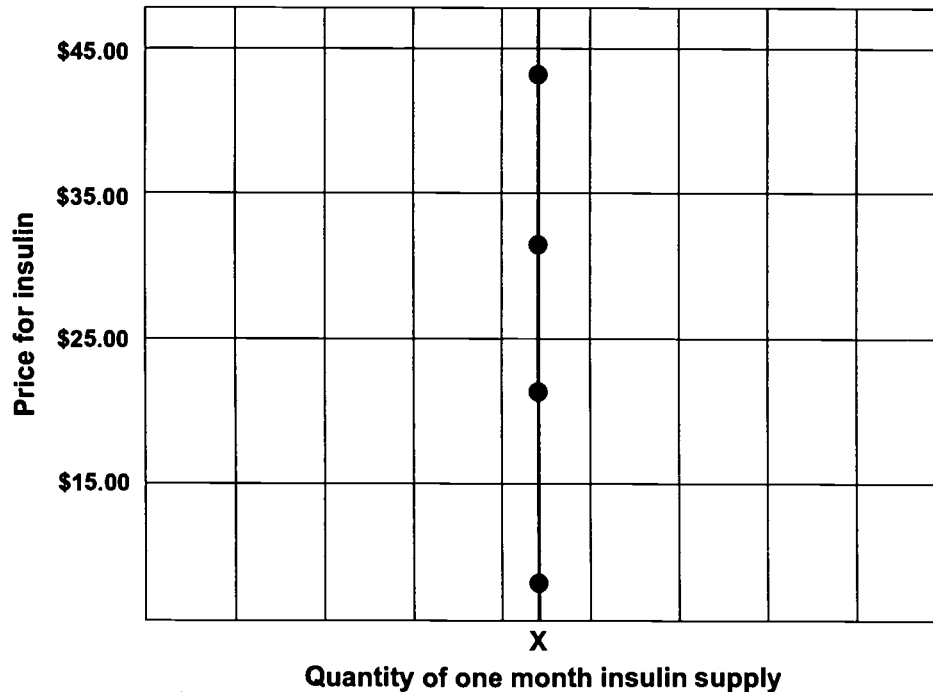


The other type of demand is called *inelastic*. **Inelastic demand** means that regardless of whether the price of a good is raised or lowered, consumers' quantity demand for that good will *not* increase or decrease. For example, the quantity demand for the medicine insulin, which is used by people who have the disease diabetes, is inelastic. Regardless of price, diabetics have to have insulin, for which there is no available substitute.

Lowering the price for insulin will not affect the demand. Insulin must be kept refrigerated and can only be stored safely for about 30 days. Consequently, diabetics will not order more of the drug because they cannot store insulin for more than a few weeks. In the same way, a rise in the price will not reduce sales because insulin is a necessity to maintain the life of some diabetics. There is no good substitute for insulin. As this example illustrates, one key to determining whether a demand is elastic or inelastic is the availability of a substitute.

The graph on this page shows an inelastic demand for insulin.

**The Price of Insulin—An Inelastic Demand**





In this example, a change in the price of the good had no effect on the demand for the good. That is what is meant by *inelastic demand*. Not all goods have as many substitutes as doughnuts or as few as insulin. But if you understand the basic principle that many substitutes for a good make the quantity demand for that good *elastic*, and a lack of substitutes for a good makes the quantity demand for that good *inelastic*, you will have mastered this lesson.

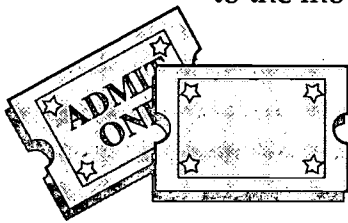
### **Goods: The Products We Buy; Services: Trading Money for Time and Labor**

Some companies provide both *goods* and *services* for consumers. Other companies provide either *goods* or *services*. If a company provides a product that you can eat, drink, wear, smell, touch, feel, take home to look at, read, etc., it is providing a *good*. When you buy food at the grocery store, purchase clothing at a department store, or buy a pickup truck at an automobile dealership, you are buying a good.

Consumers also purchase many services. When you have clothes dry-cleaned, pay the price to see a movie, buy a ticket to Disney World, or put your coins into a video machine, you are buying a service.

Demand for both goods and services can be either elastic or inelastic. For example, going to a movie represents an elastic demand for a service. Depending upon the price of a movie, you will make your decision to go to the movies or substitute some other form of

entertainment for the movie. Using the *services* of a hospital emergency room after you have had an accident would be an example of an *inelastic* demand for a service. There's no way to substitute for the medical treatment you would receive at a hospital.



### **The Law of Supply and Demand: The Forces That Balance the Market**

The price of goods and services is determined by the give and take between buyers and sellers. Buyers usually wish to get the best goods at the lowest price, and sellers usually wish to sell the most goods they can at the highest price. This interaction is described by the *law of supply and demand*.



The *law of supply and demand* is not a law written by the legislature. Instead, it is an economic theory. The theory states the following: Consumers will increase their quantity demand for a product as the price decreases and will decrease quantity demand as the price increases. Producers will increase their quantity supply as the price increases and will decrease quantity demand as the price decreases. Stated another way, as the price for a product increases, the quantity demand for the product will decrease. And as the quantity demand for a product increases, producers will increase its price.

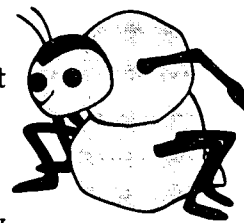
The following case study illustrates the law of supply and demand through the story of Ralph the Ant and his widget business.

## Case Study: Supply and Demand

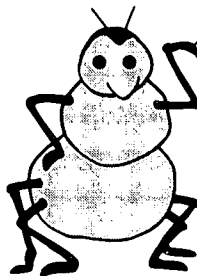
### Ralph and the Widget Business—A Fable about Supply and Demand

**Definition:** A *widget* is a fictional product used as an example by economics teachers to explain some basic principles. Widgets have been used for this purpose for such a long time that some people have gone so far as to produce things they call widgets. Forget it! Widgets do not exist. They are just an imaginary product we use in examples about buying and selling.

Once upon a time, my pet ant Ralph and I were talking about old times. Ralph was reminiscing about the time he went into the widget business.



After a careful survey of the market, Ralph had discovered that while everyone needed widgets, only a few companies were manufacturing them. Ralph, being a smart ant, realized that a **profit** could be made by going into the widget business.



Ralph began to supply widgets to consumers at a price of \$3.00. During the first month demand was so high Ralph sold 1,000,000 of the handy little things. Now I want to tell you, Ralph was one happy ant. I still remember the day he



knocked at the bottom of the door to invite me downstairs into the basement to look at all the money he had earned.

The next month Ralph raised the price to \$5.00. Sales dropped to 500,000 widgets. Ralph was so upset that my invitation to come up for pizza was met with a shrug of his shoulders and a faintly heard, "Buzz off, Human."



"Why not lower the price and see what happens?" I suggested to him.

Ralph lowered the price to \$1.00, and in the next month, widget sales jumped to 2,000,000. In his enthusiasm to rip off some humans, and since the widgets were selling again, Ralph raised the price to \$4.00. He was astounded to see widget sales drop to 750,000. Quickly Ralph dropped the price to \$2.00, and widget sales soared to 1,500,000. I have put Ralph's numbers into a chart. It's one way to represent Ralph's widget sales.

**Ralph's Widget Sales**

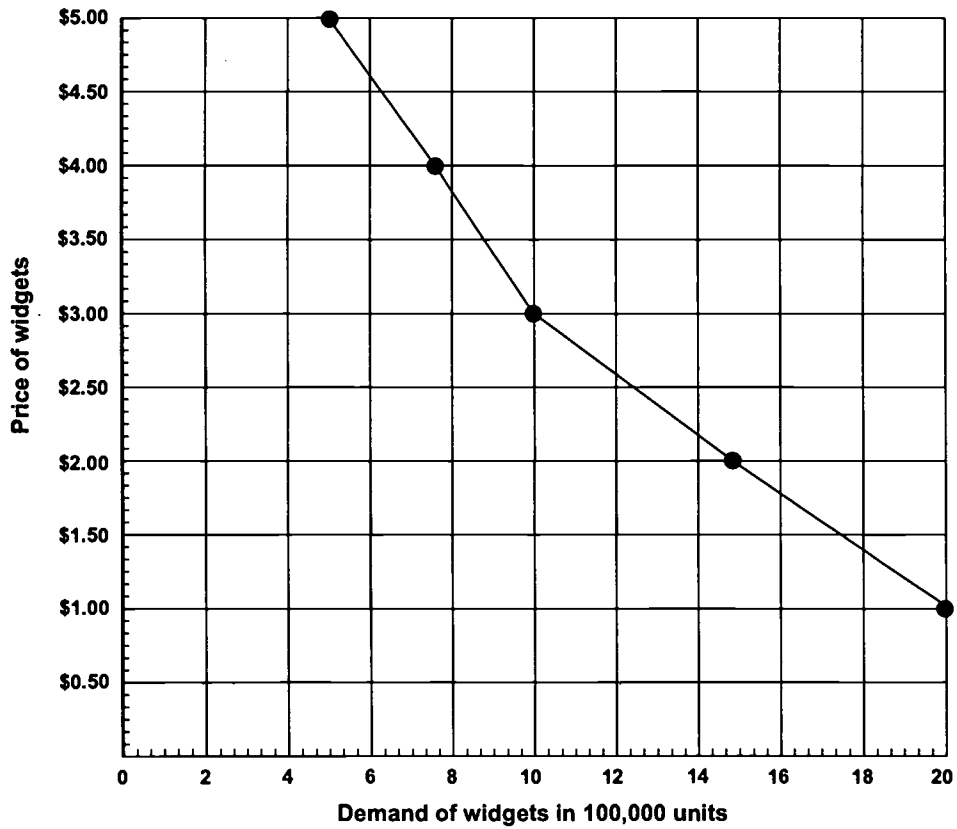
	January	February	March	April	May
\$5.00		500,000			
\$4.00				750,000	
\$3.00	1,000,000				
\$2.00					1,500,000
\$1.00			2,000,000		





Another way to represent Ralph's widget sales is by graphing the data. The *demand data* graph below shows how *demand* for widgets changed as Ralph's *price* changed.

**Ralph's Widget Business: Demand Data**





## Practice

Use the charts on page 91 and 92 to answer the following.

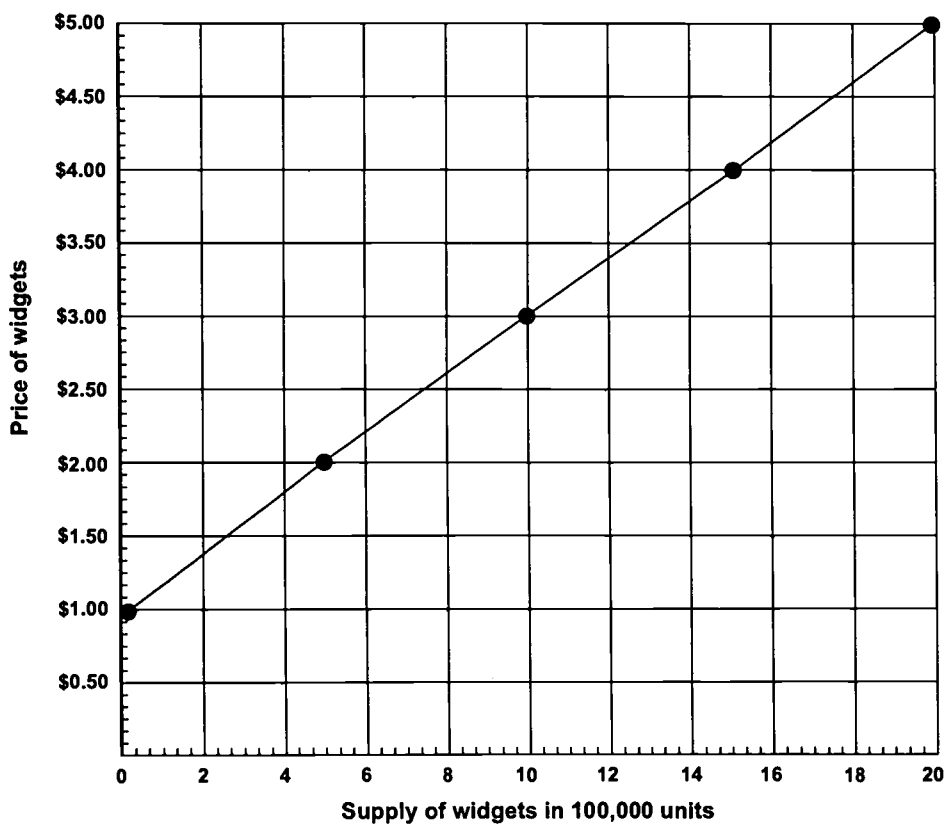
1. If widgets had sold at \$1.00, \_\_\_\_\_ would have been sold.
2. If 1,000,000 widgets were sold, the price was \_\_\_\_\_.
3. If widgets had sold at \$5.00, \_\_\_\_\_ would have been sold.
4. If 1,500,000 widgets were sold, the price was \_\_\_\_\_.
5. If widgets had sold at \$1.50, \_\_\_\_\_ would have been sold.
6. If 625,000 widgets were sold, the price was \_\_\_\_\_.



As Ralph gained valuable business experience selling widgets, he discovered that due to costs of materials, labor, transportation, and advertising, he couldn't make a profit selling widgets at low prices. Igor, his bookkeeper, who also happens to be his cousin, told Ralph that he could not sell widgets for \$1.00 and still make a profit. However, if the price of widgets had been raised to \$2.00, and Ralph only used the most economical machines and best workers, he could have supplied 500,000 to the stores. At \$3.00 the company could have paid some overtime and, using some older machines, produced 1,000,000 of the handy gadgets. A price of \$4.00 would have seen production of 1,500,000. If somehow the price could have been raised to \$5.00, even the laziest of Ralph's relatives could have gotten a job helping to turn out 2,000,000 widgets.

The *supply data* graph below also shows the number of widgets Ralph could have made at different prices.

**Ralph's Widget Business: Supply Data**





## Practice

Use the chart on page 94 to answer the following.

1. If the price had been \$2.00, \_\_\_\_\_ widgets would have been sold.
2. If Ralph had sold 1,500,000 widgets, the price was \_\_\_\_\_.
3. If the price had been \$3.00, \_\_\_\_\_ widgets would have been sold.
4. If Ralph had sold 2,000,000 widgets, the price was \_\_\_\_\_.
5. If Ralph had sold 1,250,000 widgets, the price was \_\_\_\_\_.
6. If the price had been \$2.50, \_\_\_\_\_ widgets would have been sold.

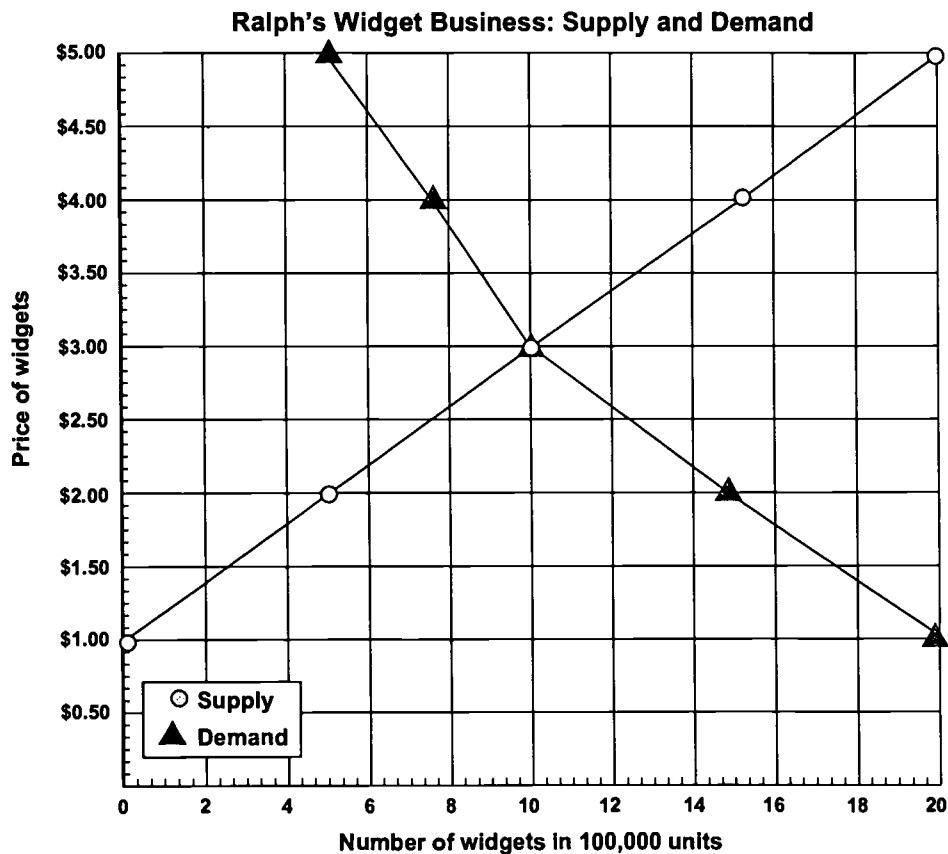


A quick look at the graphs on previous pages tells us that the best market price for widgets was \$3.00. This price is called the **fair market price** because it is the price at which consumers' demand and producers' supply *intersect* or meet. At the price of \$3.00, consumers would demand all of the widgets Ralph was willing to supply.

The two new graphs below show all of the previous information.

	Supply	Demand
\$5.00	2,000,000	500,000
\$4.00	1,500,000	750,000
\$3.00	1,000,000	1,000,000
\$2.00	500,000	1,500,000
\$1.00	0	2,000,000

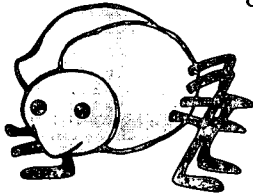
Number of widgets





Ralph was only beginning to learn the widget business and the law of supply and demand. For instance, Ralph found out that people were more likely to buy widgets in the summer and fall than in the winter and spring. He also discovered that sales were better in the South and West than in other parts of the country. Thus, the poor bug found that his sales dropped during part of the year and that he had to increase his advertising in some parts of the country.

Ralph also discovered that charts and graphs of supply and demand were only the beginning. They only hold true so long as all other things are equal. Consider the time Uncle Charlie, his ace engineer, went to visit a sick relative whose human had just sprayed the house. Charlie was sick for a week and production fell.



Ralph almost had to get out of the widget business and join me in my computer business.



## Practice

Answer the following using complete sentences.

1. What occurs if quantity demand for a product is *elastic*? \_\_\_\_\_

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2. What occurs if quantity demand for a product is *inelastic*? \_\_\_\_\_

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3. What must be available to consumers if demand for a product is to be *elastic*? \_\_\_\_\_

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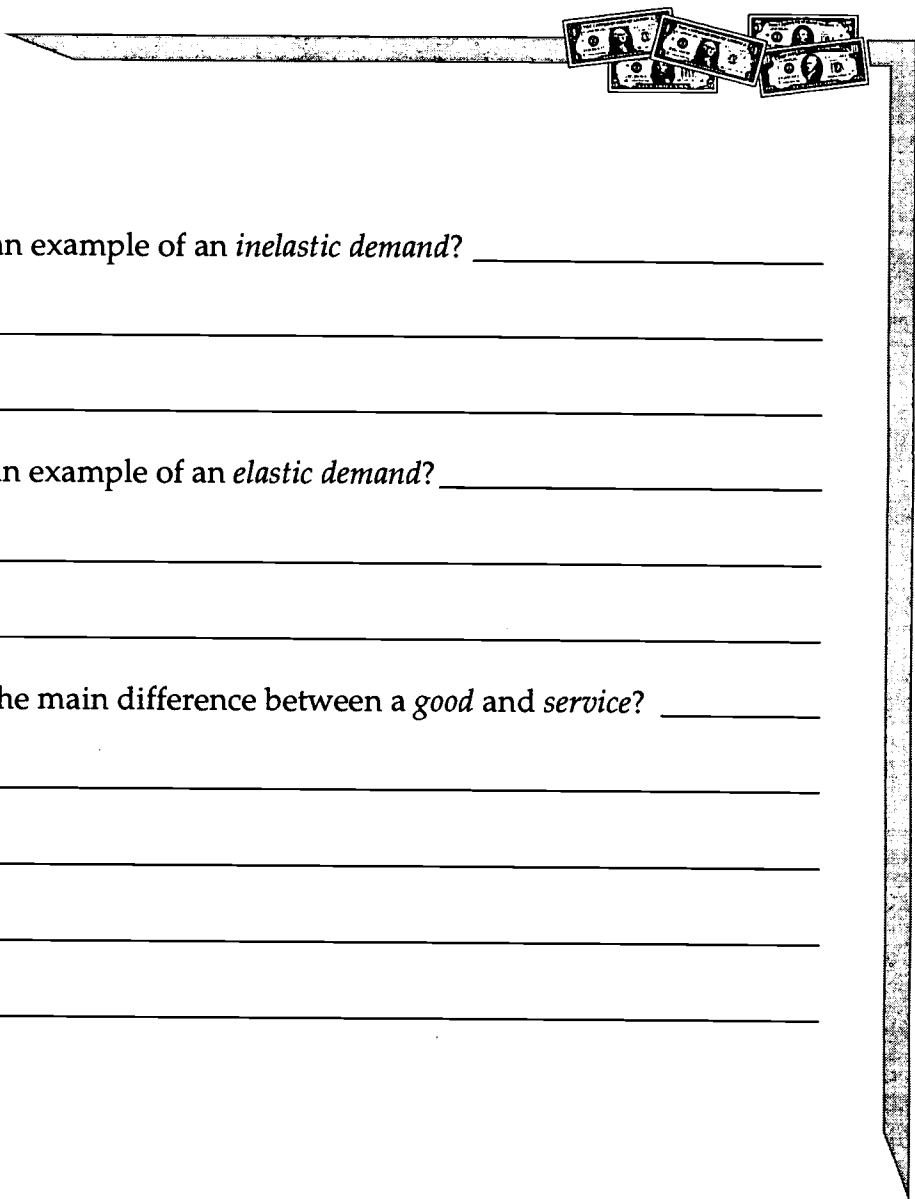
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4. Why is some medical care an example of *inelastic demand*? \_\_\_\_\_

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5. What is an example of an *inelastic demand*? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. What is an example of an *elastic demand*? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. What is the main difference between a *good* and *service*? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_





## Practice

Complete the following statements with the correct answer.

1. Prices in the United States are determined by the law of \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. This law of economics states that the \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. The best market price for an item, or the price at which the consumer is willing to buy and the producer is willing to sell, is called \_\_\_\_\_.
4. The best market price is the point at which the supply line and demand line \_\_\_\_\_.
5. The more \_\_\_\_\_ there are for a product, the more elastic the demand for that product will be.
6. If there is no substitute for a product, its demand will be \_\_\_\_\_.



## Fair Market Price: How Markets Are Created

Ralph was creating widgets for consumers who wanted to buy his products. However, Ralph had to concern himself with turning out a good product at a competitive price. Economists use particular terms to describe the relationship between manufacturers like Ralph who produce products and consumers who buy those products.

When the supply line and the demand line intersect on a graph, producers and consumers come together in a *market*. The price where the two lines intersect is called the *fair market price*. The key words are *market price*. *Market price* refers to the price at which the consumer is willing to buy the product and the producer is willing to supply the product.

Other names for *fair market price* are often used in economic textbooks. One of those names is *competitive market price*. *Competitive market price* is used when emphasizing competition between the buyer and the seller. The buyer (consumer) is trying to buy the good at the lowest price he can; the seller (supplier or producer) is trying to sell the product at the highest price she can. Therefore, it is by competition between buyer and seller that a competitive market price is reached.

Still another name for this point is called the *market clearing price*. This name is used because producers have found that they can sell, or *clear*, most of the goods at this price. We say, therefore, that the market clearing price is one at which the producer will not be left with unsold goods.

*Fair market price*, *competitive market price*, and *market clearing price* are therefore just different names for the point at which the supply and demand lines *intersect* on a graph. Economists have found out another interesting fact about this intersection point: It is also the point of highest profit for the producer. One seller's search for the fair market price is illustrated below.



