TO THE TEACHER

The Guided Reading Activities provide students with a “foundation for study.” They provide the groundwork that helps students identify and comprehend important information in the textbook chapters. The worksheets guide students to the key ideas and concepts they need to know to meet chapter objectives.

One Guided Reading page is provided for every section of Economics: Principles and Practices. In a variety of presentations, students are asked to list, outline, analyze, apply, and evaluate the information they have read. The Guided Reading Activities help students organize their learning and prepare them for the section quizzes and the chapter tests.

Answers to the Guided Reading Activities can be found at the back of the booklet.
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SCARCITY AND THE SCIENCE OF ECONOMICS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What is the basic economic problem facing all societies?

2. How is need different from want?

3. What do the letters TINSTAAFL stand for, and what does the term mean to consumers?

4. What are the three basic questions societies have to answer about the way their resources are used?
   a. 
   b. 
   c. 

5. List the factors of production and define each one.
   a. 
   b. 
   c. 
   d. 

6. What is production?

7. What are the four key elements of the study of economics? Explain briefly why each one is important.
   a. 
   b. 
   c. 
   d. 
**BASIC ECONOMIC CONCEPTS**

**OUTLINING**

*Directions:* Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

**I. Goods, Services, and Consumers**
   A. Introduction—What is scarcity in an economic sense? ____________________________
   B. Goods—What is the difference between a consumer good and a capital good? ________________
   C. Services—What kind of economic product is a service? ____________________________
   D. Consumers—What is a consumer? ____________________________

**II. Value, Utility, and Wealth**
   A. Introduction—To what does value refer? ____________________________
   B. Paradox of Value—What is the paradox of value? ____________________________
   C. Utility—What is required for something to have value? ____________________________
   D. Wealth—What is wealth? ____________________________

**III. The Circular Flow of Economic Activity**
   A. Introduction—What is a key feature of circular flow? ____________________________
   B. Factor Markets—What is a factor market? ____________________________
   C. Product Markets—Where do individuals spend their income from the resources they sell? ____________________________

**IV. Productivity and Economic Growth**
   A. Productivity—What is productivity? ____________________________
   B. Division of Labor and Specialization—How do division of labor and specialization affect productivity? ____________________________
   C. Investing in Human Capital—In what ways can government, businesses, and individuals invest in human capital? ____________________________
ECONOMIC CHOICES AND DECISION MAKING

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

- trade-offs
- cost-benefit analysis
- maximum combinations
- free enterprise economy
- standard of living
- decision-making grid
- production possibilities frontier
- opportunity cost
- fully employed

Trade-Offs and Opportunity Cost
Whenever people make economic decisions, they face 1 ________________, or alternative choices. Using a 2 ________________, allows consumers to consider various alternatives and decide which one comes closest to meeting their needs. 3 ________________ is more than the price tag on a good or service. It is the cost of the next best alternative use of money, time, or resources.

Production Possibilities
To illustrate the concept of 4 ________________, economists use a diagram representing various combinations of goods and/or services an economy can produce when all productive resources are 5 ________________. By showing the various alternatives, the 6 ________________ allows producers to decide how to allocate limited resources. The diagram indicates the 7 ________________ of goods and/or services that can be produced. If, however, for various reasons some resources are not 8 ________________, the producer cannot reach its full production potential and the 9 ________________ of that failure is whatever is not produced. Economic growth occurs when more resources or increased productivity causes the 10 ________________ to move outward.

Thinking Like an Economist
Economists use various methods to help people make the best choices among the many wants that compete for the use of scarce resources. One is 11 ________________, a way of thinking about a problem that compares the costs of an action to the benefits received. This allows a business, for example, to choose investment projects that give the highest return per dollar spent.

The Road Ahead
The study of economics can provide a more detailed understanding of a 12 ________________, where consumers and privately owned businesses, rather than government, make the majority of economic decisions. It provides an understanding of a number of factors that have a bearing on our 13 ________________, which is the quality of life based on the possession of the necessities and luxuries that make life easier.
ECONOMIC SYSTEMS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. Define the term economic system.

2. Describe each type of economic system. Then briefly state its major advantages and disadvantages.
   a. Traditional economy
      Advantages:
      Disadvantages:
   b. Command economy
      Advantages:
      Disadvantages:
   c. Market economy
      Advantages:
      Disadvantages:
EVALUATING ECONOMIC PERFORMANCE

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Economic and Social Goals
   A. Introduction
      1. What are two kinds of goals people may share? ____________________________
      2. How many major kinds of goals are there? ____________________________
   B. Economic Freedom
      1. What are three examples of economic freedom for individuals? ____________________________
      2. What kind of economic freedom do business owners want? ____________________________
   C. Economic Efficiency
      1. What happens if resources are wasted? ____________________________
      2. Why must economic decision making be efficient? ____________________________
   D. Economic Equity
      1. What are two examples of economic equity? ____________________________
      2. What is a “lemon law”? ____________________________
   E. Economic Security
      1. What do American workers want protection from? ____________________________
      2. What kind of protection does Social Security offer? ____________________________
   F. Full Employment
      1. What happens when people work? ____________________________
      2. What happens when people do not have jobs? ____________________________
   G. Price Stability
      1. What is inflation? ____________________________
      2. What happens to people on fixed incomes when there is inflation? ____________________________
   H. Economic Growth—Why is economic growth needed as a population grows? ____________________________

II. Trade-Offs Among Goals
   A. What is the opportunity cost of a policy of protecting a domestic industry, such as shoe manufacturers? ____________________________
   B. What is the trade-off in increasing the minimum wage? ____________________________
Introduction/Competition and Free Enterprise

A market economy is normally based on economic freedom, a system in which private citizens, many of whom are entrepreneurs, own the factors of production. Another term for it is capitalism, because it operates with a minimum of government interference. One characteristic of this kind of economy is consumer sovereignty, which allows people to choose to have their own businesses or work for someone else. Businesses are free to choose what they will produce and to hire the best workers.

Another characteristic is voluntary exchange, the act of buyers and sellers freely and willingly engaging in market transactions that leave both buyer and seller better off. Another major feature of the market economy is profit motive, the privilege that entitles people to own and control their possessions. The extent to which people or organizations are better off at the end of a period than they were at the beginning is profit, the driving force that encourages people and organizations to improve their material well-being. Finally, competition thrives on modified private enterprise economy, which is the struggle among sellers to attract consumers while lowering costs.

The Role of the Entrepreneur

The entrepreneur’s role is to start new businesses and take risks. They are the sparkplugs of a modified private enterprise economy. When entrepreneurs are successful, many benefit.

The Role of the Consumer

In the United States, consumers have power in the economy because they determine which products are produced. The term consumer sovereignty is another way of saying that the customer is always right. Consumers “vote” with their dollars; that is, they have a say in what is and what is not produced.

The Role of Government

The government’s involvement in the economy reflects people’s desire to modify the economic system. The result is a modified private enterprise economy, or mixed economy, one in which people carry on their economic affairs freely but are subject to some government intervention and regulation.
For use with textbook pages 57–66

FORMS OF BUSINESS ORGANIZATION

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What are the advantages and disadvantages of a sole proprietorship?
   Advantages:
   
   
   
   Disadvantages:
   
   
   

2. What is the difference between a general partnership and a limited partnership?

   
   
   

3. What is bankruptcy?

   
   
   

4. What are the advantages and disadvantages of a corporation?
   Advantages:
   
   
   
   Disadvantages:
   
   
   

5. Explain the connection between a bond, principal, and interest.

   
   
   

Guided Reading Activities 7
BUSINESS GROWTH AND EXPANSION

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Growth Through Reinvestment
   A. Estimating Cash Flows—What does cash flow represent?

   B. Reinvesting Cash Flows
      1. What can business owners do with cash flow to further help their businesses?

      2. What can happen when cash flows are reinvested in the business?

II. Growth Through Mergers
   A. Introduction
      1. What happens when two firms merge?

      2. What are five possible reasons for mergers?

   B. Types of Mergers—What is the difference between a horizontal merger and a vertical merger?

   C. Conglomerates—What is the main reason for a conglomerate to want diversification?

   D. Multinationals—What are the advantages and disadvantages of multinationals?
Other Organizations

Filling in the Blanks

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

- public utilities
- professional association
- credit union
- consumer cooperative
- cooperative
- collective bargaining
- service cooperative
- labor union
- nonprofit organization(s)

Introduction/Community and Civic Organizations

In addition to businesses that use scarce resources to produce goods and services in hopes of earning a profit, there are organizations that operate to promote the collective interests of their members rather than to seek financial gain for their owners. Though legally incorporated, they do not issue stock, pay dividends, or pay income taxes, yet they are an important part of our economic system.

Cooperatives

One example of a nonprofit organization is a cooperative, which is a voluntary association of people formed to carry on some kind of economic activity that will benefit its members. The consumer cooperative is a voluntary association that buys bulk amounts of goods on behalf of its members. A service cooperative provides services rather than goods. One example is a credit union that accepts deposits from, and makes loans to, employees from a particular company or agency.

Labor, Professional, and Business Organizations

Another important economic institution is the labor union, an organization of workers formed to represent its members’ interests in employment matters. It participates in collective bargaining when it negotiates with management over various job-related matters. Workers may also belong to a professional association—a group of people in a specialized occupation that works to improve the working conditions, skill levels, and public perceptions of the profession.

Government

Government plays an indirect role in the economy when it regulates certain areas of it. One such case is the regulation of public utilities, where investor- or municipal-owned companies offer important products to the public, such as water or electric service.
WHAT IS DEMAND?

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What three factors determine the demand for a product?

2. What is microeconomics?

3. What is the purpose of a demand schedule?

4. How is a demand curve similar to a demand schedule? How is it different?

5. What does the Law of Demand state?

6. What does the market demand curve show?

7. What is marginal utility?

8. How does the principle of diminishing marginal utility affect how much people are willing to pay?
FACTORS AFFECTING DEMAND

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Change in the Quantity Demanded
   A. Introduction—What causes the movement along the demand curve that shows a change in the quantity of the product purchased? ________________________________
   B. The Income Effect
      1. What happens when prices drop? ________________________________
      2. How can an increase in price affect demand? ________________________________
   C. The Substitution Effect—What do consumers tend to do when similar products are available and one is more costly than the other? ________________________________

II. Change in Demand
   A. Introduction—What is a change in demand? ________________________________
   B. Consumer Income—What happens if consumer income rises? ________________________________
   C. Consumer Tastes—What factors can affect consumer tastes? ________________________________
   D. Substitutes—What happens to the demand for a product if the price of its substitute goes up? ________________________________
   E. Complements—How does an increase in a product’s price affect demand for the product’s complement? ________________________________
   F. Change in Expectations
      1. What happens to the demand for a product if consumers think that a future product will be better? ________________________________
      2. What happens to the demand for a product if consumers think there will be a shortage in the future? ________________________________
   G. Number of Consumers
      1. What happens to the market demand curve if there is an increase in the number of consumers? ________________________________
      2. What happens to market demand whenever anyone leaves the market? ________________________________
ELASTICITY OF DEMAND

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

elastic demand elasticity inverse proportional inelastic unit elastic elasticity total expenditures

Introduction/Demand Elasticity
Consumers are sensitive to changes in prices. A change in price can affect quantity demanded. This cause-and-effect relationship in economics is known as 1 ______________. The extent to which a change in price causes a change in the quantity demanded is called 2 ______________. Demand is 3 ______________ when a given change in price causes a relatively larger change in quantity demanded. Sometimes a lower or higher price does not create much change in demand. When the change in demand is relatively small, the demand is considered 4 ______________. When the demand is exactly between elastic and inelastic, the demand is called 5 ______________. Unit elastic demand causes a 6 ______________ change in quantity demanded.

The Total Expenditures Test
To estimate elasticity, one can look at the effect that a price change has on 7 ______________, which is the amount that consumers spend on a product at a particular price. Total expenditures are found by multiplying the price of a product by the quantity demanded. When the price goes down, total expenditures go up. This is called an 8 ______________ relationship. For inelastic demand, total expenditures decline when the price declines. For unit elastic demand, total expenditures remain unchanged when the price decreases. If the change in price and expenditures move in opposite directions, demand is 9 ______________. If they move in the same direction, demand is 10 ______________. If there is no change in expenditures, demand is 11 ______________.

Determinants of Demand Elasticity
Several factors determine whether a good is elastic or inelastic. When a consumer needs the product and the purchase cannot be put off, demand tends to be 12 ______________. If there are enough substitutes available, consumers can switch back and forth between products in order to get the best price. Demand is said to be 13 ______________. The fewer the substitutes, however, the more inelastic the demand. If the purchase uses a large portion of income, people are more sensitive to price changes and demand tends to be 14 ______________.
WHAT IS SUPPLY?

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What does the Law of Supply state?

2. Explain how each of the following tools can help businesses make production decisions.
   a. Supply schedule:
   b. Supply curve:
   c. Market supply curve:

3. What does a change in quantity supplied respond to?

4. Why does the supply curve shift to the left?

5. Name the seven factors that determine whether supplies increase or decrease.
   a.
   b.
   c.
   d.
   e.
   f.
   g.

6. What is supply elasticity?

7. What characterizes an inelastic supply curve?

8. What changes does a unit elastic supply curve show?
THE THEORY OF PRODUCTION

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Law of Variable Proportions
   A. What does the Law of Variable Proportions state? ________________________________
   B. What happens when more than one factor of production is varied?

II. The Production Function
   A. Introduction
      1. What is a production function? _____________________________________________
      2. What are raw materials? _________________________________________________
   B. Total Product
      1. What happens to resources if there are too few workers? ______________________
      2. What happens to output if there are too many workers? _______________________
   C. Marginal Product—What is marginal product? _________________________________

III. Three Stages of Production
   A. Introduction
      1. At what point are changes in marginal product of special interest?

         _________________________________________________________________
      2. What are the stages of production based on? _________________________________
   B. STAGE I: Increasing Returns
      1. What is the criterion for determining how long total output will rise?

         _________________________________________________________________
      2. When should companies stop hiring? _____________________________________
   C. STAGE II: Diminishing Returns
      1. What happens to the rate of increase in total production during this stage?