What if the fair market price for gasoline was \$1.57 a gallon for regular, unleaded gas at most gas stations? If a station went up to \$1.60 cents a gallon, would it lose so many customers that it would make less profit than it made at \$1.57? If the gas station indeed made more money at \$1.60 than at \$1.57, it seems only logical that it would raise its prices. If the consumer was willing to pay



the higher price of \$1.20, then that would be the fair market price. But if the profit went down when the price went to \$1.20, then the gas station would lower the price again to \$1.17. In other words, the producer is going to adjust his price to make the highest profit. That point of highest profit is the place where the most consumers are willing to buy his product, and he is willing to sell. That point is the fair market price.

### **Profit: The Fuel That Drives the System**

What is *profit*? In general, *profit* is the difference between money received (revenue) and money spent (expenses). If there is not sufficient revenue to pay its expenses, a company will lose money. Most companies cannot lose money for a long period of time without going out of business.

Profit can be defined as the money remaining after a company has paid all of its costs. A company uses this definition to figure out what it should charge its customers for the goods it manufactures. The company calculates the costs of the materials, labor, and the interest it must pay to borrow money with which to buy resources. After making the best guess it can on what all of the costs will be to manufacture the goods, the company can then calculate how much money it should charge the customers in order to earn a profit.

Profit is also further explained as either *gross* total profit or *net* profit. One of the costs a company has is payment of taxes. The amount of money a company earns before paying taxes is called *gross profit*. The money a company earns after paying all costs, including taxes, is called *net profit*.

The company must risk its money when it make *goods*. If people do not like the *goods* a company makes, the company will not make a profit. If the public really likes the *goods*, a large profit can be made. Some companies take a high risk by producing goods or services that the public may not find desirable.

For example, companies that are in the fashion business take a big risk every time they show retail store buyers their new clothes. What if the buyers don't like a company's new fashions? That company may lose money or even go out of business. If the





consumers like what the company makes, the company will most likely earn a profit. This creates the second definition for *profit*: A *profit* is the reward a company earns for taking risks.

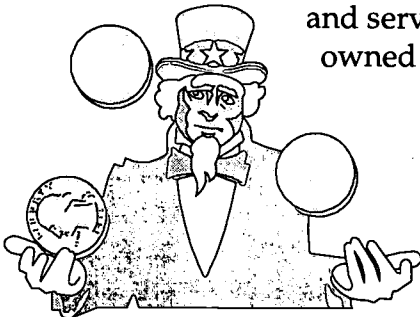
The bigger the risk, the more a company will want to earn in profits. A grocery store, which takes few risks, may earn a profit of one percent on total sales. A manufacturer of experimental medicines is taking a big risk and may demand a profit of 200 percent or 300 percent on the cost of making the medicine.

### Public (Shared) Goods vs. Private (Personal) Goods

All citizens in our society share or have access to certain things. We all have use of the public parks, public schools, libraries, museums, and even the streets. The types of things available to everyone but managed by government are called **public goods**. Public goods must be paid for and maintained by **tax revenue**. Many goods and services purchased by citizens such as electrical power, water, and bus transportation are also examples of public goods.

**Private goods** are those things that citizens own for themselves. Homes, cars, and personal belongings are examples of private goods.

Sometimes it is difficult to find the dividing line between what is considered a public good and what is considered a private good. When a private company provides goods or services that are essential for the welfare and safety of the public, do we call it a public or private good? Hospitals, TV stations, and bottled-gas companies are often regulated by the government because they provide essential goods and services. So these products may be privately owned but publicly managed.



In general, private goods are bought by individuals and belong to them; public goods are paid for by tax revenue, are shared by the public, and managed by government.



## Practice

Identify the following goods and services as **public goods (P)**, **private goods (I)**, or **either (E)**. Write the correct letter on the line provided.

- \_\_\_\_\_ 1. AM/FM radio in your bedroom
- \_\_\_\_\_ 2. tennis court
- \_\_\_\_\_ 3. traffic court where you pay a \$75.00 fine
- \_\_\_\_\_ 4. Interstate 75 North
- \_\_\_\_\_ 5. Navy Interstate Center
- \_\_\_\_\_ 6. Florida State University football field
- \_\_\_\_\_ 7. school library
- \_\_\_\_\_ 8. floodlights on the exterior garage door of your house
- \_\_\_\_\_ 9. local mall
- \_\_\_\_\_ 10. hospital
- \_\_\_\_\_ 11. ticket to a local rock concert
- \_\_\_\_\_ 12. golf course
- \_\_\_\_\_ 13. drug counseling center
- \_\_\_\_\_ 14. private room in a hospital

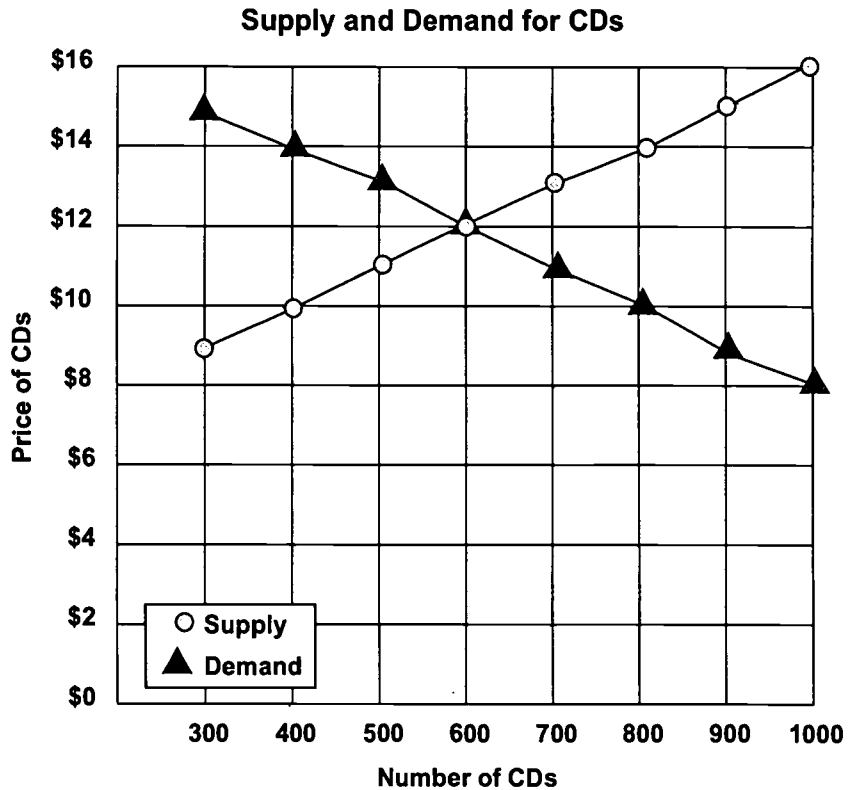


- \_\_\_\_\_ 15. fish in your neighborhood lake
- \_\_\_\_\_ 16. paved road adjacent to your driveway
- \_\_\_\_\_ 17. rest area facilities on I-95
- \_\_\_\_\_ 18. nearest municipal airport
- \_\_\_\_\_ 19. first-aid kit in your fishing tackle box
- \_\_\_\_\_ 20. stop sign or other traffic controls



## Practice

Use the graph below to circle the letter of the correct answer.



1. Supply would exceed demand at a point \_\_\_\_\_ the fair market price.
  - a. below
  - b. equal to
  - c. to the right of
  - d. to the left of
  
2. Demand would exceed supply at a point \_\_\_\_\_ the fair market price.
  - a. equal to
  - b. above
  - c. to the right of
  - d. to the left of



3. At a price of \_\_\_\_\_, there would be a surplus of 200 CDs.
  - a. \$11.00
  - b. \$14.00
  - c. \$12.00
  - d. \$10.00
4. At a price of \$10.00, there would be \_\_\_\_\_ of CDs.
  - a. a surplus
  - b. a shortage
  - c. just enough
  - d. no demand
5. At a price of \$11.00, there would be a shortage of \_\_\_\_\_ CDs.
  - a. 150
  - b. 300
  - c. 200
  - d. 100
6. At a price of \$14.00, there would be \_\_\_\_\_ of CDs.
  - a. a surplus
  - b. a shortage
  - c. just enough
  - d. no demand
7. At a price of \$14.00, \_\_\_\_\_ CDs would be sold.
  - a. 700
  - b. 600
  - c. 500
  - d. 400
8. At a price of \$9.00, \_\_\_\_\_ CDs will be demanded, but not supplied.
  - a. 800
  - b. 600
  - c. 900
  - d. 300
9. At a price of about \_\_\_\_\_, both buyers and sellers would be happy.
  - a. \$12.00
  - b. \$9.00
  - c. \$13.00
  - d. \$10.00





## Practice

Write **True** if the statement is correct. Write **False** if the statement is not correct.

- \_\_\_\_\_ 1. The point at which the supply and demand lines on a graph intersect is the *fair market price*.
- \_\_\_\_\_ 2. *Private goods* include homes and cars.
- \_\_\_\_\_ 3. *Public goods* are paid for with tax revenues and shared by the public.
- \_\_\_\_\_ 4. *Fair market price* and *competitive market price* are different names for the same idea.
- \_\_\_\_\_ 5. *Private goods* include hospitals, recreational parks, and TV stations.
- \_\_\_\_\_ 6. *Profit* is the difference between money received and money spent.
- \_\_\_\_\_ 7. *Gross profit* is the money a company earns before paying taxes.
- \_\_\_\_\_ 8. A *service* is an object that can be owned by a consumer.
- \_\_\_\_\_ 9. *Net profit* is the money a company earns after paying all costs, except taxes.
- \_\_\_\_\_ 10. *Private goods* are bought by individuals and belong to them.



## Practice

Answer the following using complete sentences.

1. What are three economic terms which mean “the price the consumer is willing to pay and the price at which the producer is willing to sell”? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. What are two kinds of markets that exist on the national level?  
\_\_\_\_\_  
\_\_\_\_\_
3. What is meant by *consumer demand*? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. What did *factors*, or early entrepreneurs, organize to produce goods?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



5. How was a *factor market* created? \_\_\_\_\_

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6. What does *specialization of labor* refer to? \_\_\_\_\_

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7. What were the buildings called that factors moved production to?

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8. What kind of market was operating when a factor sold finished goods at county fairs in England? \_\_\_\_\_

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9. For a good to have an elastic demand, what must exist? \_\_\_\_\_

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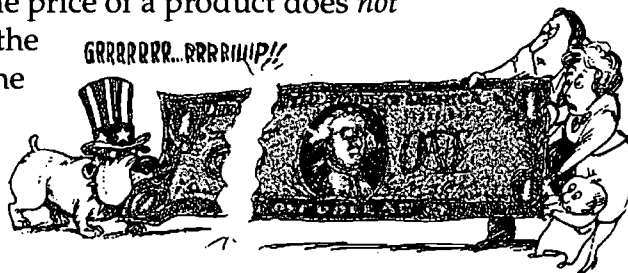
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## Summary

*Markets* are places where people buy and sell goods, services, and resources. These exchanges can take place in two different kinds of markets. In the *factor market* companies exchange wages, rent, interest, and profits for people's resources. In the *product market*, sellers exchange goods and services for consumers' money.

In the product market, two types of demands are made by consumers. If the change in the price of a product does *not* increase or decrease its sales, the demand is called *inelastic*. If the change in the price of a product does increase or decrease its sales, the demand is called *elastic*.



The *law of supply and demand* describes the interaction between buyers and sellers. Buyers' quantity demand for a product will decrease as its price increases and increase as its price decreases. Sellers will increase the quantity supply of a product as its price increases and decrease the quantity supply as the price decreases. Buyers attempt to buy goods at the lowest price, and sellers attempt to sell goods at the highest price. The price buyers and sellers arrive at is called the *fair market price*, or the "competitive market price."

Most businesses sell goods and services to earn a *profit*. *Gross profit* is the sum of all the money a business receives. *Net profit* is the money a company has after paying all its costs, including taxes.

Goods are classified as either *private goods* or *public goods*. Private goods are property that people own, such as bicycles and computers. Public goods are those things we all share, including public parks, libraries, and public schools. Governments manage public goods with the *tax revenue* they collect from people and businesses.



## Practice

Answer the following using complete sentences.

1. Someone who does only one small task in the production of a product is engaging in *specialization of labor*, a method of production that developed hundreds of years ago in England. What are the benefits of specialization of labor? What are the disadvantages of specialization of labor?

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- 2. The *law of supply and demand* describes the interaction between buyers and sellers. Consumers seek lower prices and producers try to get higher prices. What must consumers and producers both have for the law of supply and demand to work?

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- 3. Our government often needs more *tax revenue* to raise money it needs to run the country. Why do you think that the government isn't willing to sell some *public goods* such as parks and highways to raise money?

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## Practice

Match each definition with the correct term. Write the letter on the line provided.

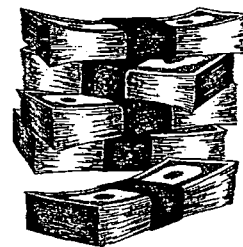
- |          |   |                             |
|----------|---|-----------------------------|
| _____ 1. | a situation when a change in price causes a large change in quantity demanded   | A. elastic demand           |
| _____ 2. | a situation when a change in price causes little change in the quantity demanded  | B. fair market price        |
| _____ 3. | an economic theory which states that consumers' quantity demand for a product will increase as the price decreases and vice versa; producers' quantity supply will increase as the price increases and vice versa | C. inelastic demand         |
| _____ 4. | the money the government collects through various taxes   | D. law of supply and demand |
| _____ 5. | a place where people buy, sell, or trade goods and services   | E. market                   |
| _____ 6. | property that people own  | F. private goods            |
| _____ 7. | goods managed by governments but made available to everyone   | G. profit                   |
| _____ 8. | a company's earnings after paying all its costs; the reward a company receives for taking risks   | H. public goods             |
| _____ 9. | the price that results from competition between buyers and sellers  | I. tax revenue              |

## Unit 4: Economic Institutions

This unit discusses the ways in which businesses organize themselves and compete in the marketplace, the characteristics of *money*, and the regulation of the United States *money supply*.

### Unit Focus

- different references of the term *economic institutions*
- differences in the four basic types of business competitions: pure competition, pure monopoly, oligopoly, and monopolistic competition
- forms of business organizations (e.g., sole proprietorships, partnerships, and corporations), noting the major advantages and disadvantages of each
- major sources of business funds
- what *money* is and the difference between species and token
- main functions of the Federal Reserve System (Fed)
- regulatory tools the Fed can use to influence the nation's supply of money
- meaning of *demand deposit*, *time deposit*, *credit*, *gross domestic product (GDP)*, *inflation*, and *recession*







## Vocabulary

*Study the vocabulary words and definitions below.*

- corporation** ..... a form of business ownership that allows a company by law to exist and conduct business affairs in its own name; supported with common and preferred stock
- demand deposit** ..... funds deposited in a bank that are available upon demand  
*Example:* checking account
- discount rate** ..... the interest rate charged by the Federal Reserve System for temporary loans to its member banks
- Federal Reserve System (Fed)** .... a United States government agency whose basic role is to control the nation's money supply
- gross domestic product (GDP)** ... the total value of goods and services produced in one year within the borders of a nation, by whoever produces them
- inflation** ..... a sustained increase in the average level of prices of goods and services resulting in a loss of the purchasing power of money
- legal tender** ..... currency that may be lawfully offered in payment of debts
- money supply** ..... the amount of money in circulation
- monopolistic competition** ..... a system in which there are only a few sellers in the marketplace



- monopoly** ..... exclusive control of a commodity or service in a particular market
- oligopoly** ..... the market condition that exists when only a few sellers have the resources to produce a particular good, such as an automobile or aircraft
- partnership** ..... a business owned by two or more persons
- prime interest rate** ..... the interest rate charged by a bank to its best customers for a short-term loan
- public utility** ..... a company granted exclusive control of a good or service offered to the public  
*Example:* electric company
- pure competition** ..... a market in which many independent sellers offer the same goods and services
- pure monopoly** ..... a market in which there is only one seller of a product  
*Example:* public utilities
- recession** ..... a decrease in demand for goods and services and an increase in unemployment leading to a decline in the economy; a downturn in the economy, characterized by a decrease in business activity
- sole proprietorship** ..... a business owned by one person
- time deposit** ..... deposits with specific maturity periods; usually pay higher interest than demand deposits  
*Example:* certificates of deposit



## Introduction



Often when we speak of *institutions*, we're referring to buildings, as when we refer to our school as an *educational institution*. In the study of economics, some *economic institutions* are buildings. Banks, savings and loan associations, credit unions, and Federal Reserve Banks are all economic institutions—physical structures that we can visit and may do business with.

*Economic institutions* also include more than just physical structures. The word *institution* in its most complete definition includes the *organized way of doing something*. For example, a bank is a physical structure *and* provides an organized way of taking in money and returning it to its customers. So *economic institutions* refer to buildings, the way businesses are organized, and the way in which they compete in the marketplace.

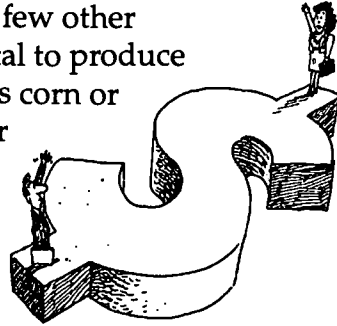
The way in which businesses organize themselves and compete in the marketplace is closely watched and regulated by our government. There are laws that permit small businesses to operate in one way and large corporations to operate in another. For example, a business owned by a single person has great flexibility—the owner can make quick decisions. In exchange for this flexibility, the owner faces *unlimited liability*; she is personally responsible for all losses. Corporations are not very flexible, but their owners can only lose the money they've invested and no more. This is called *limited liability*.

The way businesses compete in the marketplace is also watched and regulated by the government. In some markets, the government permits businesses to freely compete with few regulations. In other markets, the government may limit the competition for the benefit of consumers. Both the way businesses organize and the way they compete are covered by the phrase *economic institutions*.

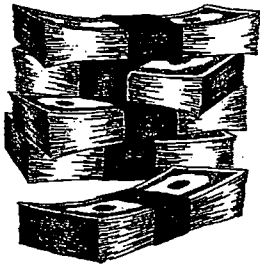


## Types of Business Competition: Pure Competition, Pure Monopoly, Oligopoly, and Monopolistic Competition

All businesses compete in a market. The kinds of products sold in a market will determine the type of competition producers engage in. For example, a company that chooses to produce automobiles realizes that it will compete in a market only against the few other manufacturers that also have the skills and capital to produce automobiles. However, a company that produces corn or wheat will compete in a market with many other producers. As you can see, all markets are not the same. Markets are defined by the way in which producers compete for customers of their products. Markets are structured in four different ways.



**Pure Competition.** *Pure Competition* exists when anyone can produce a product for sale to any consumer who wishes to buy it. Pure competition between many producers and many consumers creates a competitive *market price*, a price agreeable to both producers and consumers. This pure competition is based on the law of supply and demand: producers attempt to make the highest profit they can on their products, and consumers search the market for the lowest price on the products they want. This type of competition results in profits for producers and a variety of desirable products for consumers.

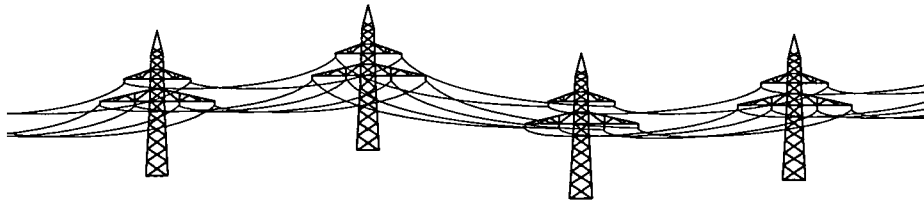


In the real marketplace of the United States economy, pure competition does not always exist. In fact only in the sales of a few products, such as farm products, do we see many manufacturers or producers competing with each other to sell their products to the millions of consumers in the United States. More often the type of business competition looks like one of the three markets described below.

**Pure Monopoly.** A *pure monopoly* is often called a *natural monopoly*. This form of business competition exists when *only* one company provides a good or service that consumers demand. Governments permit the existence of pure monopolies to reduce the cost of a good or service for



consumers. So, for example, a city government grants a pure monopoly to a company to provide electric power to its residents. Many large companies may have the resources to supply electric power, but the price of electricity for homes and businesses would be much too expensive if each competing company had to install its own separate wires. Without pure monopolies, a city would soon have a large net of electrical wires running overhead.



As you can see from the image of a dangerous net of wires overhead, it is the method of delivering the good or service to the public that makes a pure monopoly necessary. If the electrical company could deliver electricity to your home without wires, the city government would probably not grant a **monopoly**. A company that is granted a monopoly to provide a good or service such as electric power to the public is called a **public utility**. Water, sewage, and gas are other goods and services that must be delivered through pipes and wires. Without pure monopolies, providing these products would create a blight on our environment.

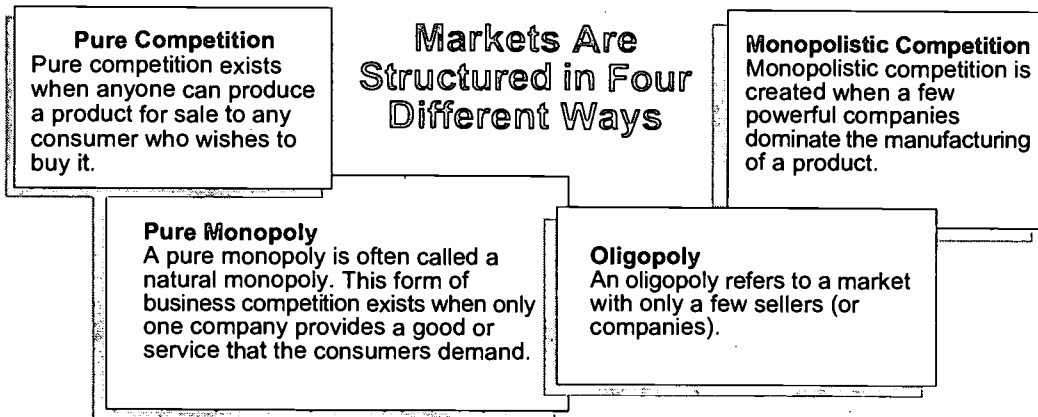
To insure that a company that has a pure monopoly does not overcharge the public, the government reserves the right to regulate the business. A public utility board usually helps set the maximum rates these pure monopolies can charge for goods or services. This is called a *price ceiling*.

Pure monopolies can also be created if a company has a patent for the production of a good. A government-issued patent gives the company the right to be the only manufacturer of a particular product. For example, a drug company may perfect a drug that cures or helps to treat a particular disease. That company will be granted a pure monopoly on the sale of this drug for a period of years, until its patent runs out and other companies can begin to compete. Without an assurance of a monopoly, few drug companies would invest the capital needed for such costly research and development.



**Oligopoly.** Another type of business competition is called an *oligopoly*. An *oligopoly* refers to a market with only a few sellers (or companies). Oligopolies develop when the production of a product requires a large amount of capital (money and equipment). Examples of this type of competition include manufacturers of automobiles and commercial aircraft. The large amounts of capital required and constant changes in technology have reduced the number of automobile manufacturers in the United States to only three big American companies and a few foreign-owned companies.

**Monopolistic competition.** *Monopolistic competition* is created when a few powerful companies dominate manufacture of a product. This is usually done by advertising that their product is somehow different or better than all of the other products of the same type. Wealthy companies can use advertising to drive out smaller companies and monopolize a market. For example, while it is true that all pain relievers made with acetaminophen are, by law, the same, people buy Tylenol because they think it is better than other pain relievers that contain exactly the same ingredient. Coca-Cola in the soft drink business, Kleenex in the tissue business, and M&M candies in the sugar-covered chocolate business are just a few examples of monopolistic competition.



Remember, all companies are competing in markets to obtain customers who are attempting to satisfy their unlimited wants and needs. We as consumers need companies and companies need us. Remember the circular flow of money, goods, services, and resources in Unit 3.