         _________________________________________________________________
      2. What is the principle of diminishing returns? ________________________________
   D. STAGE III: Negative Returns
      1. What happens to marginal product during this stage? __________________________
      2. What happens to total plant output during this stage? _________________________
      3. What effect does this stage have on hiring? ________________________________
COST, REVENUE, AND PROFIT MAXIMIZATION

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

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<tr>
<td>variable costs</td>
<td>total revenue</td>
<td>e-commerce</td>
</tr>
<tr>
<td>marginal analysis</td>
<td>marginal revenues</td>
<td>fixed costs</td>
</tr>
</tbody>
</table>

Measures of Cost
Cost is divided into several categories. The first is 1 ______________—the costs that a business incurs even if the plant is idle and there is zero output. The total of these unchanging costs, or 2 ______________, remains the same. On the other hand, expenses that change—such as one associated with labor and raw materials—are 3 ______________. The sum of these two costs is 4 ______________. Another category of cost is 5 ______________—the extra costs incurred when a business produces one additional unit of a product.

Applying Cost Principles
Business firms have a different mix of costs. A full-service gas station may have higher 6 ______________ than one that sells only gas, because it employs a variety of employees. An entrepreneur engaged in 7 ______________—electronic business or exchange conducted over the Internet—is an example of a business with very low 8 ______________.

Measures of Revenue
Businesses use two key measures of revenue to find the amount of output that produces the greatest profit. 9 ______________ is the number of units sold multiplied by the average price per unit. Even more important are 10 ______________, which are the extra revenues associated with the production and sale of one additional unit of output.

Marginal Analysis
Economists use 11 ______________, a type of cost-benefit decision making tool that compares the extra benefits to the extra costs of an action. One issue facing a business is that of breaking even, or earning enough revenue to cover 12 ______________. Businesses want to know how to generate the maximum profit. They can do so by comparing 13 ______________ and 14 ______________.
PRICES AS SIGNALS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What are the four reasons that prices in a market economy perform the allocation function so well?
   a. 
   b. 
   c. 
   d. 

2. What is rationing and when is it most likely to be used?

3. Describe the problems that rationing can lead to.
   a. 
   b. 
   c. 

4. What is a rebate and how is it used?
THE PRICE SYSTEM AT WORK

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. The Price Adjustment Process
   A. An Economic Model—What are economic models used for?
   B. Market Equilibrium—In what kind of market does market equilibrium operate?
   C. Surplus—What can we assume about price based on the size of the surplus?
   D. Shortage—What will happen to the price and quantity supplied in the next trading period as a result of a shortage?
   E. Equilibrium Price—What tends to happen once the equilibrium price has been reached?

II. Explaining and Predicting Prices
   A. Introduction—What factors are important in predicting changes in price?
   B. Changes in Supply—What is one of the main reasons for variations in agricultural supplies?
   C. Importance of Elasticity—What is the effect of an inelastic demand coupled with a change in supply?
   D. Changes in Demand—How does political instability affect the price of gold?

III. The Competitive Price Theory
   A. What is the importance of the theory of competitive pricing?
   B. What is the great advantage of competitive markets?
SOCIAL GOALS VS. MARKET EFFICIENCY

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

- target price
- nonrecourse loan
- price ceiling
- social goals
- loan supports
- price floor
- deficiency payment
- impersonal mechanisms
- equity and security

Introduction/Distorting Market Outcomes

In order to achieve the seven broad economic and \( 1 \) ________________, we may require policies that distort market outcomes. The goals of \( 2 \) ________________ usually require safety net policies to achieve them. These goals can be achieved only at the cost of interfering with the market. One of the common ways of achieving \( 3 \) ________________ involves setting prices at "socially desirable" levels. When this happens, prices are not allowed to adjust to their equilibrium. One type of control is the \( 4 \) ________________, a maximum legal price that can be charged for a product. Another is the \( 5 \) ________________, which is the lowest legal price that can be charged for a product. An example is the minimum wage.

Agricultural Price Supports

Two different efforts at supporting American farmers included the use of a \( 6 \) ________________, which is essentially a floor price for farm products. One form of price stabilization is \( 7 \) ________________. Under this 1930s program, farmers borrowed money from the Commodity Credit Corporation, an agency of the Department of Agriculture. They borrowed at the \( 8 \) ________________ and pledged their crops as security. Since such a loan had neither a penalty nor further obligation if not paid back, it was called a \( 9 \) ________________.

This loan program’s drawback was that the U.S. Department of Agriculture ended up owning enormous stockpiles of food. The next solution was to offer farmers a \( 10 \) ________________. In this situation farmers sold their crops on the open market for the best price they could get. Then the government sent them a check to make up the difference between the actual market price and the \( 11 \) ________________. Efforts to make agricultural output responsive to market forces have not lowered the overall cost of farm programs.

When Markets Talk

Markets are \( 12 \) ________________ that bring buyers and sellers together. They are said to talk when prices in them move up or down significantly in response to outside events, such as government policy changes.
COMPETITION AND MARKET STRUCTURES

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What is the role of government under Adam Smith's laissez-faire philosophy?

2. Define market structure.

3. What are the four different types of market structure?
   - a.
   - b.
   - c.
   - d.

4. What are the five major conditions that characterize perfectly competitive markets? Explain each condition briefly.
   - a.
   - b.
   - c.
   - d.
   - e.

5. Name and describe the four different types of monopolies.
   - a.
   - b.
   - c.
   - d.
**Market Failures**

**Filling in the Blanks**

*Directions:* Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

<table>
<thead>
<tr>
<th>positive externality</th>
<th>market failure</th>
<th>negative externality</th>
</tr>
</thead>
<tbody>
<tr>
<td>artificial shortages</td>
<td>unemployed</td>
<td>public goods</td>
</tr>
<tr>
<td>inadequate competition</td>
<td>externality</td>
<td>adequate information</td>
</tr>
</tbody>
</table>

**Introduction/Inadequate Competition**

Over time, mergers and acquisitions have had several consequences. One is inefficient resource allocation because 1 ________________ tends to curb the efficient use of scarce resources. Others are higher prices and reduced output, creating 2 ________________. 3 ________________ may also enable a business to influence politics by wielding its economic might. It may also happen on the demand side of the market when there are not sufficient buyers for very expensive products.

**Inadequate Information**

To allocate resources efficiently, consumers, businesspeople, and government officials must have 4 ________________ about market conditions. Some information is harder to find than other kinds, and that can lead to a 5 ________________.

**Resource Immobility**

A difficult problem in any economy is resource immobility, when land, capital, labor, and entrepreneurs do not move to markets in which the returns are the highest and sometimes remain 6 ________________.

**Externality**

Many activities generate some kind of 7 ________________, or unintended side effect that either benefits or harms a third party not involved in the activity that caused it. A 8 ________________ is the unwanted harm, cost, or inconvenience suffered by a third party because of actions by others. A 9 ________________ is a benefit received by a third party who had nothing to do with the activity that generated the benefit. An 10 ________________ is classified as a 11 ________________ because its costs and benefits are not reflected in the market prices paid by the buyers and sellers of the original product.

**Public Goods**

Another form of 12 ________________ shows up in the need for 13 ________________, those products that are collectively consumed by everyone and whose use by one individual does not diminish the satisfaction or value received by others. They are usually provided by the government.
For use with textbook pages 178–183

THE ROLE OF GOVERNMENT

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Antitrust Legislation
   A. What was the antitrust legislation of the late 1800s trying to restrict?
   B. What was the purpose of the Sherman Antitrust Act?
   C. What was the purpose of the Clayton Antitrust Act of 1914?