## Practice

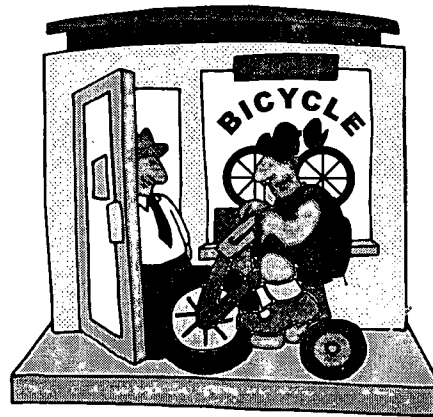
Match each definition with the correct term. Write the letter on the line provided.

- |   |                             |
|---|-----------------------------|
| _____ 1. only one company produces a good or service that the consumers demand; examples include public utilities such as power, water, and gas                               | A. law of supply and demand |
| _____ 2. few sellers or producers have the large amount of capital required to produce a particular product; examples include automobile or commercial aircraft manufacturers | B. market price             |
| _____ 3. a few powerful companies that make such products as Coca-Cola and Kleenex dominate the market, largely through advertising   | C. monopolistic competition |
| _____ 4. many independent sellers such as food manufacturers compete  | D. oligopoly                |
| _____ 5. the price agreeable to both producers and consumers; created by pure competition   | E. pure competition         |
| _____ 6. the conditions that determine the price  | F. pure monopoly            |



## Business Organizations: Sole Proprietorship, Partnerships, and Corporations

Businesses can be organized, or owned and operated, in several different ways. Some businesses are owned by many investors, and some businesses are owned by one person or just a few persons. The product businesses produce will often determine the organization of the business. Equally, the way a business is organized will often determine the type of product it can produce and sell. A business owned by a single person would not have the resources to manufacture automobiles or even dishwashers. On the other hand, a bicycle store in a small town is an ideal kind of business for a single owner who can quickly and easily select the kinds of bicycles his unique customers desire.



### Sole Proprietorship: Business Owned by One Individual

The vast majority of all businesses in the United States are owned by a single person. This type of business organization is called a **sole proprietorship**. Sometimes they are called *mom and pop businesses* because so many are family-owned and operated. American free enterprise was founded on the abilities of any citizen who has the energy, ability, and daring to strike out on her own and build a company, from tiny shoe repair stores to very large businesses. (The Ford Motor Company was for many years owned and operated by Henry Ford, who was followed by his children and grandchildren.)

One advantage of a sole proprietorship is that the owner is his own boss. He can determine (within the law) what products he will sell, what hours his store will be open, how much profit he will keep, and how much he will invest to expand the business.

One disadvantage of a sole proprietorship is that the capital needed for establishment and expansion must come from the business owner, who might borrow some money from a bank or dig into her savings. The major point is that the resources of a single person or family are all the company can rely on for growth.

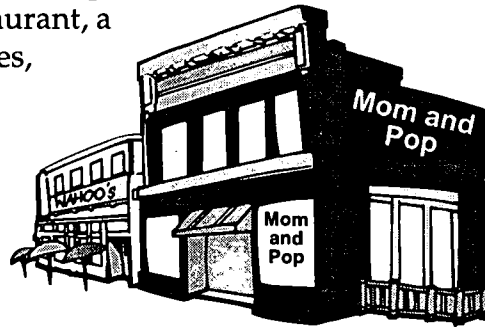




Another disadvantage of a sole proprietorship is that the business may cease to exist if the owner chooses to end the business or dies. This is why economists say that sole proprietorships have a *limited life*.

The biggest disadvantage is *unlimited liability*, meaning that the owner is responsible for all actions of business. Thus, as a sole proprietor, a person could lose everything he owns in a lawsuit.

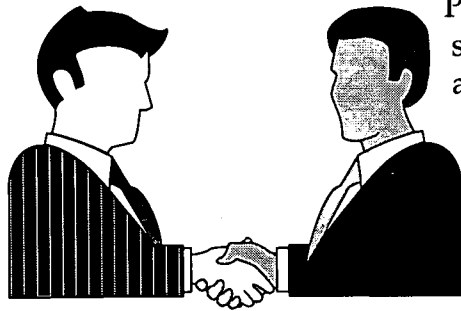
The most common type of sole proprietorship opening up in your city is often a restaurant, a company that repairs goods (cars, shoes, small appliances, bicycles, etc.), or a specialty store that sells a good or service to a select market. These sole proprietorships sell everything from dresses to computers to lawn mowers, or lawn-care services.



Of all the types of business organizations in the United States, sole proprietorships make up about 69 percent. However, because they are small and do not have the large sales of giant corporations, their worth amounts to about 10 percent of the value of all goods and services sold in the United States.

### Partnerships: Business Owned by Two or More Individuals

**Partnerships**, or businesses owned by two or more persons, have the same disadvantage that sole proprietorships have—such companies often have a *limited life*. The death or retirement of one of the partners often leads to the end of the business. This problem can be overcome by having an attorney write a document that would allow the business to continue.



Partnerships do have advantages over sole proprietorships. Partners may be able to raise more money than a single individual. Their combined personal contributions and their power to borrow money may be greater than the capital one person could contribute or borrow.



Partnerships make up about 10 percent of all business organizations in the United States and make about four percent of the total income earned by all types of business organizations. Many partnerships are called *Professional Associates*. The letters *P.A.* often appear on the sign in front of their offices or on the office door. Most of these partnerships are formed by professional people such as doctors, lawyers, architects, and engineers. They form partnerships to help pay the cost of office space, share some of the work between the partners, share office help and equipment, and save costs on advertising.

The limitation of partnerships is similar to that of sole proprietorships in that capital for business growth is limited to the assets (wealth) of the partners plus the money they are able to borrow. A partnership cannot sell stock to raise money from the general public. The selling of stock to raise money for a business is limited to corporations. Again, the big disadvantage is *unlimited liability*. Each partner is liable for the company.

#### **Corporations: Owned by Shareholders**

Corporations make up 21 percent of all business organizations and earn 86 percent of all the revenue earned by all types of business organizations. Perhaps most importantly, corporations pay 68 percent of all wages earned by workers in this country.

Corporations are allowed to sell securities (stocks and bonds) to the general public in order to raise money for the business. Corporations are said to have *unlimited life* because they seldom have to reorganize when a stockholder dies or chooses to end her investment.

With their enormous ability to raise revenue through the sale of stocks and bonds, corporations are the largest type of business organizations in the United States. Corporations such as General Motors are worth billions of dollars. Corporations have *limited liabilities*. This means that the owners are liable only for what they have invested in the corporation.

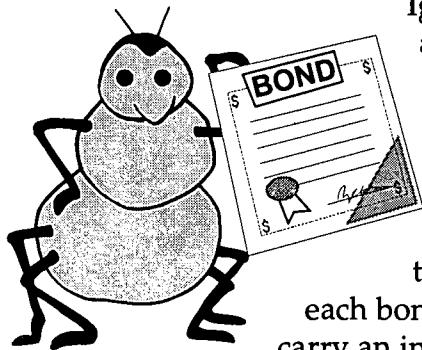
The following case study explains how corporations grow by selling stocks and bonds.



## Case Study: Understanding Stocks and Bonds

### Ralph, Inc.

You remember Ralph from Unit 3. Well, Ralph approached his trusty bookkeeper Igor with a new problem: "Igor! The widget business is great, but we are not expanding our business as fast as we could. We are selling all the widgets we can make, and yet orders are coming in faster than we can manufacture widgets. If we do not expand soon, our competitors will step in and take business away from us. Igor, what is a poor ant to do?"



Igor returned to Ralph a few days later and gave Ralph a few ideas on how to expand the business. The first of these ideas was to sell bonds. A *bond* is a certificate issued by a company (or the government) in exchange for borrowed money. Igor suggested that if Ralph decided to issue bonds that each bond be issued at a value of \$1,000 and carry an interest rate of nine percent.

Ralph understood that the people holding the bonds would not own part of his widget business but instead would be *creditors*—investors to whom Ralph owed money. The bonds would be issued for a term of 20 years at nine percent and then redeemed by Ralph when the bond *matured*. A bond is said to have *matured* when it has reached the date set for redemption that is printed on it. In Ralph's case, this meant that after 20 years of using the investor's money, Ralph would pay the investor not only nine percent interest each year for 20 years, but also pay back the original \$1000 loan.

Ralph understood that he could sell bonds to investors. He then would pay investors the cost of the bond plus interest earned each year of the life of the bond. But Ralph had more questions.

Ralph asked, "What if I want to redeem the bonds early?"

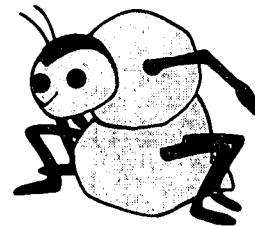
"No, problem," answered Igor. "In fact this will make other issues of bonds easier to sell in the future."



Igor pointed out to Ralph that bondholders do have certain rights. They must be paid their dividends first from the company's profits before any other profits are distributed. Ralph decided that about 10 million dollars worth of bonds would be just about right to expand his business.

Igor suggested to Ralph that there are other ways to raise money to expand the widget business. For example, Ralph could sell preferred or common stock in his company. A share of stock entitles the investor to a certain part of the corporation's future profits and assets. Stockholders would become co-owners with Ralph of the widget company. By selling stock, Ralph would have to make his company into a corporation. He would have to issue a *prospectus*: a folder describing his company to prospective investors. Ralph would have to have annual stockholders' meetings to answer questions about how he was running the company. Ralph would also have to register his company with the Security and Exchange Commission (SEC). Registering with the SEC is required by the government when a private company becomes a publicly owned corporation and sells stock in itself. The government could not guarantee the public that Ralph was an honest ant, but registering would provide some important information to the public about Ralph's Widget Company, Inc. Registering with the SEC would allow the government to examine Ralph's books from time to time just to make sure the investors were not being taken advantage of. (Note: It is not necessary to incorporate to sell bonds, but it is necessary to register.)

Ralph instructed Igor, his bookkeeper, to get the prospectus ready. In the prospectus, Ralph listed the company's officers, cautioned investors about risks involved in investing in the widget business (especially one run by an ant), and described the operation of his business over the last few years. The prospectus was ready in just a few weeks to be sent off to the stock brokerage company that Ralph and Igor had selected to sell the initial offering of Ralph's Widgets, Inc. (Note: Only a broker or brokerage firm can sell stock.)



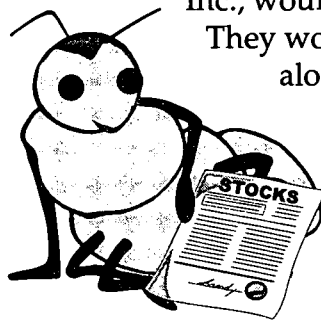
But Ralph had some more questions to ask Igor. For instance, "When the stock is sold, will I have to invite some of the stockholders to become directors of my company and allow them to



help run my business?" "Yes," answered Igor. "Humans may be bugging around the plant and telling us how to run the place." Ralph asked another question: "Will I be allowed to keep running the business just like I am doing now?"

"Sorry, Ralph," said Igor. "Humans will be around all the time from now on if we decide to sell stock."

"Igor, old bug," said Ralph, "what are the advantages then for us selling stock?" Igor then explained to Ralph that unlike bondholders, investors who bought stock in the Widget Company, Inc., would not be creditors. They would be part *owners*.



They would take their risks of making a profit right along with Ralph. Their money, unlike that of the bondholders, never has to be returned.

Their investment would be used to provide capital improvements to the company.

(*Capital improvements* include new manufacturing plants, new machines, and other long-term improvements.)

"In other words," Ralph said, "I will be sharing the profits I make with all of these investors, but because the business will be so much larger, I will end up making even more money."

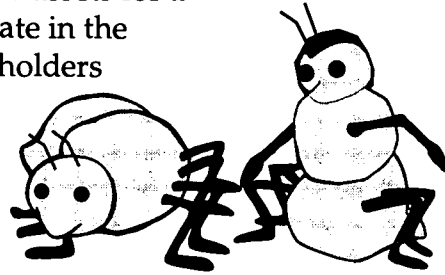
"Plus," Igor added, "if for a few years profits are not that great, we can pay only a small dividend to the investors, or if the stockholders approve, no dividend at all." Igor continued: "If the stockholders agree, we could reinvest our profits into the company rather than distribute them to the stockholders."

*Questions to think about.*

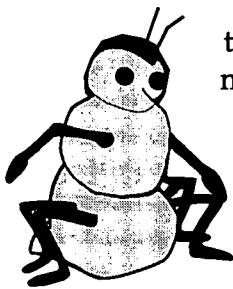
1. What is a *prospectus*?
2. What rights do stockholders have in a company that they invest in?
3. Why would a company choose to issue stocks rather than bonds?
4. What must the owners of a company give up when they choose to incorporate?



Fast Freddy of Stock Picking Dot-com arrived to help Ralph decide about this whole stock business. Freddy explained that, whereas bonds are used mainly for financing long-term debt, stock is used to buy new assets for a company. Bond owners do not participate in the operation of a company, whereas stockholders do. Bondholders, though, are guaranteed their dividends as long as the company makes a profit, whereas stockholders may not receive any dividends.



"Ralph," said Freddy, "there are two types of stocks: *preferred* and *common*. *Preferred* pays a set dividend (as long as the company earns enough to first pay the bondholders). Preferred stock, since it does not pay more dividends even if a company earns more money, does not often change in value. However, when interest rates go up, preferred stock tends to fall in value if its dividends fall below what investors could make in some other investments. If interest rates for other investments fall, preferred stock from a company earning a nice profit will tend to increase in value. Investors who own preferred stock do not get to vote at the company's annual meeting, but they are part owners in the company."



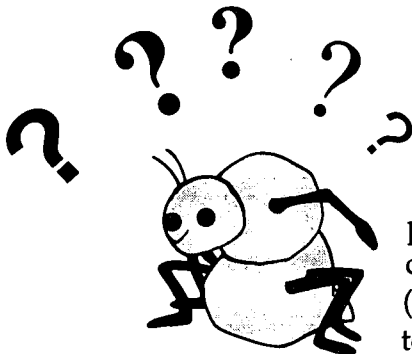
"*Common stock*," said Freddy, "is the most common type of stock issued by most companies. It is also the most popular type of stock for investors. Owners of common stock get a vote in the operation of a company and share in the profits of a company through dividends.

"As Igor has already explained to you," said Freddy, "you don't have to pay dividends, but if you do, your stock will go up in value. And if you decide to issue stock in the future, you could sell it for a higher price than we can for the initial offering."



Questions to think about.

1. What is the difference between *preferred* and *common* stock?
2. What rights do *common* stockholders get over *bondholders* or *preferred* stockholders?
3. If the company only makes enough money to pay some dividends, which investors get their money first?
4. If the company makes a lot of money, which type of investment will most likely reflect the higher income?



Then Ralph said, "Tell me something about how often I have to pay the investors."

Freddy began explaining: "Bonds are paid once every six months, whereas dividends are paid four times a year (quarterly). Companies that have a tendency to use profits to buy new assets rather than to pay dividends are called *growth companies*. (Their stock is called a *growth stock*). Stocks in such companies, while they do not pay dividends, do increase in value. Stocks that pay most of their profits in dividends are called *income stocks*. Investors who need a steady income from their investments tend to prefer income stock over growth stocks."

"Hey, Igor," asked Ralph, "is it possible for a company to be a growth company for a few years and then become an income company?"

"Yes," answered Igor. "As you know, ants and rats live close together. I was talking to my buddy Mickey about his place down in Orlando. Mickey said that while he was building his amusement park, his stock issued no dividends, but after the park was finished, the company resumed paying the dividends."



At this point it was necessary for Ralph and Igor to find an expert in issuing initial stock offers. An *initial stock offer* is made up of the first shares a company issues after it decides to become a corporation. Jean, the Lean Mean Investment Machine (LMIM), used to run an exterminator business before he met Ralph and saw the error of his ways. He is now an investment broker and deals in initial stock offerings. Jean LMIM told Ralph that the more money the initial offering is sold for, the more income Ralph will have for capital growth. Too low a price will mean that his stock will increase rapidly in price, but the Widget Company will not get the money. Too high a price means that the stock may not sell, and Ralph will have no money for expansion. That was Jean's advice on how to determine what price the initial offering should be and how many shares to offer.





## Practice

Use the list below to complete the following statements. **One or more terms will be used more than once.**

corporations	sole
Mom and Pop	stockholders
partnerships	unlimited
Professional Associates	

1. A business owned by one individual is called a \_\_\_\_\_ proprietorship.
2. The vast majority of businesses in the United States are \_\_\_\_\_ proprietorships.
3. Sole proprietorships are sometimes called \_\_\_\_\_ businesses because many are family-owned and -operated.
4. The largest type of business organizations are \_\_\_\_\_.
5. \_\_\_\_\_ are allowed to sell securities (stocks and bonds) to the general public to raise money for the business.
6. Corporations are said to have \_\_\_\_\_ life because they do not have to reorganize when a stockholder dies or chooses to end his or her investment.
7. Businesses owned by two or more individuals are known as \_\_\_\_\_.



8. The letters *P.A.* stand for \_\_\_\_\_ , another name for partnerships.
  
9. Corporations are owned by \_\_\_\_\_ .



## Practice

Write **True** if the statement is correct. Write **False** if the statement is not correct.

- \_\_\_\_\_ 1. *Sole proprietorship* businesses make up 69 percent of all business organizations.
- \_\_\_\_\_ 2. *Corporations* make up the largest percentage of all business organizations.
- \_\_\_\_\_ 3. *Corporations* pay most of the wages earned in this country.
- \_\_\_\_\_ 4. *Partnerships* are often formed by doctors, lawyers, and engineers so they can share the cost of office space and help.
- \_\_\_\_\_ 5. When a bond *matures*, the bondholder must invest additional money in the corporation that issued the bond.
- \_\_\_\_\_ 6. Two types of stock are *preferred* and *common*.
- \_\_\_\_\_ 7. If a company earns a profit, its bondholders are guaranteed dividends.
- \_\_\_\_\_ 8. Owners of *common stock* have a vote in the operation of the company.



## Practice

Complete the chart below. Write the correct terms or phrases in each box.

Comparing Types of Business Organizations		
Type of Business	Advantages	Disadvantages
Sole Proprietorship	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
Partnership	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
Corporation	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____



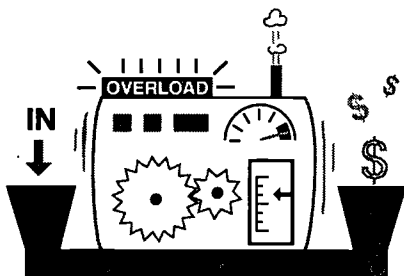
## Practice

*Businesses raise funds for operating the business, for expanding the business, etc., through three basic methods: A—retain company profits for reinvestment in the business; B—borrow money from outside sources; C—bring in new owners. Decide which method was used in each statement below. Write A, B, or C on each line.*

- \_\_\_\_\_ 1. The XYZ Corporation sold 5,000 shares of preferred stock.
- \_\_\_\_\_ 2. Wendy James borrowed \$5,000 from her parents to buy inventory for her new bicycle shop.
- \_\_\_\_\_ 3. Bill Barnes and Charles Cromwell sold partnership rights to Diane Daniels for \$10,000.
- \_\_\_\_\_ 4. Frank Fillman obtained a loan from First Federal for fertilizer and equipment for his plant nursery.
- \_\_\_\_\_ 5. ABC Corporation made a profit of \$500,000 in 1983. All but \$200,000 was distributed to stockholders.
- \_\_\_\_\_ 6. George and Gerard Gosnell obtained a business loan from Conbank of Atlanta, Georgia.
- \_\_\_\_\_ 7. The owner of a sole proprietorship turned her business into a partnership.



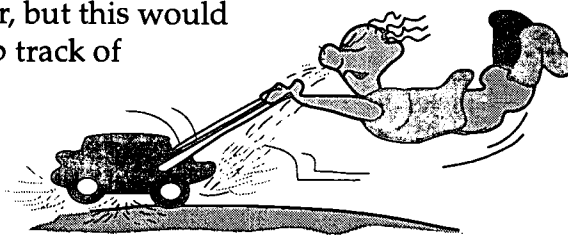
## Money: A Good Whose Sole Use Is As a Medium of Exchange



It is difficult for any economy to advance very far without the use of money. One of the earliest references of societies using money can be found in the Bible. And the ancient civilizations of Greece and Rome minted coins of gold, silver, and copper. But even before money was first created, people traded goods. The exchange of goods without the use of money is called *barter*.

Barter is a system of exchange. You have something someone wants, and someone has something you want. You trade one good for another. This situation is called a *double coincidence of wants*. It is just an accident, a coincidence of fact, that you both have goods of equal value and that you are both willing to trade. Barter requires this type of double coincidence in order to work.

If you want a car and someone wants you to cut his grass, you do not have a double coincidence. You could barter cutting his grass for the next 20 years for a car, but this would require some bookkeeping to keep track of the work.



Barter has worked in the past and is still used as a way of trading for goods in our modern society. Barter, however, is not flexible enough to drive economies of large societies such as ours. Just think if you had to wait until you could locate someone who wanted to exchange her graphite tennis racket with a 4 <sup>5</sup>/<sub>8</sub> inch grip for your leather jacket with your high school's name embroidered on the back. Good luck!

### Characteristics of Money

The first forms of money were very simple. In other countries, tobacco, wooden coins, and receipts from cotton warehouses were used for money. These early forms of money lacked the flexibility and widespread



acceptability of current money. In order for something to be used for money, it must meet the following characteristics:

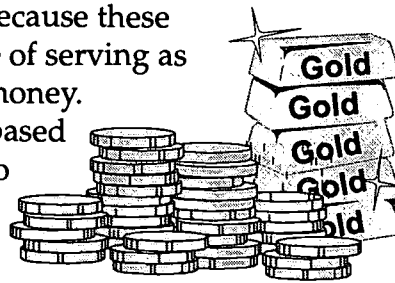
- **Durability.** Money should be able to stand up under constant use.
- **Portability.** Money needs to be small enough so it can be conveniently carried in clothes, pockets, or purses.
- **Divisibility.** Money must be made in various units. You should be able to make change. By having various units of money, goods of various value can be paid for, and change for larger units of money can be made. Barter, on the other hand, requires goods that are traded to be of equal value.
- **Uniformity.** Every bill and coin of the same value needs to look the same.
- **Ease of Recognition.** Money needs to be easily recognizable. Everyone knows what a dollar bill, a ten dollar bill, or a quarter looks like. We should also be able to recognize genuine money from counterfeit.
- **Relative Scarcity.** Money needs to be hard to manufacture. If it were possible to manufacture money as easily as any other good, we would be flooded with counterfeit currency. Our money is a hard-to-manufacture special paper and metal coins that have proven to be very difficult to duplicate. Money also could not be common substances like sand or clam shells that anyone could pick up on a beach. Money must be made of scarce or difficult-to-make goods.

### Types of Money: Species and Token

One of the earliest uses of precious (scarce) metals such as gold and silver was for money. Gold and silver coins meet all of the six characteristics above. Money made from gold or silver coins is called *species*. Some people call this *hard money*. In an economy as large as that of the United States, we do not have enough gold or silver to use as money. We use paper money (sometimes called *token money*) instead of species.



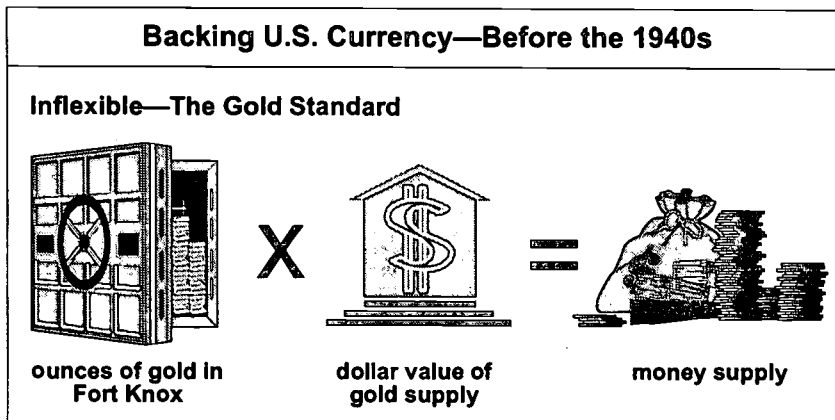
Gold and silver coins have value because people want these precious metals. We call their value *intrinsic* because these coins are valuable without the added purpose of serving as money. Paper money has no value except as money. The acceptance of paper money by people is based on the government's willingness to accept it to pay taxes and the willingness of business people to accept it as payment for goods.



**Legal tender** laws are government rules that require both the government and businesses to accept paper money for all debts both public and private. In the end, it is the acceptance of paper money by the people that makes paper money valuable. If the people lose faith in their government's ability to keep their paper money valuable, paper money will soon lose its value.

**What Makes Money Valuable? The Ability to Exchange Money for the Goods and Services Desired**

Keeping paper money valuable is called *backing the currency*. When the nation's currency was backed by gold, the equation for determining the nation's money supply looked like the one in the graphic shown below. The nation's money supply could not have been greater than the dollar value of its gold reserves.



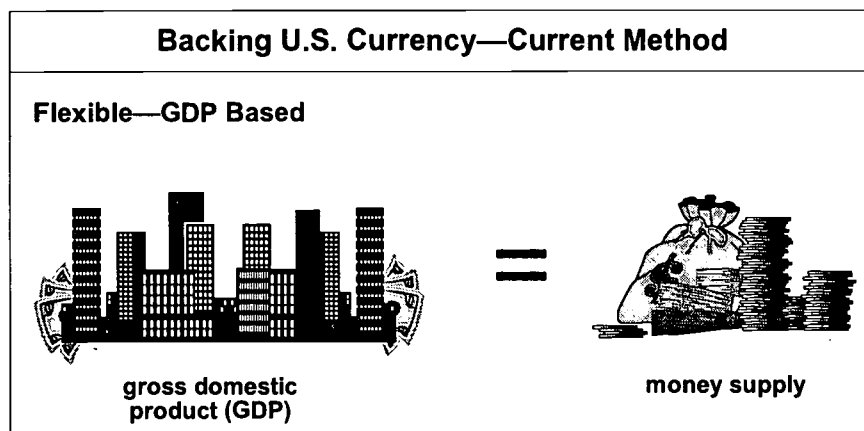
Using this equation, our country could have found itself producing more goods and services than there was money to purchase them. Unless we had discovered vast new gold or silver mining areas, or the price of gold





had suddenly gone up, we would not have had a very large supply of currency in the United States. We did not have enough gold in this country to issue only gold and silver coins. In the same way, we could not have issued paper money that could be redeemed in gold or silver coins. The United States gave up the gold standard, or backing its currency in gold, in the 1930s.

The government's solution was to back our currency with the dollar value of the nation's total production of goods and services each year. This figure is called the **gross domestic product (GDP)**. The government began using the new equation, shown below, to determine the money supply. The government now issues currency equal to the GDP, or the amount of goods and services produced in the United States in one year. Using this equation, we would always have enough money in circulation to buy all of the goods and services produced. It is a sensible plan and has met with the approval of our citizens since we left the gold standard.





## Practice

Use the list below to complete the following statements.

backing	goods and services	money
barter	intrinsic	species
double coincidence	legal tender	token

1. The exchange of goods without money is called \_\_\_\_\_ .
2. Barter requires a situation called \_\_\_\_\_ of wants in order to work.
3. In some countries tobacco, wooden coins, and receipts from cotton warehouses were used for \_\_\_\_\_ .
4. Gold and silver coins have \_\_\_\_\_ value.
5. Precious metal coins are called \_\_\_\_\_ , or hard money, while our paper money is called \_\_\_\_\_ money.
6. Government rules that require both the government and businesses to accept paper money are called \_\_\_\_\_ laws.
7. Keeping paper money valuable is called \_\_\_\_\_ the currency.
8. In the United States the currency is backed by the gross domestic product (GDP) or the production of \_\_\_\_\_ .



## Practice

Match each statement with the correct term. Write the letter on the line provided.

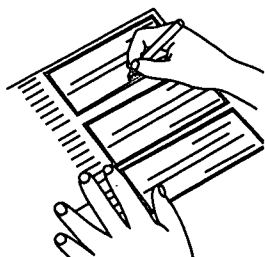
- |          |   |                        |
|----------|---|------------------------|
| _____ 1. | Everyone knows what it looks like.                          | A. divisibility        |
| _____ 2. | You can make change with different units.                   | B. durability          |
| _____ 3. | It can be carried in your pocket or purse.                  | C. ease of recognition |
| _____ 4. | The currency and coins will last despite constant handling. | D. portability         |
| _____ 5. | The money must be hard to duplicate and produce.            | E. relative scarcity   |
| _____ 6. | Currency of the same value must look alike.                 | F. uniformity          |



## The Role of Banking Institutions: Providing Money to Businesses and Consumers

### The Banking System

All financial institutions that provide banking services, whether they are commercial banks, savings and loan associations, or credit unions, serve their customers by offering some basic banking services. Each bank accepts money in the form of *deposits* from its customers.



Customers can deposit their money in either a checking or a savings account. Bankers refer to a checking account as a **demand deposit**: The bank must pay whomever the bank customer wrote the check to from the check writer's account, as long as the check writer has sufficient money in that account. Therefore, when you write a check, you are *demanding* that the bank cover your check with money from your account.

A savings account is called a **time deposit**. The longer the time you agree to keep your money in the bank, the higher the interest rate the bank will pay on your deposit. You can withdraw your money anytime from accounts called *passbook accounts*. Passbook accounts generally pay lower interest rates than those paid on time deposits. Accounts that require the depositor to leave money in the bank for months, or even years, are called *certificates of deposit* (or simply *CDs*).

The bank pays interest on deposits with the money it earns on loans made to customers. Loans are issued to pay for houses, cars, boats, or just regular purchases. A Visa or MasterCard purchase is, in fact, a form of a bank loan. You are charged interest on loans the bank makes to you. Credit cards are not money but loans of money.





## Case Study: Loans to Customers

### Credit Cards

Since we are talking about money, let's look at credit cards. First and foremost, credit cards are not money. Credit cards are loans from credit card issuers whom you pay back with interest.

When you pay for something using a credit card, you are in fact taking out a loan from the bank that issued the card. Many people use credit cards as a primary means of purchasing. However, some people do not use their credit cards in a responsible way. Often they end up buying more than they can pay in a reasonable period of time. The use of a credit card provides the



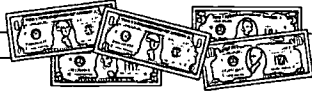
convenience of not carrying around much cash. It also allows you to buy some things today that you would otherwise have had to wait and buy after you had saved the money. Keep in mind that a credit card does not make goods and services cheaper; it only delays your having to pay for the items you buy. Indeed, if you do not pay your credit bill in full each month, the items you buy on credit will cost you more than if you purchased them with cash due to the interest you will have to pay for using the credit card as a loan from the issuer. When deciding whether to purchase items with a credit card, it is good to keep these things in mind.

To keep from overextending your money supply and using your credit cards to buy more than you can afford, keep track of your expenditures just as you keep track of the checks you write. A bad credit history will have a negative impact that can affect your individual financial life now and in the future.

## Banking Institutions

### Commercial Banks

All commercial banks in the United States must be members of the **Federal Reserve System (Fed)**. A commercial bank, sometimes called a *full service bank*, makes loans to both commercial and private customers. These banks are allowed by law to do all types of common banking functions,



including deposit banking such as checking and savings accounts; loans on commercial and private real estate (homes and businesses); car and boat loans; Visa and MasterCard loans; signature loans (loans for which there is no *collateral*—property offered to the bank in case you don't pay the loan). Commercial banks may also offer other banking services such as safety deposit boxes, financial advice, and trust departments, which handle the finances for people who *cannot, do not want to, or by law are not* allowed to handle their own banking. An example of a person with a trust account would be that of a 10-year-old movie star who earns millions of dollars per year. The bank would agree to oversee that person's money until he or she became 18 years of age and legally an adult.

Commercial banks are by far the largest financial institutions in the United States. The largest commercial banks in the United States finance huge projects such as shopping malls, office buildings, and even loans to the United States and foreign governments. Some commercial banks, called *private banks*, only take select commercial customers and do not even have lobbies or teller windows.

All of these commercial banks not only are required to be members of the *Federal Reserve System (Fed)* but are also required to be members of the Federal Deposit Insurance Corporation (FDIC), which was created in 1930. You've probably noticed those FDIC signs at the bank that say your deposits are insured up to \$100,000. The FDIC insures the consumers' deposits and helps to prevent a run on the bank. A *run on the bank* occurs when people panic and withdraw their deposits because they think the bank is running out of money. This happened in 1929 during the Great Depression but has not happened since the creation of the FDIC.

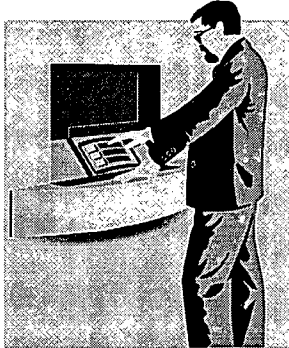
Commercial banks are chartered by both the federal government and state governments. That's how we get banks with names like *The Florida State Bank* or *First Federal Bank of [Your City]*. Regardless of which government body *charters* the bank (gives them a license to operate as a bank), all banks must join the FDIC and the Fed and obey the sound banking rules of those two agencies.



## Savings & Loan Associations and Credit Unions

Other banking institutions include savings and loan associations (S&Ls) and credit unions. Both of these institutions offer some of the same banking services offered by commercial banks. S&Ls were originally chartered to take in savings from consumers, pay a slightly higher rate of interest than commercial banks, and then use these deposits as loans to people wishing to buy houses. The government, through a series of recent changes in the law, no longer allows S&Ls to offer higher interest rates than commercial banks. Consequently, S&Ls have attracted fewer deposits, and the fewer deposits S&Ls have, the less money they can loan out for mortgages. S&Ls have also been hurt by a recent series of scandals in which S&Ls lost billions of dollars through poor financial practices.

A growing part of the banking business is in the hands of credit unions. Credit unions (CUs) are allowed to take in deposits and make most types of consumer loans. Credit unions, however, may not make most types of commercial loans. They may carry out transactions only with their members. Although their liberal rules allow many people to join credit unions, CUs are much more limited in whom their depositors may be and in the size and types of the loans they offer. Because CUs are not allowed to make a profit, they often provide their members with lower loan rates and higher rates for their deposits.



Electronic banking, which gives bank customers access to their accounts through automatic teller account cards, is offered by most financial institutions today. On a larger scale, banks transfer money between themselves and the Fed electronically. Less *actual* cash each year is moving through our banking system. Cash is becoming less and less a part of our banking system. Maybe someday we will become a cashless society that uses only plastic cards, paper checks, and electronic transfers of money.



## Practice

Use the list below to complete the following statements.

bank loan certificates of deposit demand deposit deposits	loaning private private banks savings account
--	--

1. Banks accept money from their customers in the form of \_\_\_\_\_ .
2. A checking account is referred to as a \_\_\_\_\_ by bankers.
3. A *time deposit* is another name for a \_\_\_\_\_ .
4. Accounts requiring depositors to leave deposits for months or even years are called \_\_\_\_\_ .
5. MasterCard and Visa purchases are a type of \_\_\_\_\_ .
6. Banks earn money by \_\_\_\_\_ out money to customers.
7. Commercial banks, also known as \_\_\_\_\_ , are by far the largest financial institutions in the United States.
8. \_\_\_\_\_ banks take only select commercial customers.





## Practice

Use the list below to complete the following statements.

charter	Federal Reserve System
commercial	house
electronic	members
Federal Deposit Insurance Corporation	withdraw

1. A *run on the bank* is a phrase used to describe a time when people panic and \_\_\_\_\_ their money from the bank.
2. Commercial banks must join two agencies:  
\_\_\_\_\_ and the  
\_\_\_\_\_.
3. Savings and loan associations were originally formed to loan their customers money for buying a \_\_\_\_\_.
4. Credit unions may only transact business with their  
\_\_\_\_\_ and may not make  
\_\_\_\_\_ loans.
5. To \_\_\_\_\_ a bank mean to give it a license to operate.
6. \_\_\_\_\_ banking may be done through automatic teller account cards.



## Practice

Write **True** if the statement is correct. Write **False** if the statement is not correct.

- \_\_\_\_\_ 1. A check written to Publix is an example of a *demand deposit*.
- \_\_\_\_\_ 2. A *deposit* is money a person places in an account in a bank.
- \_\_\_\_\_ 3. Visa and MasterCard are examples of bank loans that charge borrowers interest.
- \_\_\_\_\_ 4. A *certificate of deposit* requires you to keep your money in a bank for months, or even years.
- \_\_\_\_\_ 5. *Credit unions* can offer consumer loans, but they cannot offer commercial loans.
- \_\_\_\_\_ 6. Money in a commercial bank is not insured.
- \_\_\_\_\_ 7. *Collateral* is property a bank can keep if a borrower fails to repay a loan.
- \_\_\_\_\_ 8. Another name for the *Federal Reserve System* is the *Fed*.
- \_\_\_\_\_ 9. Credit cards are considered money, not loans from the card issuer.
- \_\_\_\_\_ 10. Credit cards allow people to consume goods and services.
- \_\_\_\_\_ 11. Credit cards can possibly ruin your financial credit history.



## Government Regulation of the Money Supply: The Federal Reserve System

The Federal Reserve System (Fed) is the national banking system of the United States. The Fed is responsible for increasing or decreasing the amount of money circulating in the United States. The regulation of the **money supply** is called *monetary policy*. The Fed establishes the monetary policy for our country.

### Organization of the Federal Reserve System


The Federal Reserve System was first organized in 1913 under the Federal Reserve Act. The Federal Reserve System includes a Board of Governors, 12 Federal Reserve Banks, and hundreds of member banks. The Board of Governors runs the Fed. The board creates policy—a plan—for the nation's banking system.

The seven-member Board of Governors for the Fed are appointed by the president and then confirmed by the Senate of the United States. Members of the Board of Governors are protected from the year-to-year politics of the government by their 14-year appointments. The chairperson of the Board of Governors (chairperson of the Fed) is appointed for a four-year term from among the members of the Board of Governors.

Twelve Federal Reserve Banks are spread out across the country. Each of these banks has its own district. These banks are owned by member banks located in each district. Member banks buy stock in the district Federal Reserve Bank, just as shareholders buy stock in a corporation.

Florida is served by the Sixth District Federal Reserve Bank located in Atlanta, Georgia. In addition, Florida has two branch Federal Reserve Banks, one in Jacksonville, one in Miami. Congress felt the country could be better met by Federal Reserve Banks within each area of the country rather than by one single Federal Bank.

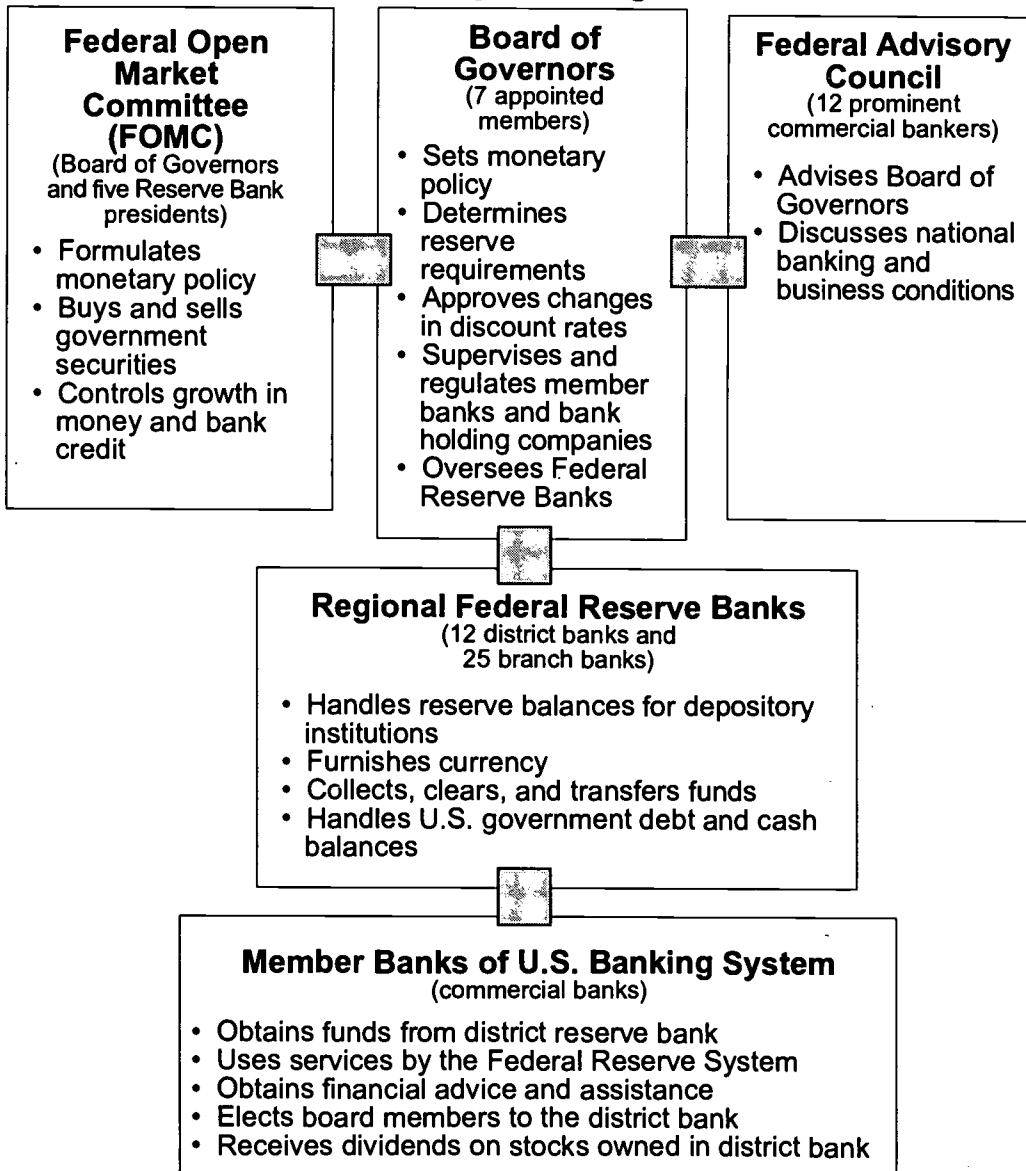
The Federal Reserve System also includes the Federal Open Market Committee and the Federal Advisory Council. The Federal Open Market Committee (FOMC) decides policy for buying and selling government securities. The Federal Advisory Council advises the Fed's Board of Governors on the nation's banking and business conditions.



The Fed regulates the money supply in three important ways.

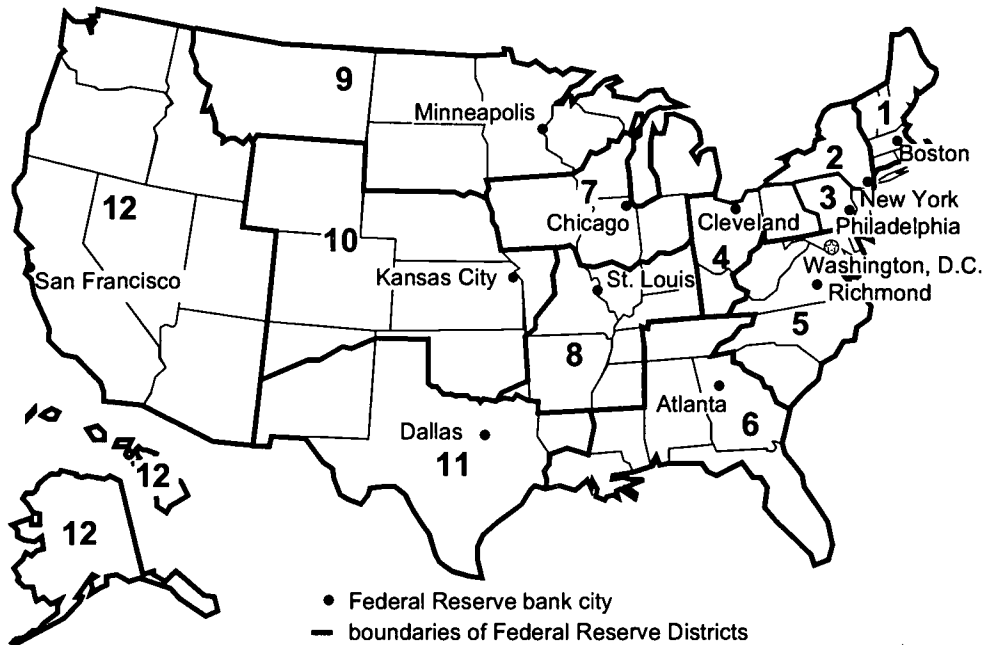
- The Fed sets the reserve requirement for banks.
- The Fed sets the **discount rate** for banks.
- The Fed operates the federal open-market operations.

### Federal Reserve System Organization Chart





## Federal Reserve Districts and Federal Reserve Bank Locations



### Reserve Requirements: A Means of Insuring and Regulating the Currency

The Fed sets the reserve requirements for banks. The reserve requirement is the percentage of the money a bank takes in as deposits that it may not loan to customers. Money held in reserve by banks is our guarantee that money will be available for banks to cover both the checks we write on our checking accounts and the withdrawals we make from our savings accounts. By regulating reserve requirements, the Fed is insuring the acceptability of our currency.

If banks are permitted to maintain a smaller percentage of their deposits as reserves, then each of their reserve dollars can support more deposit dollars. Financial institutions can then make more loans and create more deposits.

On the other hand, raising the reserve requirement means that each reserve dollar can support fewer deposits. The bank will then have to reduce the amount of money available for loans.

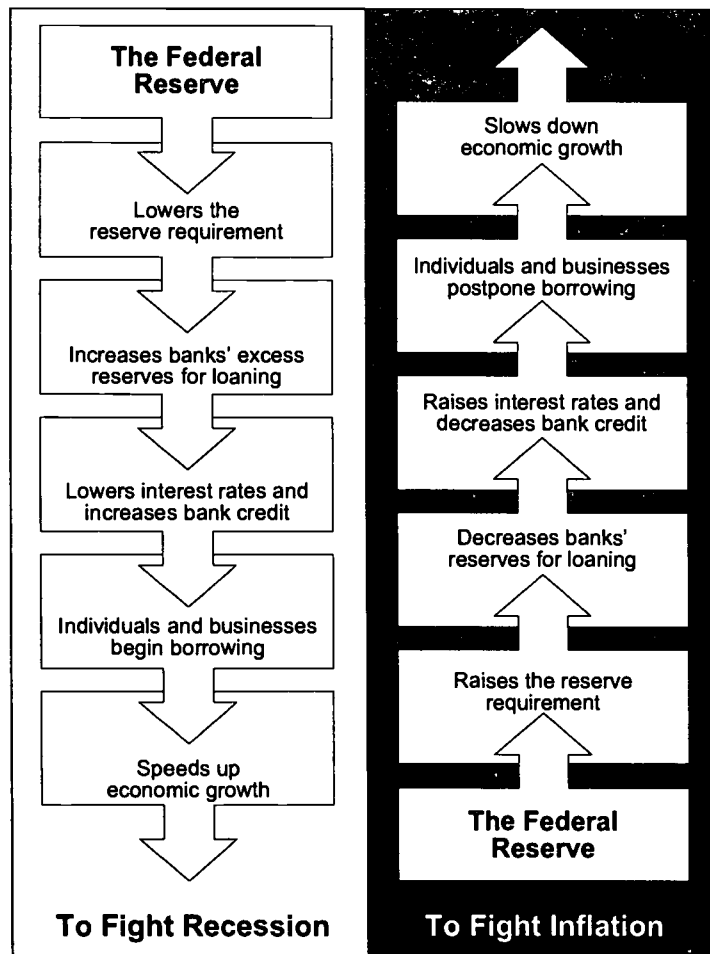
The value of loans a bank can make is tied directly to the reserve requirement. The lower the reserve requirement, the more the bank can loan out of each dollar it receives as deposits.



## The Discount Rate: Making Loans More and Less Attractive

The Fed also regulates the amount of money available by determining the discount (interest) rate. This rate is the interest financial institutions must pay on money borrowed from reserve banks. The Fed usually grants loans when financial institutions are faced with temporary or unusual operating needs.