II. Government Regulation
   A. Introduction—Under what conditions are monopolies acceptable?
   B. Examples of Regulation—What is one example of how local or state government allows and regulates a monopoly?

III. Public Disclosure
   A. What is the purpose of public disclosure?
   B. What is the advantage to the public of truth-in-advertising laws?

IV. Indirect Disclosure
   A. What kind of information regarding business and government is available on the Internet?

V. Modified Free Enterprise
   A. What actions led to a modification of free enterprise?
   B. What characteristics make the United States economy a “mixed free enterprise” system?
THE LABOR MOVEMENT

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What is macroeconomics?

2. Which workers are not counted as being part of the civilian labor force?

3. How do a trade union and an industrial union differ?

4. What actions could unions take if negotiations with industry employers failed? Explain each one.
   a. 
   b. 

5. What actions could employers take in their fight against unions? Explain each one.
   a. 
   b. 

6. How did the Clayton Antitrust Act help labor unions?

7. What did the National Labor Relations Act (NLRA) of 1935 do for unions?

8. What did the Fair Labor Standards Act of 1938 do for labor?

9. How did the Taft-Hartley Act of 1947 affect labor?
RESOLVING UNION AND MANAGEMENT DIFFERENCES

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Kinds of Union Arrangements
   A. Introduction—What is the main purpose of organized labor?

   B. Closed Shops—What effect did the Taft-Hartley Act have on the closed shop?

   C. Union Shops—What is a union shop?

   D. Modified Union Shops—What happens if workers voluntarily join the union?

   E. Agency Shops—What effect does a contract negotiated by the union have on nonunion workers in an agency shop?

II. Collective Bargaining
    A. Introduction—What happens in collective bargaining?

    B. Mediation—What is the goal of mediation?

    C. Arbitration—What is the difference between arbitration and mediation?

    D. Fact-Finding—What is fact-finding?

    E. Injunction and Seizure—What is the purpose of a government seizure?

    F. Presidential Intervention—What can the president of the United States do to end a labor dispute?
LABOR AND WAGES

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

<table>
<thead>
<tr>
<th>labor mobility</th>
<th>equilibrium wage rate</th>
<th>unskilled labor</th>
<th>semiskilled labor</th>
</tr>
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<tbody>
<tr>
<td>theory of negotiated wages</td>
<td>signaling theory</td>
<td>skilled labor</td>
<td>wage rate</td>
</tr>
<tr>
<td>traditional theory of wage determination</td>
<td>professional labor</td>
<td>cost</td>
<td></td>
</tr>
</tbody>
</table>

Categories of Labor
The four categories of labor are based on the general level of knowledge and skills needed to do a particular kind of job. Those who work primarily with their hands are in the category of 1 ________________. They usually earn some of the lowest wages. A higher category is 2 ________________—workers who have enough mechanical abilities and skills to operate machines that require a minimum amount of training. Workers who are able to operate complex equipment and perform their tasks with little supervision are called 3 ________________. Those individuals with the highest level of knowledge-based education and managerial skills are in the final category, 4 ________________.

Noncompeting Labor Grades
Workers in one category do not compete directly with those in another. The barriers to moving to a higher category are the 5 ________________ of training, lack of opportunity, and lack of initiative.

Wage Determination
Most occupations have a 6 ________________—a standard amount of pay given for work performed. Three theories of wages explain differences from one occupation to the next and even within the same occupation. The 7 ________________ states that the supply and demand for a worker's skills and/or services determine the wage or salary. The higher the demand for a particular type of worker, the higher the wage; the lower the level of demand, the lower the wage. The 8 ________________ leaves neither a surplus nor a shortage in the labor market. According to the 9 ________________, organized labor's bargaining strength is a factor that helps determine wages. The third theory—the 10 ________________—states that employers are usually willing to pay more for workers with "signals" of superior ability, such as advanced diplomas or degrees.

Regional Wage Differences
Wages for the same job can differ from one part of the country to another because of the scarcity of skilled workers in some parts and their abundance in others. Differences can be offset by 11 ________________, the ability and willingness of workers to relocate in markets where wages are higher.
EMPLOYMENT TRENDS AND ISSUES

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. In what way can the drop in union membership be attributed to the unions being the victims of their own success?

2. What is a giveback?

3. What is a two-tier wage system?

4. What is the glass ceiling and what groups does it mainly appear to affect?

5. What legal remedies does the Civil Rights Act of 1964 offer to workers suffering from wage and salary discrimination?

6. What is comparable worth?

7. What is a set-aside contract?

8. How does the use of part-time workers mean savings for employers?
THE ECONOMICS OF TAXATION

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Economic Impact of Taxes
   A. Resource Allocation—What can happen to the factors of production when prices go up as an end result of taxation? __________________________________________________________________________
   B. Behavior Adjustment—What is a sin tax and what is it usually applied to?
   C. Productivity and Growth—What effect might taxes have on productivity and economic growth? __________________________________________________________________________
   D. The Incidence of a Tax—What situation must exist to make it easier for a producer to shift the incidence of a tax to the consumer? __________________________________________________________________________

II. Criteria for Effective Taxes
   A. Equity—What criteria is generally recognized as making taxes fairer?
   B. Simplicity—What makes taxes more tolerable to many people?
   C. Efficiency—What are two criteria for making a tax efficient?

III. Two Principles of Taxation
   A. Benefit Principle—What is the benefit principle of taxation?
   B. Ability-to-Pay Principle—What two factors is the ability-to-pay principle based on?

IV. Types of Taxes
   A. What three general types of taxes exist in the United States?
   B. What is a marginal tax rate?
THE FEDERAL TAX SYSTEM

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

payroll withholding system    Internal Revenue Service    FICA
indexing                      excise taxes               estate tax
user fees                     customs duty                medicare
individual income tax         gift tax                   corporate income tax

Introduction/Individual Income Taxes
The most important sources of government revenue are the 1 ________________, Social Security tax, and 2 ________________, in that order. In most cases the individual income tax is paid over time through a 3 ________________, a system that requires an employer to automatically deduct income taxes from an employee’s paycheck and send it directly to the government. The receiving agency is the 4 ________________. The average tax rate goes up when income does. Thus, workers who get a small raise to offset inflation may find themselves pushed into a higher tax bracket and be no better off than they were. To offset this, there is a provision for 5 ________________, an upward revision of the tax brackets to keep workers from paying more in taxes just because of inflation.

FICA Taxes
The second-most important federal tax is 6 ________________, the Federal Insurance Contributions Act tax levied on both employers and employees for Social Security and 7 ________________, the federal health-care program available to all senior citizens regardless of income. Wealthy individuals pay the same percent of income for the 8 ________________ tax as do the poor.

Corporate Income Taxes/Other Federal Taxes
The 9 ________________ is the tax a corporation, as a separate legal entity, pays on its profits. The federal government also receives other revenues. One source is 10 ________________, the taxes on the manufacture or sale of selected items, such as gasoline, liquor, telephone services, tires, legal betting, and coal. Another kind of tax is 11 ________________, which is levied on the transfer of property when a person dies. Another is the 12 ________________ on donations of money or wealth, and it is paid by the person making the gift. A 13 ________________ is a charge levied on goods brought in from other countries. Also, 14 ________________ are charges levied for the use of goods or services.
STATE AND LOCAL TAX SYSTEMS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What is intergovernmental revenue?