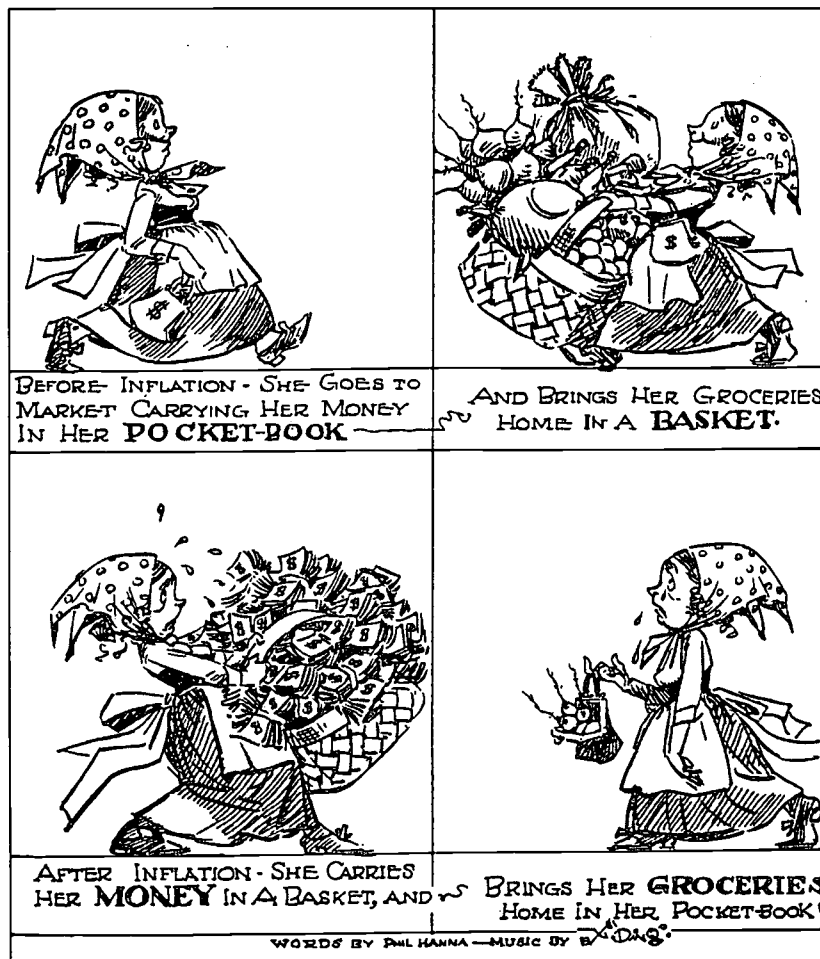
If the discount rate is raised, the higher cost of borrowing from the Fed may cause financial institutions to be more selective and grant fewer loans. Thus, less money will be circulated. If the discount rate is lowered, financial institutions may be willing to grant more loans because of the lower cost of borrowing. More money will then be circulated. Adjusting the discount rate is one way the Fed responds to periods of **inflation** and **recession**. A rise in the price of goods and services is called *inflation*. *Recession* describes a decrease in the demand for goods and services and a decline in the economy.





The government, businesses, and consumers prefer inflation to recession. However, if the inflation rate increases too quickly, prices will rise faster than people's income can be adjusted to those rising prices. Because of the increase, people will find themselves unable to buy goods and services they need and want. To meet the rising prices of products, people will borrow money until they run out of credit. As prices rise, fewer goods are produced, and goods will become scarce. The scarcer goods become, the higher their prices become. To counteract this situation, the Fed will raise the discount rate, causing the prime rate to go up. Borrowing will then be slowed, and prices will settle back down.

The Fed will respond to recession in the opposite way. It will lower the discount rate, causing the prime rate to fall. Borrowing will then increase, and the economy will rise.



Courtesy of the J. N. "Ding" Darling Foundation



## Open-Market Operations

The Fed can also regulate the money supply by buying and selling United States government securities on the open market. This tool the Fed uses is known as *open-market operations*. These operations are run by the Federal Open Market Committee (FOMC).

When the Fed wants to increase the money supply, it *buys* government securities sold by businesses or member banks to raise funds. In this open-market operation, the Fed can put money into circulation.

When the Fed wants to decrease the money supply, it *sells* government securities. The Fed will then take the money it has received from its sales out of circulation.

The FOMC sets guidelines and objectives for open-market operations. Actual day-to-day purchases or sales of securities are made through the Federal Reserve Bank of New York.

## Case Study: The Fed in Action

### The Prime Rate

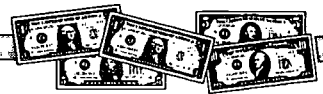
Your Hometown Bank has a customer, the New City Car Dealer, who often borrows money from the Hometown Bank to pay for new cars ordered from the factory but not yet sold to customers. The New City Car Dealer regularly borrows a million dollars from the bank and pays back the loan within a month.

One day the owner of the New City Car Dealer has a thought: "Why don't we set up a tent at the County Fairgrounds and sell lots of cars?" The owner of the New City Car Dealer goes to the bank and requests \$15,000,000 for the big tent sale. Not wanting to admit the Hometown Bank isn't large enough to have \$15,000,000 on hand, the Hometown banker says, "No problem. I'll have an answer on your loan request tomorrow."



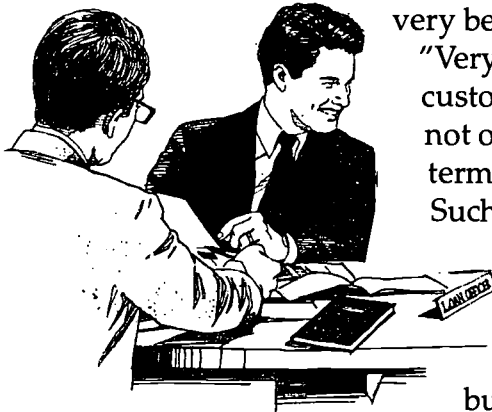
The Hometown Bank then calls the nearest Federal Reserve System Bank and asks for a loan. A quick check by the Fed establishes the





fact that the Hometown Bank is a good credit risk. Hometown has paid back all the money it ever borrowed from the Fed. The Fed loans the money to Hometown Bank. The next day the Hometown banker calls up the owner of the New City Car Dealer and says the money for his tent sale has been placed in his account.

The loan made by the Hometown Bank to the New City Car Dealer is called a *prime rate loan*. The **prime interest rate** is the interest rate charged by a bank to its very best customers for short-term loans.



"Very best customers" means commercial customers like the New City Car Dealer, not ordinary bank customers. "Short-term" usually means 90 days or less.

Such loans are often made to business people to buy goods for resale to customers, to builders who are building a house for a customer and need money to purchase building supplies, or to other

businesses to pay their employees or other expenses until enough money comes in from sales. In order to get a prime rate loan, a commercial customer must have always paid back loans on time.

In this series of loans between the Fed, the Hometown Bank, and the New City Car Dealer, everyone wins. The customers get a great car sale; the dealer sells lots of cars; the manufacturer makes and sells lots of cars; the bank makes some money on its loan; and the Fed has done its job of providing the currency needed to make the whole deal go through.

### **Another Function of the Federal Reserve System: Clearinghouse for Checks**

A function of the Fed that does not affect the regulation of the money supply has to do with acting as a clearinghouse for checks. *Clearing a check* means having the money you promised someone in a check you wrote delivered from your checking account. Follow the check clearing cycle in the graphic on the following page.

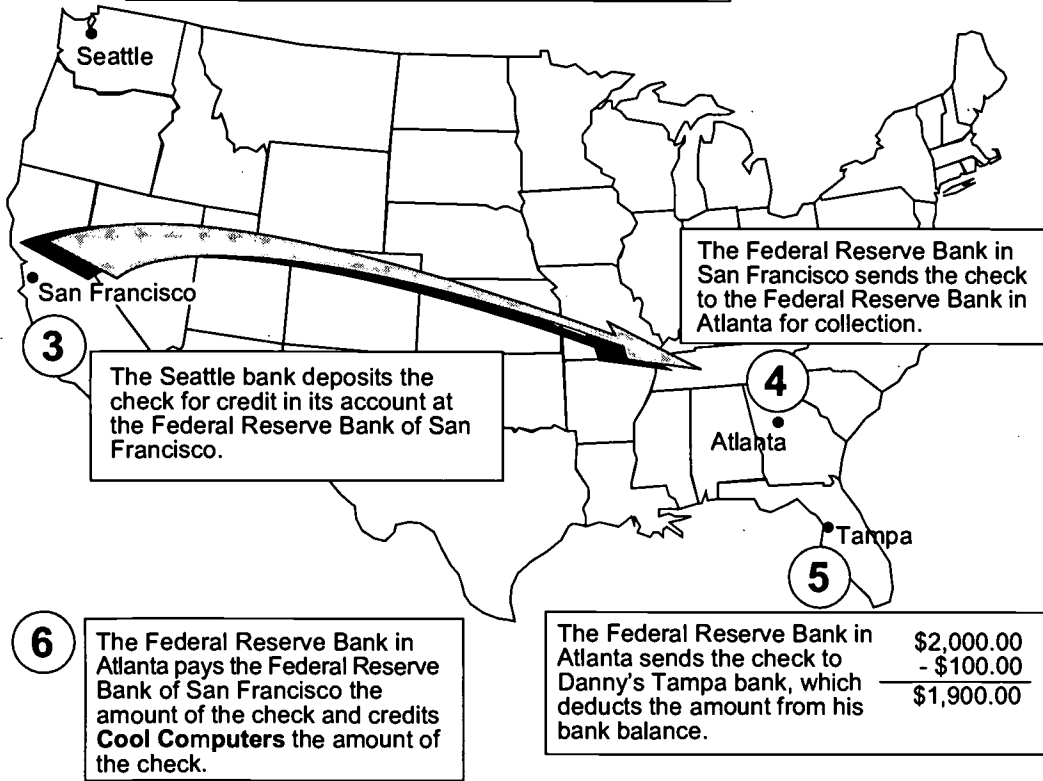


## Clearing a Check

**1** Danny Dolphin of Tampa, Florida, buys a computer part from **Cool Computers** in Seattle, Washington and pays with a check from his hometown bank in Tampa.

**2** **Cool Computers** deposits Danny's check in their Seattle bank. Danny's \$100 check is added to the **Cool Computer** bank account.

\$10,000.00
+ \$100.00
\$10,100.00



In summation, the Federal Reserve System is largely responsible for controlling the nation's money supply. The seven-appointed Board of Governors, 12 Federal Reserve Banks, and hundreds of member banks make up the Federal Reserve System. In regulating the money supply, the Fed uses the reserve requirement, open-market operations, and the discount rate.



## Practice

Use the list below to complete the following statements.

<b>buys</b>	<b>increases</b>	<b>money supply</b>
<b>discount rate</b>	<b>lends</b>	<b>reserves</b>
<b>Fed</b>	<b>loans</b>	<b>securities</b>

### Changing the Discount Rate

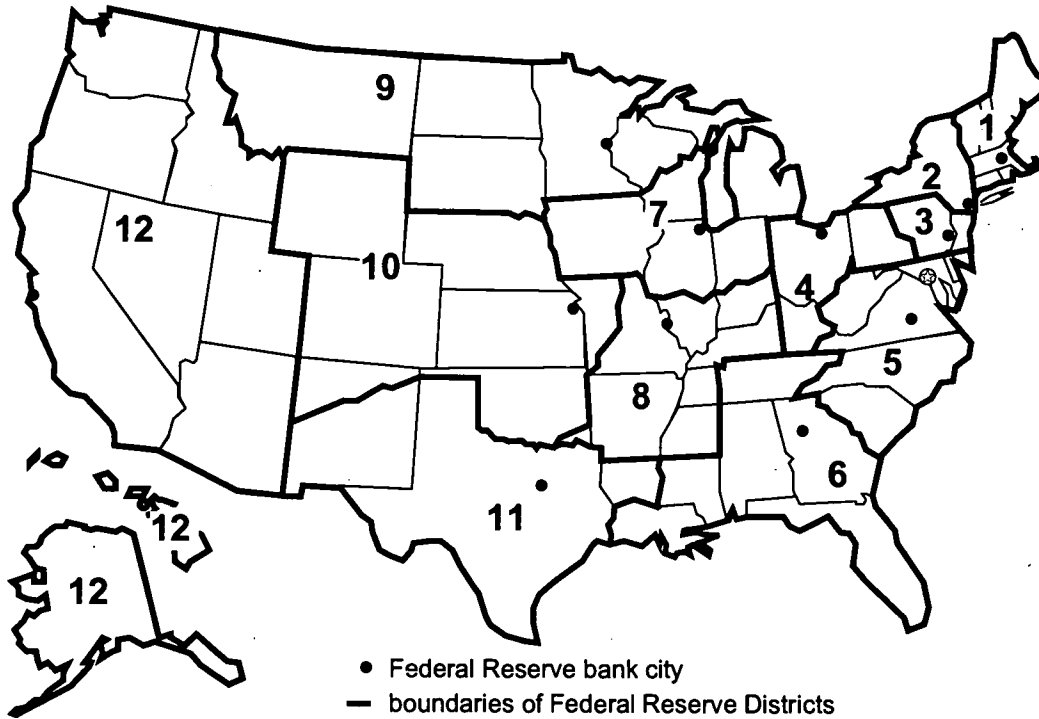
1. The Federal Reserve Banks \_\_\_\_\_ money to other banks.
2. The interest rate the Fed charges for temporary loans to member banks is the \_\_\_\_\_.
3. When the Federal Reserve raises its interest rate, banks will grant fewer \_\_\_\_\_ to customers.

### Open Market Operations

4. The Federal Reserve buys and sells \_\_\_\_\_.  
When the Fed \_\_\_\_\_ securities, the payments increase the bank's \_\_\_\_\_, enabling the banks to make more loans.
5. The Federal Reserve sells securities to decrease the \_\_\_\_\_.

### Reserve Requirements

6. Reserve requirements for banks are set by the \_\_\_\_\_.
7. As the reserve requirement decreases, the money for loans \_\_\_\_\_.



San Francisco, CA  
Dallas, TX  
Richmond, VA  
Kansas City, MO

Boston, MA  
Minneapolis, MN  
St. Louis, MO  
Cleveland, OH

Atlanta, GA  
Chicago, IL  
Philadelphia, PA  
New York, NY

Refer to the map and the cities above. Write the name of the city that corresponds to the number of each of the 12 Federal Reserve Bank districts.

8. (1) \_\_\_\_\_ (7) \_\_\_\_\_  
(2) \_\_\_\_\_ (8) \_\_\_\_\_  
(3) \_\_\_\_\_ (9) \_\_\_\_\_  
(4) \_\_\_\_\_ (10) \_\_\_\_\_  
(5) \_\_\_\_\_ (11) \_\_\_\_\_  
(6) \_\_\_\_\_ (12) \_\_\_\_\_



## Practice

Write **True** if the statement is correct. Write **False** if the statement is not correct. Circle all statements that are **false** and rewrite them to make them correct. Be prepared to defend all answers.

- \_\_\_\_\_ 1. The *Federal Reserve System* establishes the monetary policy.

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- \_\_\_\_\_ 2. One way the Fed regulates money supply is by adjusting the discount rate.

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- \_\_\_\_\_ 3. Banks may loan out all of their customers' deposits.

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- \_\_\_\_\_ 4. The *money supply* is the money that the bank holds in reserve—does not loan out.

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- \_\_\_\_\_ 5. In the United States money in circulation is the *money supply*.

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- \_\_\_\_\_ 6. The amount of money a bank is permitted to loan depends upon its *reserve requirement*.
- \_\_\_\_\_ 7. A *recession* is a sustained increase in the average level of prices.
- \_\_\_\_\_ 8. The FOMC determines the buying and selling of government securities.
- \_\_\_\_\_ 9. When the Fed lowers the *discount rate*, banks are less likely to make loans since their cost of borrowing money from the Fed has increased.
- \_\_\_\_\_ 10. When the Fed lowers *reserve requirements*, banks are able to make more loan money available.



- \_\_\_\_\_ 11. When the Fed buys government securities from businesses and banks, it is putting more money in circulation.
- \_\_\_\_\_ 12. The main responsibility of the Fed is to increase or decrease the money supply.
- \_\_\_\_\_ 13. The *discount rate* is the interest charged by a bank for short-term loans to its best customers.
- \_\_\_\_\_ 14. One way the Fed responds to *inflation* is by lowering the discount rate.
- \_\_\_\_\_ 15. One way the Fed responds to *recession* is by lowering the discount rate.



## Practice

In each of the pairs in the chart below check the **effect** that each **action** would have. Read the following information to help you decide.

*Monetary policy* refers to the regulation of the money supply. *Fiscal policy* refers to the government's decisions on taxation and government spending. Both monetary and fiscal policy can be used to help fight the common economic problems of inflation and recession. During *inflation*, the government works to decrease available money. During a *recession*, the government works to increase available money.

Monetary and Fiscal Policy		
Policy	Fight Inflation	Fight Recession
a. Increase reserve requirements		
b. Decrease reserve requirements		
a. Buy government securities		
b. Sell government securities		
a. Lower the discount rate		
b. Raise the discount rate		
a. Increase government spending		
b. Reduce government spending		
a. Raise taxes		
b. Lower taxes		





## Summary

The term *economic institutions* refers to much more than just the buildings in which financial transactions take place. It also refers to business and financial practices.

The ways in which businesses compete often depends on the type of product they sell. Some products are so expensive to produce that only a few sellers have the resources to compete. This form of competition is called an *oligopoly*. In a *pure monopoly*, the government permits a single company to be the only seller of product. A *public utility* is a good example of this form of competition.

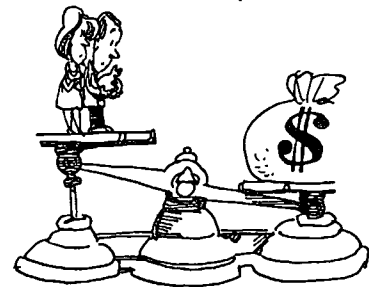
In *monopolistic competition*, the huge resources of a few companies permit them to dominate a market. These companies often use their wealth to advertise their product and drive smaller companies away. In *pure competition*, many sellers are able to sell their product in the marketplace. Farm products, for example, are often sold in pure competition.

Businesses organize themselves in different ways. Smaller businesses are often *sole proprietorships* (single owners) or *partnerships* (two or more owners). These types of businesses can often make decisions quickly. However, their ability to raise capital for operating costs or expansion is limited.

*Corporations* are owned by their investors (through stock holdings). Corporations tend to be the producers of more expensive products, such as automobiles and dishwashers. They also tend to be the only business organizations with enough capital to carry out costly research and development needed to produce medical drugs.

*Barter* was the first form of exchange between people. The economies of advanced societies, however, are based on *money*.

The supply of money in this country is regulated by the *Federal Reserve System (Fed)*. The Fed uses different ways to increase and decrease the *money supply*. The Fed does this in an attempt to keep the economy healthy and in response to *inflation* and *recession*.





## Practice

Answer the following using complete sentences.

1. The United States has laws against *monopolies*. For example, when one telephone company became so large that it dominated telephone service in this country, the government forced it to split into several smaller companies. How does this law against monopolies protect consumers?

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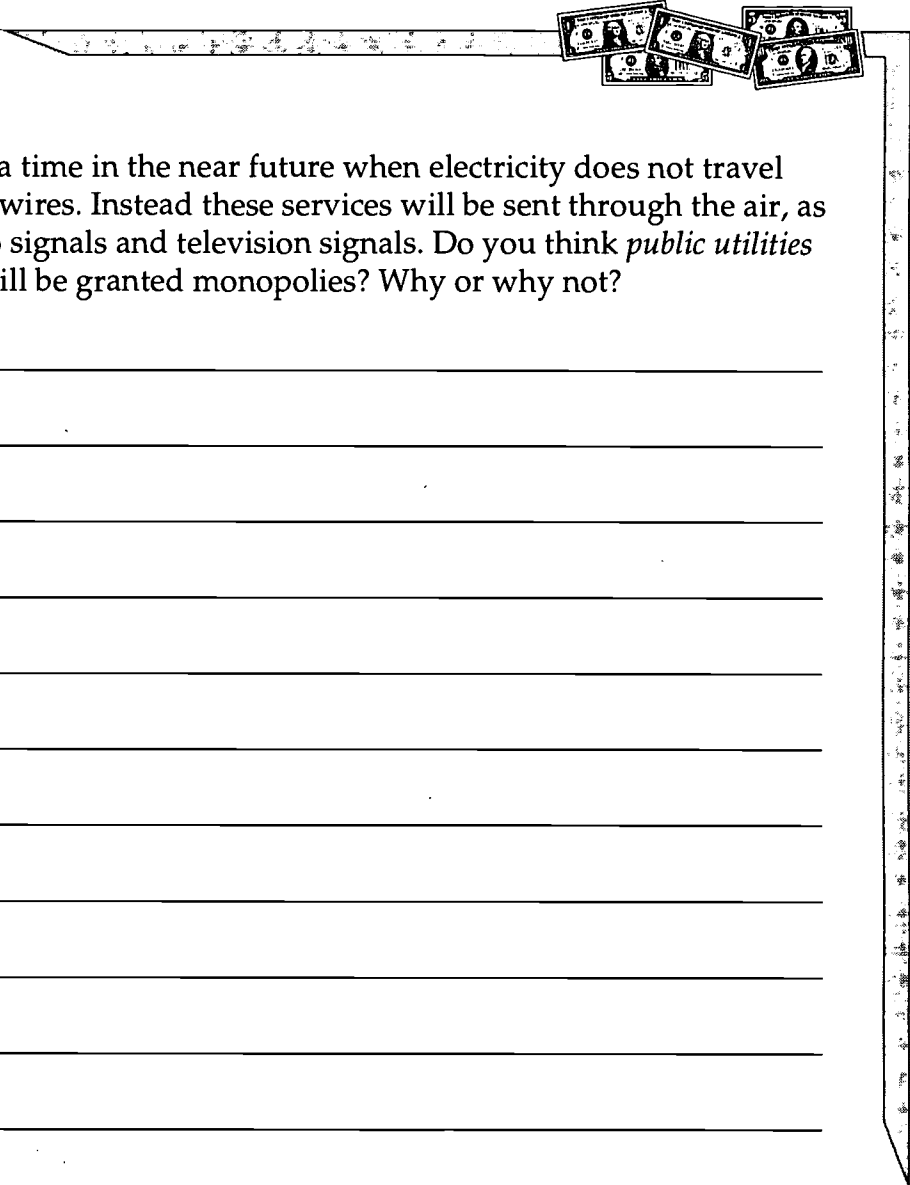
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2. Imagine a time in the near future when electricity does not travel through wires. Instead these services will be sent through the air, as are radio signals and television signals. Do you think *public utilities* would still be granted monopolies? Why or why not?

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3. *Electronic banking* is growing. Many transactions are now done through computers, and many economists see a future in which there is no cash. All transactions will be electronic. You will carry a card that has the amount of your savings imprinted on it. When you buy something, you will simply use your card, and the cost of your purchase will electronically be deducted from your savings. What would be the benefit of this method? What would be a potential problem?

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## Practice

Match each definition with the correct term. Write the letter on the line provided.

- |           |   |                                 |
|-----------|---|---------------------------------|
| _____ 1.  | a business owned by one person  | A. Federal Reserve System (Fed) |
| _____ 2.  | a company granted exclusive control of a good or service offered to the public such as an electric company                                  | B. inflation                    |
| _____ 3.  | decrease in demand for goods and services and an increase in unemployment leading to a decline in the economy                               | C. legal tender                 |
| _____ 4.  | a market in which many independent sellers offer the same goods and service   | D. monopolistic competition     |
| _____ 5.  | a market in which there is only one seller of a product   | E. oligopoly                    |
| _____ 6.  | a system in which there are only a few sellers in the marketplace   | F. public utility               |
| _____ 7.  | a United States government agency whose basic role is to control the nation's money supply  | G. pure competition             |
| _____ 8.  | a sustained increase in the average level of prices of goods and services   | H. pure monopoly                |
| _____ 9.  | the market condition that exists when only a few sellers have the resources to produce a particular good, such as an automobile or aircraft | I. recession                    |
| _____ 10. | currency that may be lawfully offered in payment of debts   | J. sole proprietorship          |



## Practice

Match each definition with the correct term. Write the letter on the line provided.