2. What are the two largest sources of revenue for states? How are they collected?
   a. 
   b. 

3. What are the third and fourth largest sources of revenue for states?
   a. 
   b. 

4. Name four other sources of revenue for state governments.
   a. 
   b. 
   c. 
   d. 

5. What are the three largest local government revenue sources?
   a. 
   b. 
   c. 

6. What information does a payroll withholding statement show?


CURRENT TAX ISSUES

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Tax Reform
   
   B. Tax Reform: 1986, 1993—What was the driving force behind the Omnibus Budget Reconciliation Act of 1993?
   
   C. Tax Reform in 1997—What was behind the unexpectedly high tax revenues in 1997?
   
   D. Tax Reform in 2001—What additional tax bracket was added in 2001?
   
II. The Value-Added Tax
   A. Introduction/The Concept of Value Added—How is the VAT different from a national sales tax?
   
   B. Advantages of a VAT—What are the three main advantages of a VAT?
   
   C. Disadvantages of VAT—What makes a VAT “invisible” to consumers?
   
III. The Flat Tax
   A. Introduction—What is a flat tax?
   
   B. Advantages of the Flat Tax—What are three advantages of a flat tax?
   
   C. Disadvantages of the Flat Tax—What are two disadvantages of a flat tax?
   
IV. The Inevitability of Future Reforms—What are four factors that ensure further change in the federal tax code?
THE ECONOMICS OF GOVERNMENT SPENDING

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

transfer payments per capita private sector
public sector grant-in-aid resource allocation
distribution of income redistributing income goods and services

Introduction/Government Spending in Perspective
Government is a major player in the economy of the United States, spending more than all privately owned businesses combined. It spends huge amounts on 1 ________________, 2 ________________, and other programs. On a 3 ________________, or per person basis, this amounts to almost $10,000 for every person in the country. The growth in the 4 ________________, which is the part of the economy made up of federal, state, and local governments, has led some people to question what services the government should provide and what should be provided by the 5 ________________—the part of the economy made up of private individuals and privately owned businesses.

Two Kinds of Spending
Government makes two broad kinds of expenditures. The first is for 6 ________________. The second is in the form of what are called 7 ________________. These are payments for which the government receives neither goods nor services in return. One type is known as a 8 _________________. An example is the interstate highway construction programs for which the federal government grants money to cover the major part of the cost. The states through which the highways pass pay the rest.

Impact of Government Spending
Government spending decisions directly affect 9 ________________. Resources are shifted to wherever the government chooses to spend its revenues. Government spending also influences the 10 ________________, or the way in which income is allocated among families, individuals, or other groups in the economy. The government, by producing 11 ________________, is often in competition with producers in the 12 ________________.
For use with textbook pages 260–265

**FEDERAL GOVERNMENT EXPENDITURES**

**RECALLING THE FACTS**

*Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.*

1. What is the difference between mandatory spending and discretionary spending in the federal budget?

2. What is the difference between a fiscal year and the calendar year?

3. What branch of the government is responsible for developing the budget?

4. What is a federal budget surplus?

5. What is a federal budget deficit?

6. What is an appropriations bill?

7. What is the Congressional Budget Office (CBO) and what is its role?

8. What are the 12 categories of expenditures in the federal budget?
STATE AND LOCAL GOVERNMENT EXPENDITURES

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

elementary and secondary education  interest on debt  insurance trust funds
balanced budget amendment  bonds  public utilities
intergovernmental expenditures  public welfare  police protection
higher education

Introduction/Approving Spending
Like the federal government, state and local levels of governments also have to go through a budget process. Some states have enacted a 1 ______________________, which is a constitutional amendment that requires that annual spending not exceed revenues. Under these conditions, states must cut spending when revenues drop.

State Government Expenditures
There are seven major categories of state government expenditures. The largest is 2 ______________________. These are the funds that the state distributes to towns and cities. The second-largest category of expenditures is 3 ______________________. These payments take the form of cash assistance and payments for medical care. Money in 4 ______________________ is invested until such time as people retire, become unemployed, or are injured on the job. Another large category is 5 ______________________, a traditional responsibility of state governments with their networks of state colleges and universities. States borrow money, usually by issuing 6 ______________________. As a result, they must pay 7 ______________________.

Local Government Expenditures
More than one-third of local government spending is on 8 ______________________. Spending on 9 ______________________, such as water and sanitation, amounts to the second most important expenditure. Local spending on 10 ______________________ is higher than it is on the state level. As with the federal and state governments, local governments also borrow money for large capital expenditures, so they must budget for 11 ______________________. However, local governments spend much less than states on 12 ______________________.
DEFICITS, SURPLUSES, AND THE NATIONAL DEBT

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. From the Deficit to the Debt
   A. From the Deficit to the Debt—What is deficit spending?
   B. Deficits Add to the Debt—What is the only way the annual budget can lower the federal debt?
   C. How Big Is the Debt?—Why do most economists tend to disregard trust fund balances?
   D. Public vs. Private Debt—How much of the public debt is owned by foreigners?

II. Impact of the National Debt—What happens to the purchasing power of individuals as a consequence of the federal debt?

III. Taming the Deficit
   A. Gramm-Rudman-Hollings—Why did GRH fail?
   B. Budget Enforcement Act of 1990—What is the BEA’s main feature?
   C. Omnibus Budget Reconciliation Act of 1993—What feature of this act helped account for the 1998 budget surplus?
   D. Balanced Budget Agreement of 1997—What is a spending cap?
   E. Success at Last—What is the connection between entitlements and mandatory spending in the federal budget?
THE EVOLUTION OF MONEY

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What is a barter economy?

2. What are the three functions of money? Define each term.
   a. __________________________
   b. __________________________
   c. __________________________

3. What is commodity money?

4. What is fiat money?

5. In early America, what was used to “back” paper currency?

6. Why was specie considered the most desirable form of money?

7. What is a monetary unit?

8. What characteristics must money have in order to have value?
   a. __________________________
   b. __________________________
   c. __________________________
   d. __________________________
EARLY BANKING AND MONETARY STANDARDS

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Privately Issued Bank Notes
   A. Introduction—What led to Americans’ distrust of paper currency?

   B. Problems with Currency—What three problems arose from having different sources of paper currency?

II. The Greenback Standard
   A. Greenbacks—Why did Congress finally decide to print paper currency?

   B. National Currency—How did the government combine financing the war with currency reform?

III. The Gold Standard
   A. Advantages of a Gold Standard—What are the two advantages of a gold standard?

   B. Disadvantages of a Gold Standard—What effect would the changing price of gold in the world have on a government’s fixed price?

IV. The Inconvertible Fiat Money Standard
   A. Introduction/A Managed Money Supply—What happens when a country has a managed money supply?