- |  |                                 |
|--|---------------------------------|
| _____ 1. exclusive control of a commodity or service in a particular market  | A. corporation                  |
| _____ 2. the interest rate charged by a bank to its best customers for a short-term loan                                 | B. demand deposit               |
| _____ 3. the total value of goods and services produced in one year in a nation  | C. discount rate                |
| _____ 4. a form of business ownership that allows a company by law to exist and conduct business affairs in its own name | D. gross domestic product (GDP) |
| _____ 5. funds deposited in a bank that are available upon demand, such as a checking account                            | E. money supply                 |
| _____ 6. the amount of money in circulation  | F. monopoly                     |
| _____ 7. a business owned by two or more persons   | G. partnership                  |
| _____ 8. the interest rate charged by the Federal Reserve System for temporary loans to its member banks                 | H. prime interest rate          |
| _____ 9. deposits with specific maturity periods, such as a certificate of deposit                                       | I. time deposit                 |

## Unit 5: Taxes—Government Revenue

This unit emphasizes how local, state, and national governments collect and use taxes to generate *government revenue* and to pay for services they provide and programs they operate.

### Unit Focus

- government sources of income: sales tax, income tax, excise tax, and property tax
- ways local, state, and federal governments use taxes
- criteria used to determine the composition of taxes
- three types of taxes: *progressive*, *regressive*, and *proportional* taxes



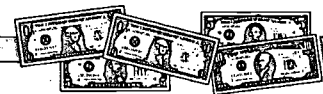


## Vocabulary

Study the vocabulary words and definitions below.

- excise tax** ..... a tax by the government on the manufacture, sale, or use of certain products  
*Examples:* gasoline, luxury cars, alcohol, tobacco
- government revenue** ..... tax dollars received by government
- income tax** ..... a tax on earned income that is paid to a local, state, or national government
- progressive tax** ..... a tax that increases as income level increases  
*Example:* federal income tax
- property tax** ..... a tax paid on the assessed value of land and buildings
- proportional tax** ..... a tax that takes the same percentage in taxes from all income levels  
*Example:* sales tax
- regressive tax** ..... a tax that takes a higher percentage from lower income levels than higher incomes  
*Example:* Social Security
- sales tax** ..... taxes paid on some goods or services purchased; based on a percentage of the selling price



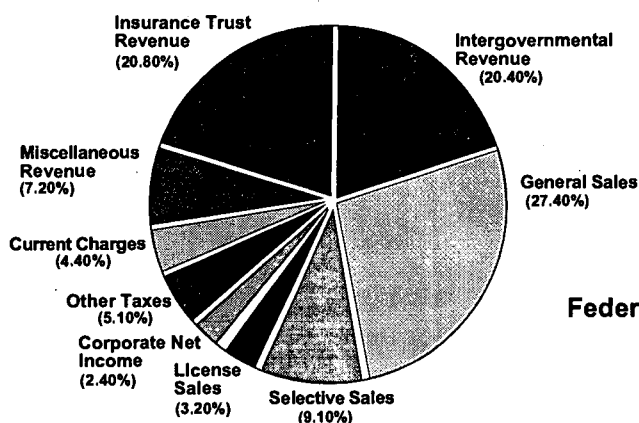


## Introduction

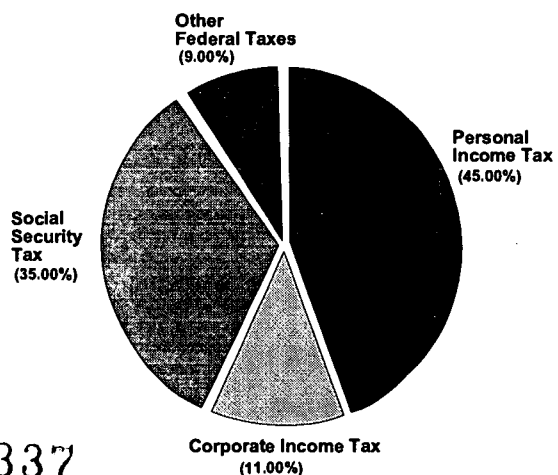
For a government to operate, it must have a constant and reliable source of income. A government gains some of that income by taxing its citizens or taking a share of its citizens' earnings and wealth. Government at all levels needs money in order to pay its expenses. For example, **property tax** is collected by local governments to run school systems. **Sales tax** is collected by state governments to repair roads and provide many state benefits. An **income tax** is collected by the federal government to fund national defense programs, run national agencies such as the Federal Bureau of Investigation (FBI) and Central Intelligence Agency (CIA), and to support hundreds, even thousands, of federal programs to improve the lives of its people. All of these taxes paid by the people make up **government revenue**.

The State of Florida collects one of the largest sums of government revenue of any state government in the United States. The graphs below show the major areas of revenue for both the State of Florida and the federal government.

**Florida Tax Revenue Sources: 1996**



**Federal Tax Revenue Sources: 1996**

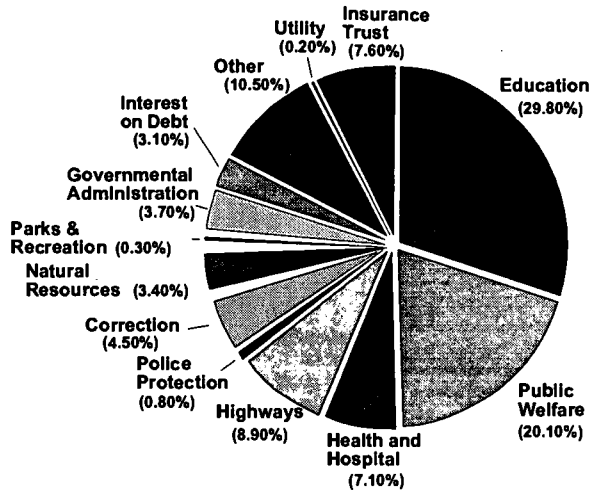


Source: U.S. Bureau of the Census.

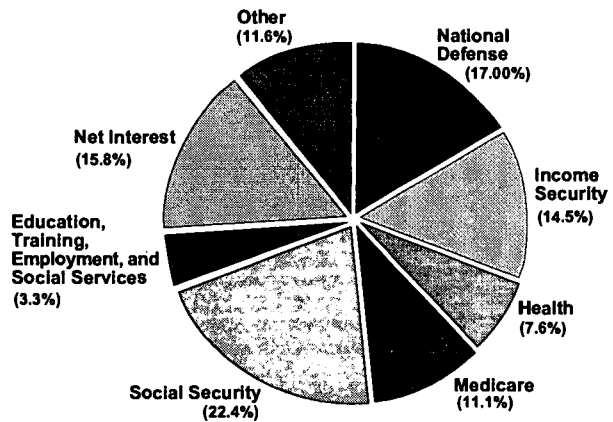


The graphs below show the major areas of expenditures for both the State of Florida and the federal governments for 1996.

**Florida Expenditures: 1996**



**Federal Expenditures: 1996**



Source: U.S. Bureau of the Census.



## How Our Government Determines Taxes



Taxes collected by government have five important characteristics. They are *ease of administration, understandability, fairness, flexibility, and adequacy of revenue.*

### Ease of Administration

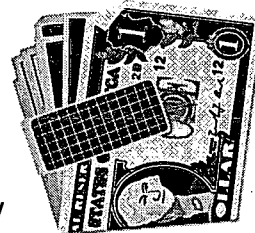
The tax should be easy to collect. Tax collection should not require a large enforcement staff, yet it should be difficult for citizens to avoid payment.

Imagine that you are driving down the Florida Turnpike when you see a sign that says: "PAY TOLL AHEAD." As you approach the toll gate, you see another sign on which the State of Florida has listed the toll for your vehicle. You pay the toll collector, the automatic arm lifts, and you are on your way. This tax is *easy to collect* and *difficult to avoid paying*. A turnpike toll is an example of a tax that meets the *ease of administration* requirement for taxes.

### Understandability

Tax laws should be easy to comprehend by both taxpayers and tax collectors.

Consider that I recently found a shirt I wanted to buy. I brought the shirt to the cashier, and he punched in the purchase price of \$14.00 on his register. The register automatically calculated the shirt's selling price *plus the sales tax*. The total cost showed up on the sales slip as \$14.98—the cost of the shirt plus a seven percent sales tax of \$0.98. Both the clerk and I knew that sales tax is seven percent, and if either of us wished to, we could have easily checked the register's calculation. Neither of us needed to be tax lawyers to know that shirts—and many other goods and services—are taxable items. The sales tax on the purchase of the shirt is an example of a tax that meets the *understandability* requirement for taxes.





## Fairness

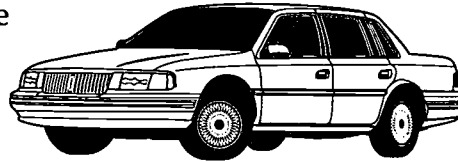
Tax laws should be imposed and enforced equally on each taxpayer.

A student who graduated from high school found a job paying \$12,000 a year unloading trucks for a shipping company. The person has to pay \$1800.00 a year in federal income taxes. The owner of the trucking company, on the other hand, earns \$120,000 a year from his business. The owner pays \$26,000 a year in federal income tax. The owner earns more than the worker and so is able to pay a *higher rate* of taxes. The federal income tax is an example of a tax that meets the *fairness* requirement for taxes.

## Flexibility

Tax laws should not have to be changed when economic conditions change.

If a person buys a \$50,000 car, he or she will have to pay the federal **excise tax** on luxury cars. An *excise tax* is an additional tax the government collects on certain goods to either regulate or limit their sale or to raise additional revenue. If a year later the buyer's wages increase and she decides to buy a \$70,000 luxury car, the government will collect more in excise tax. When the economy is growing, the excise tax revenue will increase; in bad times the amount of revenue collected decreases. Therefore, the federal excise tax meets the *flexibility* requirement for taxes.




## Adequacy of Revenue

The money collected through taxes should be enough to meet government needs.



When you buy gasoline from the gas station, some of the money goes to the federal, some to the state, and some to the local government to build and maintain our roads. While we would like better roads to be built, most citizens agree that we have a fine system of roads in the United States. The



gasoline tax adequately provides for road building and maintenance. Therefore, this tax is an example of tax that meets the *adequacy of revenue* requirement for a fair tax.

### Three Types of Taxes: Progressive Taxes, Regressive Taxes, and Proportional Taxes

Almost all taxpayers are concerned about how much they pay in taxes. The best way for people to determine how much tax they pay is to figure their taxes as an effective tax rate. An *effective tax rate* is the percentage of a person's income he or she pays in taxes.

Let's look at the effective tax rate of Joanne Walters. Joanne made \$10,000 last year and paid \$1,000 in taxes. Therefore, her effective tax rate was 10 percent. You can figure this rate by dividing the tax she paid, \$1,000, by the wages she earned, \$10,000. ( $1,000 \div \$10,000 = .1$  or 10 percent)



Taxes are classified according to how the effective tax rates are adjusted in relation to a taxpayer's earnings. A tax is termed a **progressive tax** if the effective tax rate increases as a person's income increases. For example, a person who makes \$10,000 a year may have an effective tax rate of 10 percent, whereas a person who makes \$15,000 may have an effective tax rate of 15 percent. Income tax is an example of a progressive tax.

A tax is termed a **regressive tax** if the effective tax rate decreases as a person's income increases. Consider, for example, John and Wendy, both of whom use the same type and amount of gasoline each week. Each pays \$300 a year in taxes on the gasoline they purchase. John makes \$30,000 a year. He pays one percent of his income in taxes on gasoline. However, Wendy makes \$300,000 a year. She pays only 0.1 percent of her income in taxes on gasoline. And if Wendy's income goes up, the percentage of her wages she will pay in taxes on gasoline will go down.

A tax is termed a **proportional tax** if the effective tax rate stays the same regardless of a person's income. In this case, a person making \$10,000 a year and a person making \$15,000 a year both would be taxed at an effective tax rate of 10 percent.



Remember, taxes are created to raise revenue or to limit or regulate the use of products and services. Taxes are used for schools, roads, police and fire protection, national defense, and other government functions. Look at the government office pages of the telephone book to get an idea of the variety of agencies supported by taxes at the federal, state, and local level.

## Case Study: Importance of Taxes

### Shay's Rebellion

In 1781 the United States adopted the Articles of Confederation as the basis for the new government. The Articles placed severe limits on the national government to prevent abuses of power such as they had experienced under the rule of Great Britain. The Articles placed greater emphasis on states' rights.

The Articles gave states the power to issue their own money and to impose taxes on themselves and other states with whom they traded. This led to many quarrels and disagreements as states levied higher and higher taxes on their own citizens and others to raise money.

In 1786 Daniel Shay, a veteran of the Revolutionary War and farmer from Massachusetts, was deep in debt and extremely angry about the high taxes in Massachusetts. Shay organized a protest along with 1,200 other poor, angry farmers against the Massachusetts government, which at the time was the most powerful economic state government in the United States.



Shay's Rebellion was eventually controlled by the Massachusetts militia but not before it caused panic throughout the nation. Every state had farmers who were in debt. Would the rebellion spread?

The national government could not issue money nor could they raise taxes. This left the country vulnerable or open to conflict both at home and from abroad. Because the national government had such severe limits placed upon it, it was unable to



solve many of the country's problems. It became apparent to the leaders of the nation that a stronger national government was needed.

In May of 1787, delegates from all the states except Rhode Island met in Philadelphia to strengthen the Articles of Confederation. Within days, the Articles were thrown out, and the delegates decided to form a whole new government. After four months of debate and compromise, a flexible constitution was finally created which has stood the test of time and is still in place today. One of the most important powers the new constitution provided for was a system of taxation shared by both the national and state government.



## Practice

Use the list below to complete the following statements. One or more terms will be used more than once.

excise income progressive	property proportional	regressive sales
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1. Jean went to the store to buy a soft drink. It was 55 cents plus seven cents tax. The seven cents tax she paid was a(n) \_\_\_\_\_ tax.
2. Mr. Greene has a savings account at his bank. His dividends for this year were \$200. He had to pay the government a \$20 tax on these dividends. The \$20 he paid was a(n) \_\_\_\_\_ tax.
3. Joe has a part-time job at the grocery store. His first paycheck was \$54.20. The government collected a tax of \$5.42 on that salary. This is called a(n) \_\_\_\_\_ tax.
4. Mrs. Brown put 10 gallons of gas in her car. She paid a five cents tax on each gallon that is intended to regulate her use of gas. The five cents tax she paid was a(n) \_\_\_\_\_ tax.
5. John took his car to the mechanic to be repaired. This bill was \$120, including a tax of \$6. John paid a(n) \_\_\_\_\_ tax.
6. Mr. and Mrs. George bought a new house for \$52,300. The county sent them a bill for taxes of \$932 for one year. The bill was a(n) \_\_\_\_\_ tax.





7. When each person pays a three percent tax regardless of his or her level of income, the tax is called a(n) \_\_\_\_\_ tax.
8. A tax levied at one percent on the first \$1,000 of income, two percent on the next \$1,000, and three percent on the next \$1,000 is a(n) \_\_\_\_\_ tax.
9. A tax levied at 15 percent on the first \$1,000 of income, 12 percent on the next \$1,000, and so on is a(n) \_\_\_\_\_ tax.
10. Ms. Fernandez made \$40,000 a year as a banker. She had to pay \$5,000 tax to the national government. This is a(n) \_\_\_\_\_ tax.



## Practice

*Answer the following using complete sentences.*

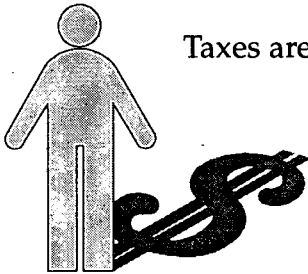
1. Governments collect taxes at what three levels? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. What are three examples of services that are provided with tax dollars? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. What type of tax is paid on goods and services? \_\_\_\_\_  
\_\_\_\_\_
4. What type of tax is paid on individual salaries or dividends on savings accounts? \_\_\_\_\_  
\_\_\_\_\_
5. What type of tax is based on the value of property? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
6. What type of additional tax is paid on gasoline, luxury cars, and other goods? \_\_\_\_\_  
\_\_\_\_\_



## Summary

Local, state, and national governments use taxes as a way to generate *government revenue*. Governments use revenues to pay for services they provide and programs they operate.

Governments attempt to make the taxes they charge citizens and businesses workable. They do this by making taxes (1) easy to administer, (2) understandable, (3) fair, (4) flexible, and (5) adequate.



Taxes are described in three different ways. The *progressive tax* takes a greater percentage from those taxpayers earning larger incomes. The *regressive tax* takes a smaller percentage from those taxpayers earning a larger income. And the *proportional tax* takes the same percentage from all earned incomes.



## Practice

Answer the following using complete sentences.

1. Chandra makes \$25,000 a year. Dan makes \$17,000. Both spend \$3,000 a year on food. In the state where Chandra and Dan live, the sales tax on food is seven percent. On their \$3,000 food bill, Chandra and Dan each pay \$210 in sales tax.

Why is the tax they pay considered a *regressive tax*? \_\_\_\_\_

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2. What are 10 different ways the local, state, and federal governments spend tax dollars? \_\_\_\_\_

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3. What is the importance of a national tax? \_\_\_\_\_

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4. What change did Shay's Rebellion bring about? \_\_\_\_\_

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## Practice

Match each definition with the correct term. Write the letter on the line provided.

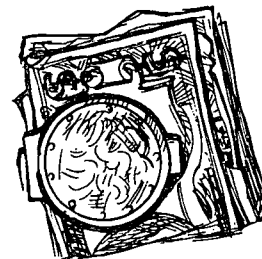
- |          |  |                       |
|----------|--|-----------------------|
| _____ 1. | a tax based on the assessed value of land and buildings  | A. excise tax         |
| _____ 2. | a tax by the government on the manufacture, sale, or use of certain products like alcohol, gasoline, and tobacco | B. government revenue |
| _____ 3. | a tax on earned income that is paid to a local, state, or national government                                    | C. income tax         |
| _____ 4. | a tax that increases as income level increases   | D. progressive tax    |
| _____ 5. | a tax that takes a higher percentage from lower income levels than higher income levels                          | E. property tax       |
| _____ 6. | taxes paid on some goods or services purchased; based on a percentage of the selling price                       | F. proportional tax   |
| _____ 7. | tax dollars received by the government   | G. regressive tax     |
| _____ 8. | a tax that takes the same percentage in taxes from all income levels   | H. sales tax          |

## Unit 6: Examining the American Economy

This unit focuses on ways of measuring the American economy that help economists develop strategies to improve the *rate of economic growth* and to develop solutions to problems in the economy.

### Unit Focus

- *gross domestic product (GDP)*, *consumer price index (CPI)*, and *gross personal income (GPI)* as measurements of the American economy
- how taxes affect disposable or *net personal income*
- concept of *comparative advantage*
- purpose of tariffs that the United States levies
- pros and cons of NAFTA
- how the unemployment rate is measured and factors that affect it





## Vocabulary

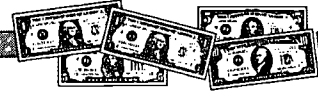
*Study the vocabulary words and definitions below.*

- comparative advantage** ..... an ability to produce a good more efficiently than others
- consumer price index (CPI)** ..... a measure of the price changes in consumer goods and services used to identify changes in the cost of living
- cyclical unemployment** ..... loss of jobs caused by periodic decreases in the growth of business
- depression** ..... a *prolonged* downturn in the economy, characterized by high unemployment and widespread loss of income
- disposable personal income** ..... the amount of income that households have to spend or save after payment of personal taxes; net personal income
- exports** ..... goods and services produced in one country and sold to other countries
- frictional unemployment** ..... temporary loss of jobs caused by the changing of seasons and shifting of employees to new jobs
- gross domestic product (GDP)** ... the total value of goods and services produced in one year within the borders of a nation by whoever produces them
- gross national product (GNP)** ..... the total value of goods and services produced in one year by a nation's residents no matter where they are located

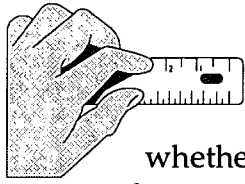




- gross personal income (GPI)** ..... the amount of money earned by all individuals in a country in one year
- imports** ..... goods and services bought by one country from another
- inflation** ..... a sustained increase in the average price of goods and services resulting in a loss of the purchasing power of money
- interdependence** ..... in economics, the notion that people and countries throughout the world need the goods produced by other people and countries
- international trade** ..... trade between countries
- prosperity** ..... a period of economic growth; a general increase in the demand for goods and services
- recession** ..... a downturn in the economy, characterized by a decrease in business activity; a decrease in demand for goods and services and an increase in unemployment leading to a decline in the economy
- structural unemployment** ..... loss of jobs caused by a shift in the way work is done, leaving some individuals without the skills necessary for available jobs
- tariff** ..... a tax placed on imported goods



## Introduction



Economists analyze the health of the economy by using certain tools or measurements. The **gross domestic product (GDP)**, **gross personal income (GPI)**, and the **consumer price index (CPI)** measure whether the economy is growing or shrinking. Knowledge of the state of the economy helps the government, industry, and consumers plan strategies for maintaining or improving the rate of economic growth. Unemployment is another very important indicator in understanding the economic growth rate—just ask anyone who is out of work and looking for a job. To reduce high unemployment rates, economists use economic measuring tools first to research the state of the economy and then to offer solutions.

### Three Tools for Measuring Economic Growth: Gross Domestic Product, Gross Personal Income, and Consumer Price Index

#### Gross Domestic Product (GDP): Measuring the Quantity of Goods and Services a Country Produces

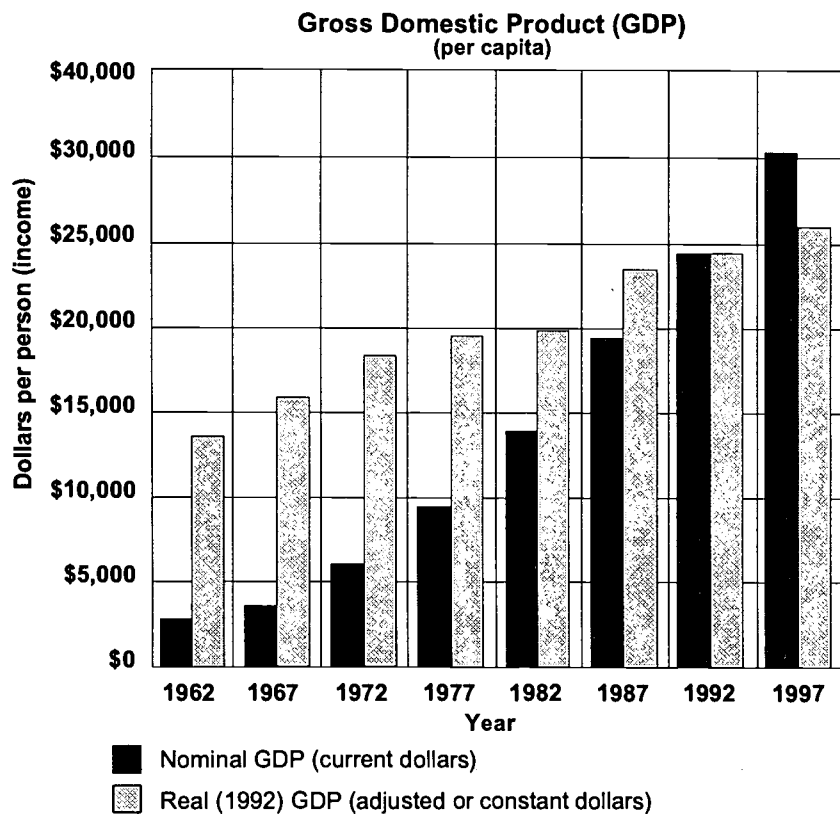
The gross domestic product is the most important measurement of economic growth. The *GDP*, as it is most often called, is the measurement of the total dollar value of all final or finished goods and services produced in a country within one year *within a nation's borders* by whoever produces them. Beginning in November of 1991, the United States Department of Commerce switched emphasis to GDP from the **gross national product (GNP)**. The GNP is the measurement of the total dollar value of all finished goods and services produced in one year by a nation's residents *no matter where they are located*. The shift reflects that the GDP has become more closely related to changes in economic factors, such as unemployment.