   B. Characteristics of Modern Money—How did the money supply affect prices in the 1990s?
THE DEVELOPMENT OF MODERN BANKING

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

Federal Deposit Insurance Corporation
deregulation
savings and loan
deposit
Federal Reserve System
United States Treasury
corporation
thrifts
run on the bank
commercial banks
excess money
credit union

Introduction/Revising the Banking System
Banks fulfill two distinct needs in a community. They provide a safe place for people to
1 _________________ their money, and they lend their 2 _________________ to individuals and
businesses temporarily in need of cash. In 1863, to strengthen the financial system, the federal government set up a
system of nationally chartered and inspected banks.

The Federal Reserve System
Further reform in 1913 created the 3 _________________, or Fed, as a central bank that can lend to other
banks in time of need. Because the Fed was organized as a 4 _________________, member banks have to
buy shares in it. Still, although it is privately owned, the Fed is publicly controlled. During the Great Depression, concern
about the safety of bank deposits often caused a 5 _________________, a rush by depositors to
withdraw their funds before the bank failed. The Banking Act of 1933 created the 6 _________________ to
insure customer deposits in the event of a bank failure.

Other Depository Institutions
Because most banks catered to the interests of business and commerce, they were known as
7 _________________. They had the power to issue checking accounts. Other kinds of banks
included 8 _________________ and savings banks. Another type of financial institution is the
9 _________________ association, or S&L. These depository institutions invest the majority of their
funds in home mortgages. Still another kind is the 10 _________________, a nonprofit service cooperative
owned by, and operated for, the benefit of its members.

Crisis and Reform
The 1980s saw 11 _________________—the removal or relaxation of government restrictions on banking.
This reduced the differences between competing financial institutions. In the 1980s, deregulation led to a crisis in
12 _________________ institutions. The S&L crisis required financial intervention by the government and
new laws. In the future, S&Ls were to be supervised by the 13 _________________. 
SAVINGS AND THE FINANCIAL SYSTEM

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What are savings?

2. What positive effects can savings have on businesses?

3. What is a financial system?

4. What is a financial asset?

5. What is a financial intermediary?

6. What is the circular flow of funds?

7. Which segments of the country are the largest borrowers?

8. What are five examples of nonbank institutions that can act as financial intermediaries? Explain the purpose of each one.
   a. 
   b. 
   c. 
   d. 
   e. 

For use with textbook pages 313–316
INVESTMENT STRATEGIES AND FINANCIAL ASSETS

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Basic Investment Considerations
   A. The Risk-Return Relationship—What is risk?
   B. Investment Objectives—When is an investor more likely to want assets that appreciate rather than generate current income?
   C. Simplicity—Why do analysts advise people to invest in what they know?
   D. Consistency—What do most investment advisers tell people?
   E. 401(k) Plans—How do people contribute to a 401(k) plan?

II. Bonds as Financial Assets
   A. Introduction—What are bonds?
   B. Bond Components—What are the three components of a bond?
   C. Bond Prices—What two factors do investors consider before they decide what to offer for a bond?
   D. Bond Yields—What is a bond’s current yield?

III. Markets for Financial Assets
   A. Introduction/Capital Markets—What is the capital market?
   B. Money Markets—What is a money market?
   C. Primary Markets—What is a primary market?
   D. Secondary Markets—What is the major significance of the secondary market?
INVESTING IN EQUITIES, FUTURES, AND OPTIONS

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

Introduction/Market Efficiency
In addition to financial assets, investors may buy 1 ________________, which are stocks that represent ownership shares in corporations. Many things influence the price of equities, but according to the 2 ________________, stocks are always priced about right because they are followed closely by so many investors. For a cautious investor, then, 3 ________________—the practice of holding a large number of stocks so that increases in some offset declines in others—is the best strategy.

Organized Stock Exchanges
A place where buyers and sellers can meet to trade securities is called a 4 ________________. The oldest stock exchange is the 5 ________________, while the American Stock Exchange tends to be smaller. Regional stock exchanges are located in major cities, and global stock exchanges are found throughout the world.

The Over-the-Counter Market
The majority of stocks in the United States are actually traded on the 6 ________________, an electronic marketplace for securities that are not traded at any 7 ________________, such as the New York Stock Exchange or the American Stock Exchange.

Measures of Stock Performance
There are two popular indicators of the stock market’s performance. The 8 ________________ uses 30 stocks as indicators. The 9 ________________ uses 500 representative stocks. When the market is strong with prices moving up for several months or years in a row, it is called a 10 ________________. When the prices of 11 ________________ move sharply down for several months or years in a row, the market is known as a 12 ________________.

Trading in the Future
In a 13 ________________, investors can agree to buy or sell at a specific date in the future at a predetermined price. Contracts that provide the right to purchase or sell commodities and/or financial assets at some future time and at a price agreed on in advance are called 14 ________________.
MEASURING THE NATION’S OUTPUT

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What things may be excluded from GDP? In each case, give a brief explanation of why.
   a. _____________________________
   b. _____________________________
   c. _____________________________
   d. _____________________________

2. List the five measures of national income.
   a. _____________________________
   b. _____________________________
   c. _____________________________
   d. _____________________________
   e. _____________________________

3. What are the four sectors of the economy? Explain each one briefly.
   a. _____________________________
   b. _____________________________
   c. _____________________________
   d. _____________________________

4. What is the output-expenditure model?
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
GDP AND CHANGES IN THE PRICE LEVEL

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

real GDP market basket current GDP
price index base year consumer price index
producer price index GDP in constant dollars implicit GDP price deflator
inflation

Introduction/Constructing a Price Index
The government works hard to gather data on a rise in the general price level, or 1 ____________________, because it can distort economic statistics. To remove the distortions of inflation, economists construct a 2 ____________________, a statistical series that can be used to measure changes in prices over time. Select a year that serves as the basis of comparison for all other years. This year is called the 3 ____________________. The 4 ____________________ expresses the price of consumer goods in a given year as a percentage of the price of those goods during the base year. Next select the 5 ____________________, a representative selection of goods and services—and record the price of each item in it. Assign a value of 100 percent for the total of all the items.

Major Price Indices
The major price indices include the 6 ____________________ which reports on price changes for about 90,000 items in 364 categories. The 7 ____________________ is a measure of price changes received by domestic producers for their output. It is based on a sample of about 3,000 commodities and uses 1982 as the 8 ____________________. The 9 ____________________ is an index of the average level of prices for all goods and services in the economy.

Real vs. Current GDP
When GDP is not adjusted to remove inflation it is called 10 ____________________, or simply GDP. When the distortions of inflation have been removed, it is called 11 ____________________ or 12 ____________________. 
GUIDED READING Activity 13-3

For use with textbook pages 356–361

GDP AND POPULATION

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Population in the United States
   A. Introduction—Why does the government periodically take a census?
   B. Counting the Population—What are the two classifications of population?
   C. Historical Growth—What has been the trend in the rate of population growth since colonial times?
   D. Regional Change—Which parts of the country are growing in population and which are showing losses?