The United States government gathers figures for the GDP from leading corporations and small businesses. Some of the important documents the government uses to gather this data are sales tax reports by small businesses, corporate financial statements, and business tax reports. When gathering data for this report, the government must be certain to include only the final cost of goods and services produced. It would not be accurate to add the cost of bricks, wood, cement, and shingles, as well as

the final selling price of a house, in calculating the value of a home. To include both figures would double the true wealth actually created in the production of a house.

The GDP would also not be an accurate measurement of the country's wealth if economists did not distinguish between growth and **inflation**. Growth is a real indicator of wealth. Inflation, on the other hand, only shows an increase in the price for goods and services, not an increase in the production of those goods and services.

The GDP that has *not* been adjusted for inflation is called the *nominal GDP*. The *nominal GDP* is reported in *current* dollars. The GDP that *has* been adjusted for inflation is called the *adjusted GDP* or *real GDP*. The *adjusted GDP* is listed in *constant* dollars.



Source: U.S. Bureau of Economic Analysis.

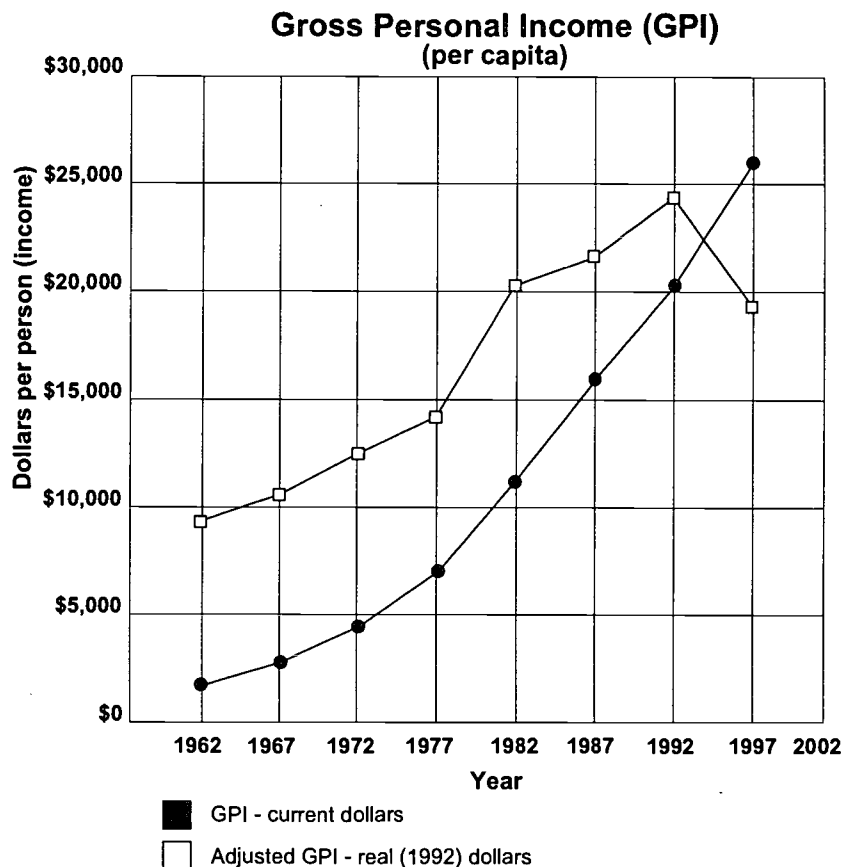
The graph above also illustrates the importance of distinguishing between the nominal GDP and the adjusted GDP. The billion-dollar difference shown in 1997 between the nominal and real GDP is all inflation.



The *per capita* GDP, or gross domestic product per person, is a statistic calculated by dividing the GDP by the population of the country. When a country experiences an increase in its *per capita* GDP, its economy is usually growing, and its people are increasing their ability to buy the goods and services they desire.

### Gross Personal Income (GPI): Measuring the Amount of Money People Earn

Using the figures from the GDP and adding such important figures as gross personal income (GPI), or the amount of money earned by all Americans, an additional set of measurements can be made of the country's economic growth and economic stability.



Source: U.S. Bureau of Economic Analysis.

The graph above on the *per capita* GPI and adjusted personal income is an indication of the average person's ability to buy goods and services. In periods of **prosperity**, personal income will increase greatly. Periods of



**recession** or **depression** will show a drop in personal income, with an accompanying inability to buy goods and services.

*Net personal income* or **disposable personal income** is a measurement of how much money people have after paying their taxes. The more money people have after paying their taxes, the more goods and services they can buy. Money taken from income in the form of taxes is used for spending by our federal, state, and local governments. For example, in 1997 the average person's GPI was \$25,660, while his or her disposable income was \$20,478. The difference was money taken in the form of taxes.



### **Consumer Price Index (CPI): A Measurement of the Changes in Prices of Products Commonly Purchased by Most Consumers**

Suppose you wanted to know how the price of a new car has changed or will change. In 2000 the new car costs \$15,000 and in 2001 the price is \$16,500.

$$\begin{aligned} \text{percentage change in price} &= \frac{\$16,500 - \$15,000}{\$15,000} \times 100 \\ \text{percentage change in price} &= \frac{\$1,500}{\$15,000} \times 100 \\ \text{percentage change in price} &= 10\% \end{aligned}$$

Ten percent would be the percentage increase in a single price (of the car) from one year to the next. However, economists are more interested in what has happened to prices in general than what has happened to a single price.

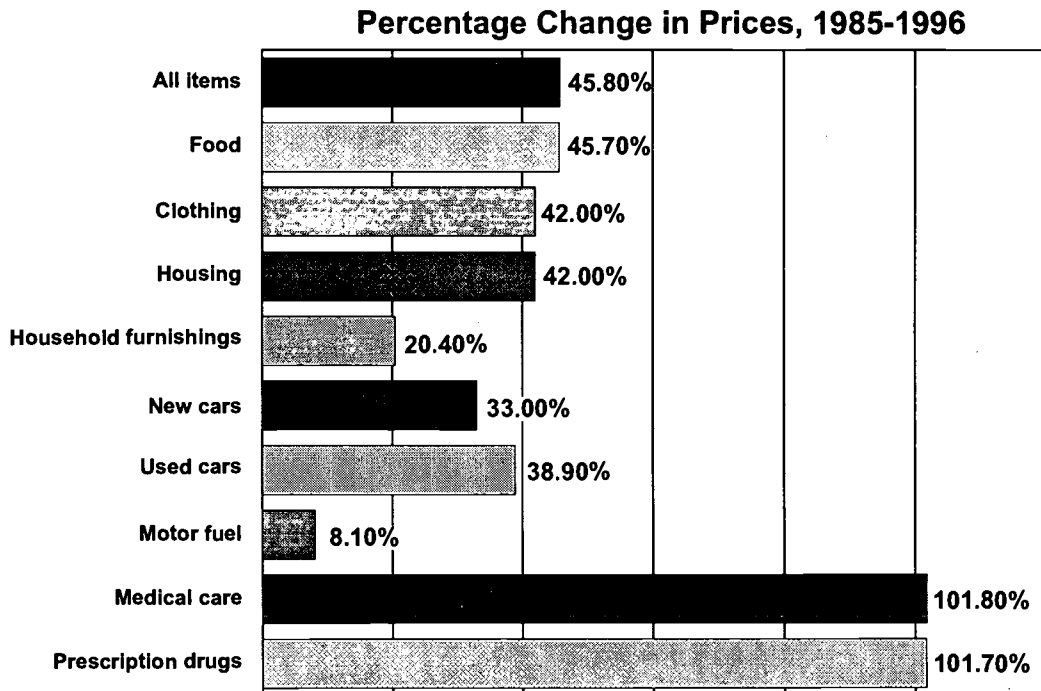
Economists compute a *price index*, which is a measure of the average level of prices. The CPI is calculated by the United States Bureau of Labor Statistics. The Bureau samples thousands of households to determine what consumers have paid for a representative group of goods known as the *market basket*. This cost is compared with the same market basket in 1982-1984.



The CPI is a measurement of the changes in the cost of living. The *cost of living* is really a phrase to describe what it costs for a person to buy those goods that he or she either needs to buy in order to live or wants to buy in order to live a pleasant lifestyle.

You have seen the grocery store ads in which one store claims that its prices are cheaper than another store's prices. Its ads show you a shopping cart full of food from both stores with a price tag on each shopping cart. The grocery store then claims that its prices for the same shopping cart full of goods are cheaper than those of a rival store.

The CPI also looks at a variety of goods and calculates their cost. However, instead of comparing grocery store shopping carts full of goods, the government figures out the cost of 400 goods frequently bought by consumers. The CPI is figured by comparing what those goods would have cost in one year to what they would cost in another. See the graph below of the percentage change in prices of selected goods from 1985-1996.

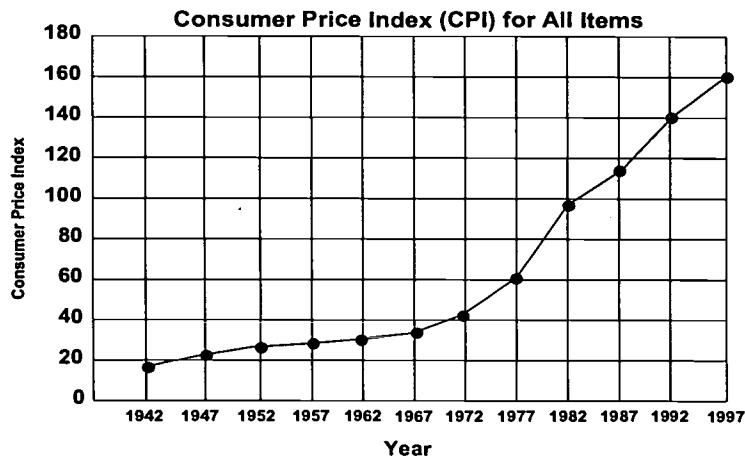


Source: U.S. Bureau of the Census.



The CPI compares the current price of goods with prices of goods for the index period—the years 1982–84. The CPI assigns the value of 100 to the price of goods in the index period. For example, note that in the graph below, the index of 160.5 in 1997 for all goods means that, compared to the index period of 1982–84, the average price of goods has increased by 60.5 percent. When the CPI is compared against another year, we can determine its increase. For example, in the United States in 1996, the CPI was 156.9. One year later in 1997, the CPI was 160.5. By using the CPI and gross personal income (GPI statistics), the government can predict which consumers will be able to buy desired goods and services.

The CPI is not a perfect measurement of the changes in the cost of living. A higher CPI is not able to reflect the often better quality of today's television sets, automobiles, and other goods. So although consumers may be paying more, they may also be getting more for their money. In some cases, goods have gone down in cost, both in nominal and relative cost, because increases in technology have lowered the cost of making some goods. Computers and calculators are examples of goods that can be manufactured more cheaply in 2000 than in the years 1982-84.



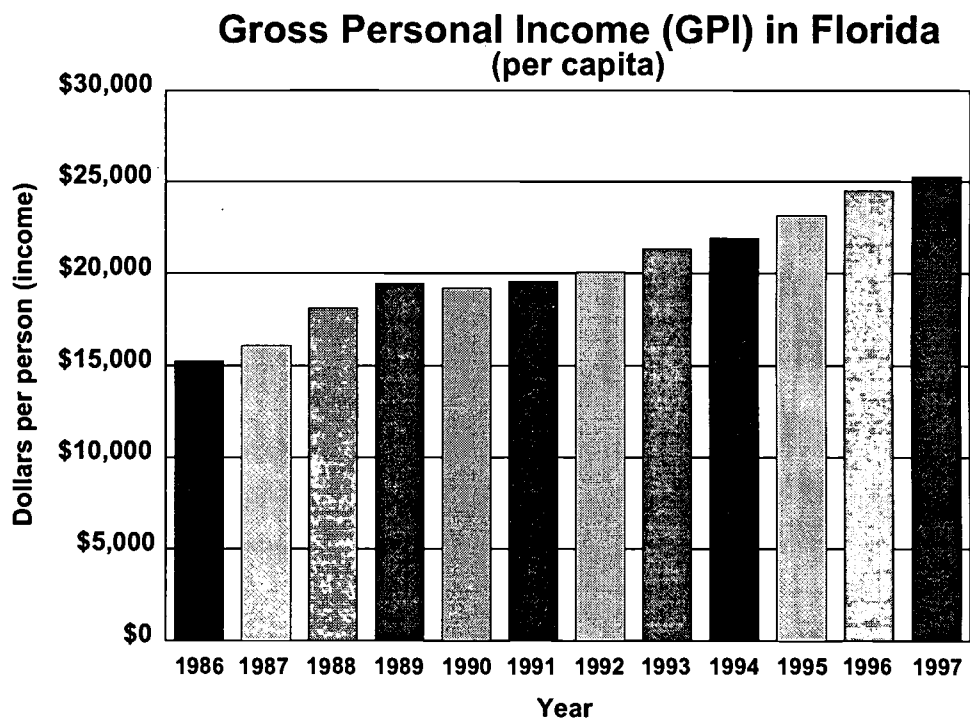
(Current prices of goods are compared with prices of goods for the index period of years 1982-1984.)

Source: Bureau of Labor Statistics.



## Practice

Use the graph below to answer the following using short answers.



Source: U. S. Bureau of Economic Analysis.

1. In which year was the GPI in Florida the highest? \_\_\_\_\_  
The lowest? \_\_\_\_\_
2. What was the difference in income between the lowest and the highest years? \_\_\_\_\_  
\_\_\_\_\_





3. What has the trend in the last three years shown? \_\_\_\_\_

\_\_\_\_\_

4. If the trend shown continued, what would the GPI of Floridians be  
in 2002? \_\_\_\_\_

\_\_\_\_\_

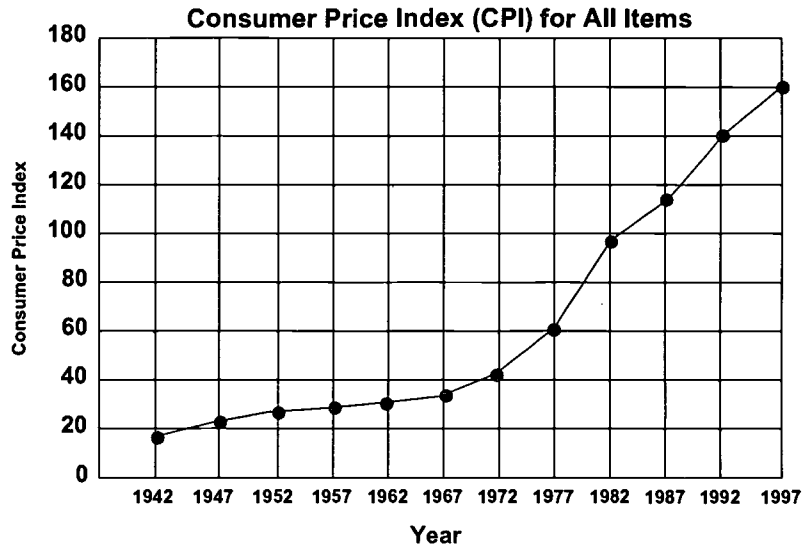
\_\_\_\_\_

\_\_\_\_\_



## Practice

Use the graph below to answer the following using short answers.



(Current prices of goods are compared with prices of goods for the index period of years 1982-1984.)

Source: U.S. Bureau of Labor Statistics.

1. What is the interval between years shown on the graph? \_\_\_\_\_

\_\_\_\_\_

2. After what year did the consumer price level begin to rise rapidly?

3. How would you describe the changes between 1977 and 1982? \_\_\_\_\_

\_\_\_\_\_

4. If the trend shown continued, what would the CPI be in 2002? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



## Interdependence: Connections between People and Nations

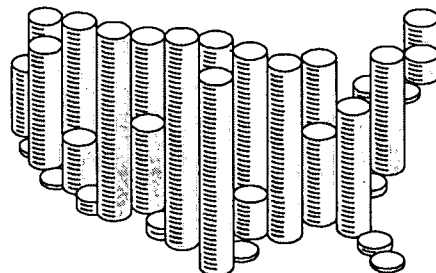
Economies are made up of people buying and selling goods and services. At the local level, you may buy farm produce grown at a nearby farm. This kind of transaction was the most common type before new methods of transportation connected distant cities in the 20<sup>th</sup> century. As these means of transportation—railroads, trucks, ships, and planes—bridged great distances, ways of buying and selling began to change. Florida orange growers began to ship their produce to people in Iowa who desired fresh citrus. And Iowa farmers began shipping their corn to Florida for Floridians to enjoy.

Entrepreneurs built factories along rivers in cities. These factories produced steel, rubber, paint, and many other products. Steel manufactured in Pittsburgh was transported to Detroit for use in automobiles. Paint produced in Cleveland was shipped all over the country for builders to use on houses and skyscrapers. Over time, the country became a giant web: Both raw materials and finished goods were shipped from one city or town to another. People in the South became dependent on the North for automobiles and steel. And people in the North became dependent on the South for citrus, cotton, and pecans.

Today this giant web includes more than just the United States. **Interdependence** and **international trade** have developed between most of the nations in the world. Much of the coffee that Americans begin their day with is grown in Brazil. Some of the wool in our sweaters comes from Australia. Many of our televisions, sound systems, and computers come from Japan. Silk is shipped from China, and cotton is imported from India.

The United States sells many goods and raw materials to these and other countries throughout the world. Much of the wheat grown in the Great Plains is shipped to Asia and Europe. Steel is exported to Great Britain.

The list of **imports** and **exports** goes on and on. One thing you can be sure of is that most of the goods you own were made someplace else—in another city, state, or country—and shipped to your city. And if you live in a manufacturing or agricultural area, most of what is produced in your locale is transported someplace else.



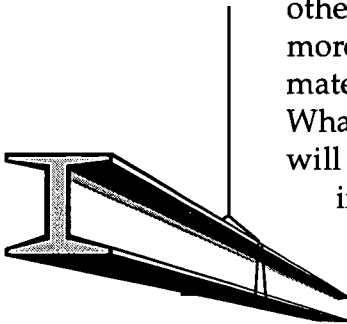


## Comparative Advantage: Nations Trade What They Make Most Cheaply

Why does Great Britain use its capital resources to manufacture cloth? Why do Japan and Germany produce electronic equipment? And why does the United States manufacture steel, paint, and aircraft?

In many cases, a country will grow products, manufacture goods, or harvest raw materials that give it a **comparative advantage**. Simply put, countries often trade those products they can produce more efficiently or more cheaply than other countries. For example, the United States produces steel and aircraft because it can do so more cheaply than most other countries. Some of the resources once used to produce other goods—such as cloth—have been shifted to the steel and aircraft industries.

But the United States can also produce other products, such as cloth, more cheaply than many other countries. Why, one might ask, would the United States shift some of its resources from the production of cloth to the production of steel? The answer is a matter of math: the United States is three times more efficient in producing steel than many other countries, but is only twice as efficient in producing cloth than other countries. Therefore, the United States will gain more wealth by using more of its resources—raw materials, money, and labor—to produce steel. Whatever steel is not needed within the United States will then be exported. In turn, the United States will import cloth from those nations with a *comparative advantage* in the manufacturing of cloth.

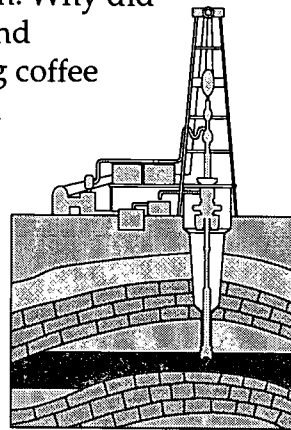


Even though Great Britain can also produce steel more efficiently than cloth, it has shifted some of its resources from steel to cloth manufacturing. Why? Because in comparison to the United States, Great Britain is at a lesser disadvantage in its production of cloth than in its production of steel. In the same way that workers in factories often specialize in one task or skill, so nations also specialize in the production of certain goods.



## A Nation's Resources: Why Nations Make Certain Goods

As we answer one question, up pops another question. Why did the United States ever begin producing steel, paint, and aircraft? Why did Brazil begin growing and exporting coffee beans? Why did the Middle Eastern nations ever drill wells for crude oil? Because each of these nations had particular and unique *special resources*. Special resources include anything from the raw materials found in the earth to the skills and education of the people.



One of the reasons the United States began producing steel is because of our country's natural resources. We have the raw materials to make steel: huge deposits of iron ore and coal. In addition to these raw materials, the United States also has the capital resources—money and machinery to manufacture steel—and the labor, or workers. The United States has combined its natural resources and capital resources to produce a comparative advantage in the production of steel.

Brazil uses its special resources—its climate and soil—for growing coffee beans. Nations in the Middle East have a comparative cost advantage in crude oil, simply because that is where most of the crude oil in the world can be found and drilled.

## Nations Need the Goods Produced by Other Nations

Most countries cannot live on the goods they produce. They must trade with other countries to obtain necessary goods. So, for example, the Middle East trades its crude oil to nations without crude oil, such as the Western European nations. Nations in Western Europe trade their computers and aircraft to the Middle East and to Brazil, and to a hundred other countries. Brazil trades its coffee to the United States. The United States trades its steel to Brazil. If we were to draw lines on a map between those countries trading with one another, we would see a complex web of trading that illustrates this point: most of the countries throughout the world are dependent on one another for goods. The world is interdependent.



## A Case Study: Trade Agreements with Other Nations

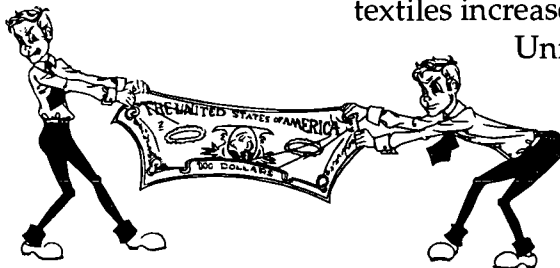
### North American Free Trade Agreement (NAFTA)

In 1993 the United States signed a trade agreement with Mexico and Canada. This agreement is called the *North American Free Trade Agreement (NAFTA)*. NAFTA's goal for the United States, Mexico, and Canada is to begin a free-trade agreement between the three nations over a period of time. Until this trade agreement was ratified, these three nations had imposed **tariffs** on many goods entering their country from their two North American neighbors. A *tariff* is a tax charged by a government on goods imported to its country. NAFTA will eliminate almost all tariffs its member nations charge each other.

### Why Charge Tariffs on Imports

Why do nations impose tariffs on imported goods? A tariff will increase the price at which an imported good is offered to consumers. Take, for example, textiles—woven or knitted cloth—imported from Mexico to the United States. As these goods were shipped over the border, the United States government collected a tax. This tax increased the price of the textile when it was offered on the American market.

By artificially raising the price of imported Mexican textiles, the United States government hoped to accomplish a number of goals. A consumer in the United States would be less likely to buy Mexican textiles after a tariff was added to its price. Instead, a consumer would be more likely to buy textiles produced in the United States. When the sale of American textiles increases, the textile industry in the



United States will increase. As the industry grows, more jobs will be available to workers in the United States. So tariffs help a country protect its own industries and create jobs.



Why are tariffs needed to increase the price of American textiles? Textile workers in Mexico do not receive as high a wage as textile workers in the United States. Cheaper labor costs usually mean cheaper prices to the consumer. Mexican textiles could be sold in the United States more cheaply than American textiles. Without tariffs, Mexican textiles would drive some or most of American textile manufacturers out of the market. The United States textile industry would shrink, and many jobs would be lost.

In addition to cheaper labor costs, other factors also make Mexican textiles cheaper to produce. Mexican factories do not have to operate as safely as factories in the United States. Operating a safe factory costs money. Ventilating the factory so workers breathe fresh and uncontaminated air is expensive. So is inspecting and fixing machines so they do not injure workers. Tariffs help to remove the advantage Mexican textiles would have because they are cheaper to produce.

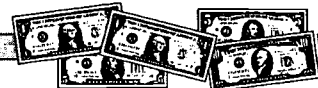
Mexico also imposes trade barriers on products and services from the United States and Canada. The United States, for example, has not been allowed to compete for contracts in Mexico's public telephone system. The United States telephone industry has much experience and many resources which it could have used to gain much of the Mexican telephone market. This trade barrier insured that Mexico would control its own telephone system market.