II. Projected Population Trends
   A. Introduction—How do businesses use what they learn about population trends?
   B. Factors Affecting Population Growth—What are the three most important factors affecting the rate of population growth?
   C. Projections by Age and Gender
      1. What is the population pyramid?
      2. What is the dependency ratio?
   D. Projections by Race and Ethnic Origin
      1. What group currently is the largest component in the total population?
      2. What other racial/ethnic groups make up the total population?
Economic Growth

Filling in the Blanks

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

real GDP per capita  | capital-to-labor ratio | real GDP
--- | --- | ---
tax base | growth triangle | standard of living
short term | renewable resources | labor productivity
economic need | long-term | market economies

Introduction/Economic Growth in the United States
There are two methods of measuring economic growth. When we measure it in the 1 _____________—a period of one to five years—we use 2 _____________, or GDP adjusted to remove the distortions of inflation. When it comes to the long run, however, we need to use 3 _____________ on the dollar amount of real GDP produced on a per person basis. Most economists agree that real GDP per capita is a better measure of 4 _____________ growth because it adjusts for changes in both inflation and population.

Another way to examine growth is with a 5 _____________, a table that shows annual compound rates of growth between selected periods of time.

Importance of Economic Growth
When real per capita output increases, it allows people to raise their 6 _____________, the quality of life based on the possession of necessities and luxuries that make life easier. Economic growth benefits government at all levels because it enlarges the 7 _____________—the incomes and properties that may be taxed. It also can reduce social ills in this country that stem from 8 _____________, such as inadequate medical care, inequality of opportunity, and economic insecurity. Successful economic growth in the United States may also help 9 _____________ in other nations.

Factors Influencing Economic Growth
In using its factors of production, such as land, the United States must be concerned with dwindling resources, only some of which are 10 _____________ that can be replenished for future use. High-quality capital favors overall economic growth because it improves the 11 _____________, which economists obtain by dividing the total capital stock by the number of workers in the labor force. A high capital-to-labor ratio enables individual workers to produce more than they could otherwise. Without entrepreneurs, economic growth is likely to be slow.

Productivity and Growth
The official measure of productivity is 12 _____________—the ratio of output produced per unit of labor input. Productivity goes up when this ratio goes up and down when it goes down. If productivity goes down, the entire economy suffers.
BUSINESS CYCLES AND FLUCTUATIONS

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Business Cycles in the United States
   A. Phases of the Business Cycle—What is the difference between a recession and a depression?

   B. The Great Depression—Why did the government declare a “bank holiday” in 1933?

   C. Causes of the Great Depression—How did easy and plentiful credit contribute to the Great Depression?

II. Causes of the Business Cycle
   A. Capital Expenditures—When do businesses invest heavily in capital goods?

   B. Inventory Adjustments—What is an inventory adjustment?

   C. Innovation and Imitation—What does an innovation usually trigger in industry?

   D. Monetary Factors—What happens when the Fed follows an easy money policy?

   E. External Shocks—Give an example of a positive and negative external shock.

III. Predicting Business Cycles
   A. What is an econometric model?

   B. What is the index of leading indicators?
UNEMPLOYMENT

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. Who are the unemployed?

2. What formula is used to calculate the unemployment rate?

3. For what two reasons do the statistics actually understate employment conditions?
   a. 
   b. 

4. What are the five kinds of unemployment? Briefly define each one.
   a. 
   b. 
   c. 
   d. 
   e. 

5. How does automation affect unemployment rates?

6. What is full employment?
I. Inflation in the United States
   A. Introduction/Measuring Inflation
      1. What is the price level?
      2. How is price level used in determining the rate of inflation?
   B. Degrees of Inflation
      1. What is the difference between creeping inflation and galloping inflation?
      2. What is hyperinflation?

II. Causes of Inflation
   A. In what way does excessive demand cause inflation?
   B. What happens when the federal budget has a surplus?
   C. How do labor costs affect inflation?
   D. What is the wage-price spiral?
   E. What is excessive monetary growth?

III. Consequences of Inflation
   A. How does inflation affect the purchasing power of the dollar?
   B. What part of the population is inflation especially hard on?
   C. What happens if people change their spending habits?
   D. What happens when businesses adjust their spending habits?
POVERTY AND THE DISTRIBUTION OF INCOME

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

food stamps    Lorenz curve    poverty guidelines
discrimination    welfare    income gap
monopoly power    distribution of income    Earned Income Tax Credits
income assistance    workfare    enterprise zones

The Distribution of Income
To evaluate the distribution of income, economists use the 1 ________________, which shows how much the actual distribution of income varies from an equal distribution. This graph shows that the 2 ________________ had become more unequal in the last years of the twentieth century.

Reasons for Income Inequality
A number of reasons explain why the incomes of various groups may be different. One is education, which puts workers in a better position to get higher-paying jobs. Another factor is 3 ________________, which may favor some groups over others in hiring and advancement. Those with natural abilities that are in high demand may earn very high salaries. There are also groups that hold 4 ________________ and are, therefore, in a better position to demand higher wages.

Poverty
Poverty is a relative measure that depends on prices, the standard of living, and the incomes that others earn. People are living in poverty if their incomes fall below the 5 ________________, the annual dollar amounts used to evaluate the money income that families and unrelated individuals receive. One reason for the continued high poverty number is the growing 6 ________________ in the distribution of income. There are several causes for this gap, including structural changes in the economy from goods to service production and the changing structure of the American family.

Antipoverty Programs
Over the years the federal government has instituted a number of programs to help the needy. Most come under the general heading of 7 ________________—economic and social programs that provide the needy with regular assistance. Some programs provide direct cash assistance. Supplemental Security Income (SSI) is an 8 ________________ program that makes cash payments to blind or disabled persons age 65 or older. Other programs, such as 9 ________________, do not provide direct cash payments. Instead, eligible persons receive government-issued coupons that can be redeemed for food. Many working low-income Americans qualify for special tax credits such as the 10 ________________, which provides federal tax credits and sometimes cash. To help businesses start up in run-down or depressed areas, laws have been set up to establish 11 ________________. Because of rising welfare costs, many states now have 12 ________________ programs that require recipients to exchange some of their labor for benefits.
The Federal Reserve System

Recalling the Facts

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What banks must belong to the Fed and what others have a choice whether to belong?

2. What are the main functions of the Board of Governors?

3. What are the functions of the Federal Open Market Committee (FOMC)?

4. What are the three advisory committees that advise the Board of Governors? Explain briefly what each one does.
   a.
   b.
   c.

5. What are two key uses for the reserves that depository institutions must maintain?
   a.
   b.

6. What is a bank holding company and how is it different from a bank?

7. What are four other responsibilities of the Fed? Explain each one briefly.
   a.
   b.
   c.
   d.
MONETARY POLICY

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

open market operations money supply legal reserves
member bank reserve reserve requirement discount rate
excess reserves selective credit controls margin requirements
liabilities fractional reserve system assets
balance sheet

Fractional Bank Reserves
The United States has a 1 ________________ that requires banks to keep a fraction of their deposits in reserve. Under this system, banks are subject to a 2 ________________, a rule stating that a percentage of every deposit be set aside in the form of 3 ________________. The institution can then lend out 4 ________________, which are legal reserves in excess of the reserve requirement. A bank’s debts and obligations, called 5 ________________, and its properties and possessions, called 6 ________________, are shown on a 7 ________________. Bank loans and customer deposits in checking accounts and savings accounts are also shown on the balance sheet.