### Why NAFTA?

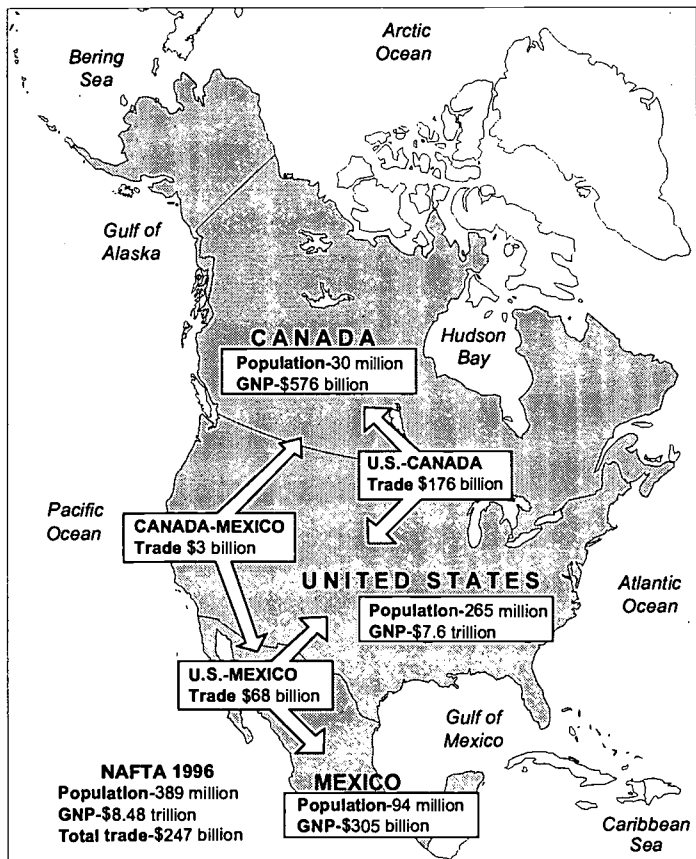
If Mexico can produce cheaper goods, why would the United States and Canada agree to NAFTA? Why would Mexico permit the United States to compete for its telephone service? All three nations believe that opening trade in North America will increase their exports.

Without tariffs imposed on its goods, Mexico is banking on selling more goods to the United States and Canada. In particular, Mexico probably will sell more textiles and agricultural products to its neighbors.

The United States and Canada also believe they will sell more goods to Mexico. In addition, they believe that open markets will help Mexico's industries grow and its people find more jobs at better wages. As the income of Mexicans grow, they will have more money to buy goods—goods produced by Americans and Canadians. In short, all three countries



hope that free trade and open and expanding markets will increase their production and workforce. NAFTA will make the United States, Canada, and Mexico the largest free-trade area in the world. Together, these three North American nations will have an economy of over eight trillion dollars!



The population, gross national product (GNP), and trade of the countries of the North American Free Trade Agreement.

Source: U.S. Department of Commerce.

### Why Not NAFTA?

Only time will tell what the effects of NAFTA are for the United States. Some analysts argue that NAFTA will hurt the American economy. They claim that some United States companies will relocate to Mexico once the tariffs are removed. If products produced in Mexico can be sold in the United States market without paying a tariff, some United States manufacturers will move to Mexico to take advantage of its cheaper labor costs.

Some analysts also believe that cheaper Mexican products will drive some American manufacturers out of business. In manufacturing fields that are labor intensive, such as agriculture and textiles, this may be true. Supporters of NAFTA argue that although the United States may lose labor-intensive jobs, it will gain jobs in better paying fields, such as telecommunications and advanced technology. This argument claims that if Mexicans earn more money, they will purchase technologically advanced products.





## Practice

Answer the following using complete sentences.

1. Suppose you own your own business. You install ceiling fans twice as fast as the competition. Your business has grown large enough to need a bookkeeper to keep track of your business. You could keep your own books, but you are only an average bookkeeper.

Should you keep your own books or use that time to install more ceiling fans? Why? \_\_\_\_\_

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2. What is a *tariff*? \_\_\_\_\_

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3. Why do countries impose tariffs? \_\_\_\_\_

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4. Why would Mexico have a *comparative advantage* over the United States in products that are produced using mostly labor rather than machines? \_\_\_\_\_

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5. Why would the United States have a *comparative advantage* over Mexico in products that use high-tech machines? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
6. To what does the term *special resources* refer? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
7. What *special resource* does the United States have that makes it a good producer of steel? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
8. What *special resource* makes the Middle East important in the transportation industry? \_\_\_\_\_  
\_\_\_\_\_
9. For what *special resource* do people go to school? \_\_\_\_\_  
\_\_\_\_\_
10. What is one *special resource* we have in Florida? \_\_\_\_\_  
\_\_\_\_\_



## Practice

Use the list below to complete the following statements.

Canada	interdependence	resources
comparative	international	tariffs
exports	Mexico	transportation
imports		

1. In the 20<sup>th</sup> century buying and selling between distant cities increased because of improved \_\_\_\_\_.
2. Exchange of goods between cities in the North and South is a sign of the \_\_\_\_\_ of the states in the United States.
3. Wool from Australia and coffee from Brazil are examples of our \_\_\_\_\_ trade.
4. The United States \_\_\_\_\_ electronic equipment from Japan and silk from China.
5. The United States \_\_\_\_\_ wheat and steel to other countries.
6. Nations often export those products that give them a \_\_\_\_\_ advantage.
7. Iron ore and coal the United States uses to produce steel are examples of the country's special \_\_\_\_\_.



8. NAFTA is a trade agreement among the United States,  
\_\_\_\_\_, and \_\_\_\_\_.
9. NAFTA allows three North American countries to trade without  
imposing \_\_\_\_\_ on the goods imported.



## Unemployment: A Product of a Struggling Economy

Positive growth as measured by GDP, GPI, and CPI can mean prosperity and a growing economy. A downturn in these same indicators can mean that large numbers of people are unemployed. A downturn in the economy is the signal for the government to take steps to identify and offer solutions to try to solve the problem of unemployment.

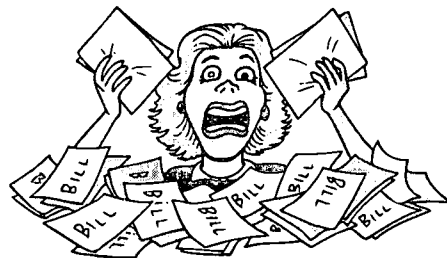
### Defining Unemployment: More Than Not Having a Job

The United States government has a way of complicating information about unemployment that may seem rather simple to us. For example, we may consider a person without a job to be *unemployed*. The government, however, does not take such a simple view when determining who is and who isn't unemployed. Government economists must consider other factors. What about young people who are in school and looking for jobs? What about persons who have retired? Are they *unemployed*? What about people so disabled or sick that they cannot work? Are they *unemployed*?

The government has come up with a definition for unemployment that tries to answer some of these questions. To be classified as *unemployed*, a person has to file with the state unemployment agency. In Florida, that agency is the Job Services of Florida. A person must be at least 16 years of age, also be actively seeking employment, and be willing to take any job he or she is qualified to do.

To collect unemployment benefits, a person must meet additional requirements. A worker must have been fired for reasons other than misconduct. A worker must have left his old job through no fault of his own. And an unemployed person can collect benefits only for a certain number of weeks. If he does not find a job within a certain number of weeks, he may be listed by the government as someone looking for a job, but not as unemployed. And if he is not listed as *unemployed*, he will no longer receive benefits.

Because of the way government defines *unemployment*, there are often more people without jobs than are indicated by government statistics. In addition, some people may have taken jobs that pay salaries too low to meet their needs.





These people are considered *underemployed*. Some underemployed people only have part-time jobs when they may need full-time employment to meet their economic needs.

What about homeless people who have neither homes nor jobs? Many of these people do not meet the government's definition of unemployed. In addition, the government's definition does not consider students, retirees, and some others who cannot or will not work—even if work was available—as *unemployed*.



Unemployment is a serious matter for both persons who are unemployed and the government.

Unemployment can lead to the loss of homes and property, and even disrupt family relationships.


Unemployment means that the government collects less in tax revenues and must pay out more in benefits. To lower the unemployment rate, the government offers job training programs to help some of the unemployed learn the skills needed to find

work. In addition, the government provides benefits to employers who hire special workers such as retirees, people with disabilities, and youthful employees.

### The Types of Unemployment: Frictional, Structural, and Cyclical

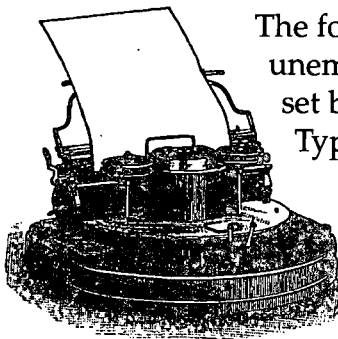
**Frictional Unemployment.** Economists have defined three basic types of unemployment. One type is called frictional unemployment. Frictional unemployment can be caused by the changes in our seasons. For example, in parts of the North, some construction workers who work outdoors become unemployed every winter when the weather is too severe. Crop pickers become unemployed when all of the crops have been picked for the season. Another example of frictional unemployment are actors who are in between jobs because one play or television show has ended and they have not found a new part. Frictional unemployment also includes those persons who have been fired or have quit and are looking for a new job.

The government considers a four percent or five percent unemployment rate to represent frictional unemployment. Frictional unemployment, the government says, is caused by the normal flow of people quitting one job to seek another, or jobs that naturally have nonworking periods. We will



always have frictional unemployment—it is unavoidable. Economists do not view frictional unemployment as a threat to the health of the economy.

**Structural unemployment.** Structural unemployment is a more serious and harmful type of unemployment for workers and the economy. Structural unemployment happens when a person's job is eliminated for good because it is no longer valuable or necessary. Whereas frictional unemployment follows a pattern of seasonal shifts that correct themselves, structural unemployment often does not have a self-correcting mechanism.



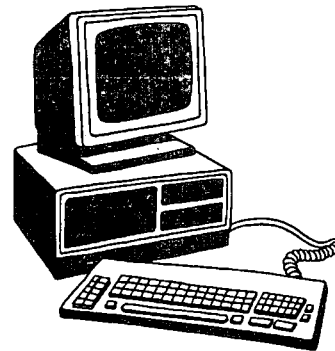
The following is an example of structural unemployment. Many years ago newspaper type was set by hand by skilled craftsmen called *typesetters*.

Typesetters had to read type backwards in order to set a line of type for a newspaper. When computers came along, this skill was no longer needed. The computer could set type directly from a printed document to the master that printed the newspaper. This method was much cheaper and faster than the old method of setting type by hand.

Typesetters lost their jobs and could no longer offer their skills to potential employers. To find a new job, typesetters had to learn new skills. This type of structural unemployment is also called *technological unemployment*.

Many other jobs or skills have also disappeared over the years. We no longer have many people shoeing horses, making buggy whips, or picking cotton by hand. Many jobs have required people to learn new skills. Secretaries must operate computers instead of typewriters, plumbers must work with plastic instead of metal pipes, and auto mechanics must work with electronic equipment in order to fix newer models of cars.

Some people cannot or will not learn the new skills necessary to continue in their line of work. They must often find a new job in a brand new field. Architects and engineers must now draw using Computer Aided Drafting (CAD) software. Those who cannot or will not learn the new methods cannot find work in that field.





The government tries to reduce structural unemployment by providing job training and temporary unemployment benefits for those seeking employment in a different field, and by encouraging employers to retire some workers near retirement age but who cannot or will not adapt to the new requirements of their jobs.

**Cyclical unemployment.** Cyclical unemployment produces the highest rate of unemployment and is the most difficult type to reverse. Cyclical unemployment is a result of downturns in the business cycle. When the economy is in a recession or depression, jobs dry up and many people become unemployed. During the Depression of the 1930s, as many as 34 percent of Americans were unemployed. Cyclical rates are much higher than either frictional or structural unemployment rates. In addition, training alone or temporary benefits may not solve the problem of cyclical unemployment. Often the economy must improve dramatically for unemployed persons to find work.

The chart below shows the percent of unemployment from 1965-1998 for the total civilian workforce. When the rate moves as little as 0.1 percent, approximately 136,500 workers are affected. *Unemployment rate* measures the percentage of workers who want jobs but can't find them. The unemployment rate is usually a *lagging indicator*. That means it increases *after* the economy slows. Likewise, the unemployment rate will not show a decline until *after* the economy improves.



Source: Bureau of Labor Statistics.





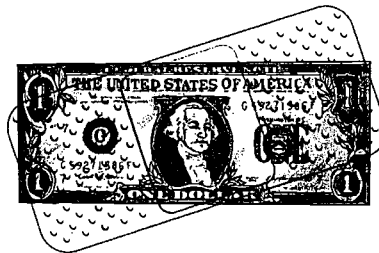
## Case Study: Unemployment

### The Great Depression

The nation's most serious *cyclical unemployment* occurred during the Great Depression. In the early 1900s, the United States economy was growing at an average pace. Migration and industrialization had definitely changed the political, social, and economical makeup of the United States. The United States government made a choice to enter World War I which in turn sparked our economy. After the war, new factories were built and new jobs were created. The economy boomed and many people lived better than ever before.

Though some Americans were becoming wealthy, many others could not earn a decent living. Important industries were in trouble, such as textiles, steel, and railroads. Farmers produced more than they could sell at a profit. Mining and lumber faced less demand for supplies since World War I ended. Coal faced competition from new forms of energy. The boom industries of the 1920s—automobiles, construction of buildings and homes, and consumer goods—declined. This affected the furniture and appliance businesses. Each industry had to make a choice to cut its labor force to reduce the production of goods.

As workers' incomes fell, fewer goods and services were bought. Many farmers who had gone into debt and could not pay their loans caused rural banks to fail. At the same time, dreams of wealth had led people to make the choice to take risks in the stock market. When stock prices fell, panicked investors sold their shares, causing a market crash. The stock market crash signaled the beginning of the Great Depression—the period from 1929-1941. The economy was in a severe decline, and millions of people were out of work.



After the crash, many Americans tried to withdraw their money from banks. This forced many banks to close. The banks had also invested and lost money in the stock market. Because the federal



government did not protect or insure bank accounts, these bank failures wiped out nine million individual savings accounts. People went to withdraw their money from the bank and would come home with nothing.

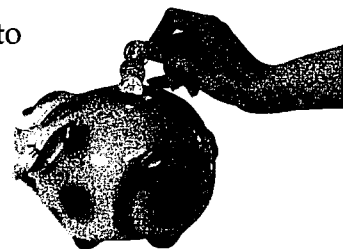
Some of the causes of the Great Depression were as follows:

- old equipment made some industries less competitive
- farmers produced more than they could sell at a profit
- availability of easy credit enabled people to go into debt
- too little money earned and in the hands of the working people, the majority of the consumers

President Herbert Hoover believed that people should succeed through their own efforts and that government should not interfere and help much with the economy. The federal government contributed to the crisis by keeping interests rates low. This allowed companies and individuals to easily borrow and build up larger debts.

The 1930s saw a turnaround from the economic boom after World War I. Bad investments, increased use of credit and the installment plan to pay for goods and services, and poor economic policies led to the worst depression in modern times.

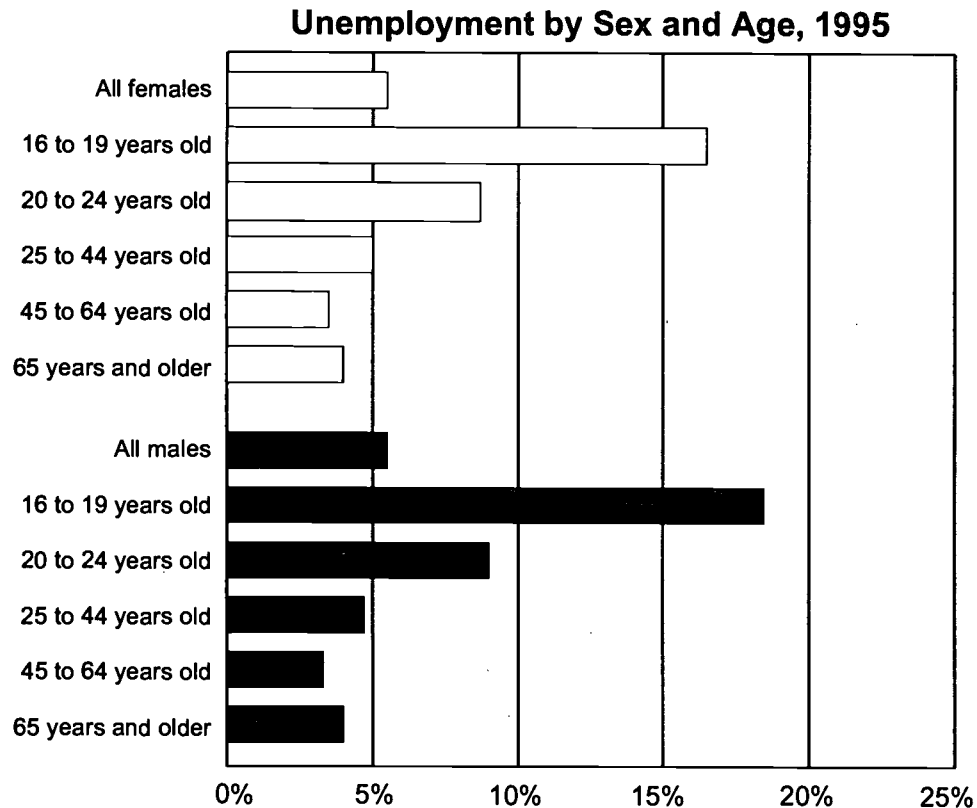
The Great Depression caused the government to make smarter choices about the economy. Today the government plays a major role in our nation's economy. Economists continue to measure the American economy using the GDP, GPI, and CPI. Our government allows a market economic system to operate, and has created the Federal Reserve Banking System, various forms of taxation and tariffs, and other laws and regulations.





## Practice

Use the graph below to answer the following using short answers.



Source: U.S. Bureau of the Census.

1. What was the unemployment rate for 25 to 44-year-old females in 1995? \_\_\_\_\_
2. What is the trend in the unemployment rate for males as they age?  
\_\_\_\_\_  
\_\_\_\_\_



3. What group(s) had the lowest rate of unemployment? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

4. During what age are you more likely to be unemployed as a male and/or female? \_\_\_\_\_

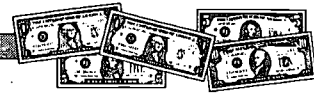
\_\_\_\_\_



## Practice

Decide whether the **type of unemployment** described in each situation below is **frictional, structural, cyclical, or whether none apply**. Write the correct term on the line provided.

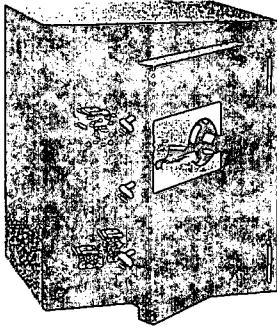
- \_\_\_\_\_ 1. Paul picks oranges in Florida. In the summer he has no work.
- \_\_\_\_\_ 2. A situation comedy that has run for two years has been cancelled. The star is now out of work.
- \_\_\_\_\_ 3. Business in the body shop has dropped significantly, so André, the last repair person hired, was let go.
- \_\_\_\_\_ 4. The secretary did not want to learn how to use the computer, and so she was fired.
- \_\_\_\_\_ 5. Mariah quit her job at the clothing store. She is looking for a new job.
- \_\_\_\_\_ 6. The aging engineer refused to use the Computer Aided Drafting Equipment and lost his job with the firm.
- \_\_\_\_\_ 7. During the recession when construction was down, Harry could not find work in carpentry.
- \_\_\_\_\_ 8. A high school student is looking for a part-time job.
- \_\_\_\_\_ 9. Edward has been without work so long that he can no longer collect unemployment benefits.



## Summary

Measuring the American economy helps economists develop strategies to improve the rate of economic growth. Measuring the economy also helps economists develop solutions to problems in the economy, such as a high unemployment rate. The *gross domestic product (GDP)*, *gross personal income (GPI)*, and *consumer price index (CPI)* are three tools used to measure the American economy.

Economies depend on people within the United States buying and selling goods and services. This may happen at the local level, the state level, or at the national level. The United States also depends on its international trade or its trade with other nations throughout the world. Many of the goods Americans need to continue and improve their lifestyles come from other countries. In turn, we trade and sell many of the goods we produce to other countries. This trading, buying, and selling with each other and other nations reflects the country's and the world's *interdependence*.



To protect their own industries, many nations impose *tariffs*, or taxes, on imported goods. The United States, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA) to remove or reduce tariffs on goods traded between the three countries. Each country hopes that NAFTA will help its industries grow and create new jobs. However, some analysts in the United States believe that NAFTA will hurt the American economy by giving Mexico an unfair advantage in trade. NAFTA will make North America the largest free-trade region in the world.

Rising unemployment usually accompanies a decline in the economy. Economists classify unemployment in three different ways. *Frictional unemployment* describes those people who are in between jobs. *Structural unemployment* describes those people whose jobs have been eliminated, often because of advancement in technology. And *cyclical unemployment* describes those people who have lost their jobs because the economy is in a downturn.



## Practice

Answer the following using complete sentences.

1. Imagine that you are president of a manufacturing company. The company you preside over makes remote-controlled lawn mowers. One of your jobs is to decide how many mowers to make in the following year.

How would your decision be affected if *net personal income* were dropping? \_\_\_\_\_

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How would your decision be affected if *net personal income* were rising? \_\_\_\_\_

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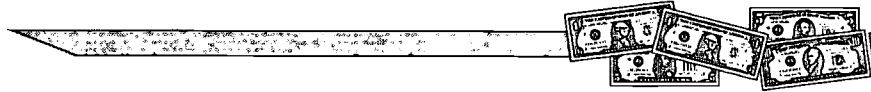
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2. How has the increasing use of computers affected *structural unemployment*? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  
3. In what situation would a worker's *gross personal income* rise and her *net personal income* remain the same? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  
4. Give two reasons the Great Depression started in the United States and discuss those reasons. \_\_\_\_\_  
\_\_\_\_\_  
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## Practice

Match each definition with the correct term. Write the letter on the line provided.

comparative advantage	gross national product (GNP)
consumer price index (CPI)	gross personal income (GPI)
depression	inflation
disposable personal income (DPI)	prosperity
gross domestic product (GDP)	recession

- \_\_\_\_\_ 1. a downturn in the economy characterized by a decrease in business activity
- \_\_\_\_\_ 2. a measure of the price changes in consumer goods and services used to identify changes in the cost of living
- \_\_\_\_\_ 3. the total value of goods and services produced in one year within the borders of a nation by whoever produces them
- \_\_\_\_\_ 4. a period of economic growth; a general increase in the demand for goods and services
- \_\_\_\_\_ 5. a *prolonged* downturn in the economy, characterized by high unemployment and widespread loss of income
- \_\_\_\_\_ 6. a sustained increase in the average price of goods and service
- \_\_\_\_\_ 7. an ability to produce a good more efficiently than others
- \_\_\_\_\_ 8. the amount of money earned by all individuals in a country in one year



- \_\_\_\_\_ 9. the amount of income that households have to spend or save after payment of personal taxes; net personal income
- \_\_\_\_\_ 10. the total value of goods and services produced in one year by a nation's residents no matter where they are located



## Practice

Match each definition with the correct term. Write the letter on the line provided.

- |   |                            |
|---|----------------------------|
| _____ 1. loss of jobs caused by a shift in the way work is done, leaving some individuals without the skills necessary for available jobs | A. cyclical employment     |
| _____ 2. goods sold to other countries  | B. exports                 |
| _____ 3. temporary loss of jobs caused by the changing of seasons and shifting of employees to new jobs                                   | C. frictional unemployment |
| _____ 4. in economics, the notion that people and countries throughout the world need the goods produced by other people and countries    | D. imports                 |
| _____ 5. goods bought from other countries  | E. interdependence         |
| _____ 6. loss of jobs caused by the periodic decrease in the growth of business   | F. international trade     |
| _____ 7. trade between nations  | G. structural unemployment |
| _____ 8. a tax on imported goods  | H. tariff                  |

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