Fractional Reserves and Monetary Expansion
The fractional reserve system allows the 8 ________________ to grow to several times the size of the reserves the banking system keeps. Suppose someone deposits $1,000. By law, $200 of it must be set aside as a reserve in the form of vault cash or in a 9 ________________, a deposit a member bank keeps at the Fed to satisfy reserve requirements. The remaining $800 can then be lent out. If the $800 is deposited in a member bank, the bank reserves 20 percent, or $160, and can then lend out the remaining $640. This continues, with each new loan being smaller than the one before, though the money supply will stop growing at some point.

Tools of Monetary Policy
The Fed has three major and two minor tools it can use to conduct monetary policy. Each one affects the amount of 10 ________________ in the system, which in turn affects the monetary expansion process. The first tool of monetary policy is the 11 ________________. The Fed can change this requirement and thus have considerable control over the money supply. The most popular tool is 12 ________________—the buying and selling of government securities in financial markets. These operations affect the amount of excess reserves in the banking system and, therefore, the ability of banks to support new loans. The 13 ________________ is the interest the Fed charges on loans to financial institutions. The Fed can limit the number of times a borrower can borrow this way. Other tools the Fed uses include 14 ________________, which are minimum deposits left with a stockbroker to be used as down payments for securities, moral suasion, and 15 ________________—credit rules pertaining to loans for specific commodities or purposes.
MONETARY POLICY, BANKING, AND THE ECONOMY

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What is the short-term effect of an increase or decrease in the money supply?

2. What is the prime rate?

3. What does it mean for the Fed to “monetize the debt”?

4. What is the real rate of interest and why is it used?

5. How do the issues of timing and burden impact the Fed’s monetary policy?
   a. timing:
   b. burden:

6. What effect do low interest rates have on future allocations?

7. What effect do high interest rates have on future allocations?

8. What do these money supplies consist of?
   a. M1:
   b. M2:
THE COST OF ECONOMIC INSTABILITY

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. The Economic Costs
   A. The GDP Gap—What does the GDP gap measure?
   B. The Misery Index—What makes the misery index relevant only over long periods?
   C. Uncertainty
      1. What effect might a decline in the real GDP have on workers?
      2. What effect might a decline in the real GDP have on the owners of businesses?

II. The Social Costs
   A. Wasted Resources—In what way is the labor resource wasted during a period of instability?
   B. Political Instability—What effect does economic instability have on politicians?
   C. Crime and Family Values
      1. What are some of the social ills that result from economic instability?
      2. In what way might a healthy economy affect people?
MACROECONOMIC EQUILIBRIUM

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

aggregate demand  
aggregate supply  
aggregate supply curve  
supply and demand  
aggregate demand curve  
macroeconomic equilibrium

Aggregate Supply
To study the economy, we can use the tools of 1 _________________. One approach is to study 2 ________________, the total value of goods and services that all firms would produce in a specific period of time at various price levels. The concept of aggregate supply assumes that the money supply is fixed and that a given price level prevails. We could construct an 3 ________________, which shows the amount of real GDP that could be produced at various price levels. The aggregate supply curve can increase and decrease.

If the production costs go down for all firms, the 4 ________________ increases. On the 5 ________________, this shows as a curve to the right. When the costs of production go up, the 6 ________________ shifts to the left.

Aggregate Demand
The total quantity of goods and services demanded at different price levels is 7 _________________. The 8 ________________ is a graph showing the quantity of real GDP that would be purchased at each possible price level in the economy. It represents the sum of consumer, business, and government demands at various price levels. The aggregate demand curve shifts to the right if consumers collectively save less and spend more, thus increasing 9 ________________.

Macroeconomic Equilibrium
The level of real GDP consistent with a given price level as determined by the intersection of the aggregate supply and demand curves is the 10 _________________. These curves are useful concepts for analyzing equilibrium, economic growth, and price stability, but they do not yield exact predictions.
STABILIZATION POLICIES

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What is the goal of demand-side policies?

2. What is fiscal policy and from whose theories does it derive?

3. According to Keynes, which sector of the economy creates economic instability?

4. What is Keynes’s justification for temporary federal deficits?

5. What are automatic stabilizers and how do they keep the economy from getting much worse?

6. What is supply-side economics?

7. What is the Laffer curve and in what way was it misleading?

8. Who are monetarists and what policy do they favor to combat inflation?
ECONOMICS AND POLITICS

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

recognition lag structural budget caps
passive discretionary monetary policy
economic politics Council of Economic Advisers monetarist

Introduction/The Changing Nature of Economic Policy
The federal government attempts to manage fiscal policy to achieve economic prosperity. Fiscal policy can take any of three forms. Policy that someone must choose to implement is called 1 fiscal policy. When no new or special action is required, that is 2 fiscal policy. When it involves plans and programs to strengthen the economy in the long run, it is 3 fiscal policy. The 4, the time between the beginning of a recession or a period of inflation and the awareness that it is happening, is a reason that 5 fiscal policy is used less today. Other reasons include the short duration of recessions and the Congressional deadlocks over tax cut proposals that occurred in the 1990s. Congress has also imposed 6 on government spending, which give Congress little leeway to pursue such policies. Automatic stabilizers such as unemployment insurance and Social Security contribute to the stability of the American economy, and are part of 7 fiscal policies. The void left by declining use of discretionary fiscal policy has been filled by the 8 of the Fed.

Why Economists Differ
Choosing what economic policies will work best is difficult. Each point of view is a product of the problems of the times. The 9 policies of the period following the Great Depression were not designed to deal with inflation. The 10 point of view that emerged in the 1960s and 1970s offered long-term solutions but little short-term relief. Supply-side economics grew out of frustration with such past policies.

Economic Politics
Politics and economics seem to have merged in what might be called 11. Today’s politicians are concerned with the economic consequences of what they do. A three-member group called the 12 reports to the president on economic developments and also proposes strategies.
ABSOLUTE AND COMPARATIVE ADVANTAGE

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. Why is specialization the key to trade?

2. What is the difference between exports and imports?

3. What would happen without international trade?

4. Under what circumstances does a country have an absolute advantage?

5. Under what circumstances does a country have a comparative advantage?

6. On what assumption is the concept of comparative advantage based?
Barriers to International Trade

Outlining

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Restricting International Trade
   A. Tariffs—What is a protective tariff? A revenue tariff?
   B. Quotas—How are quotas typically used?

II. Arguments for Protection
   A. Introduction
      1. What do protectionists want?
      2. What do free traders want?
   B. National Defense
      1. How do protectionists use national defense as an argument to support trade barriers?
      2. What is the free traders’ argument in response?
   C. Promoting Infant Industries—What is the infant industry argument?
   D. Protecting Domestic Jobs
      1. How could tariffs and quotas protect domestic jobs?
      2. What do free traders say would happen if inefficient industries are protected?
   E. Keeping the Money at Home
      1. What is the response of free traders to this argument?
      2. What industries can be hurt by this type of protectionism?
   F. Helping the Balance of Payments—What is the balance of payments?
FINANCING AND TRADE DEFICITS

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

flexible exchange rate  trade deficit  fixed exchange rate
foreign exchange rate  trade surplus  foreign exchange markets
trade-weighted value of the dollar

Introduction/Financing International Trade
Because each country has its own currency, trade between nations is made somewhat more complicated. Foreign currencies are bought and sold in 1 _________________. This market includes banks that help secure foreign currencies for importers, as well as banks that accept foreign currencies from exporters. The 2 ________________ is the price of one country's currency in terms of another country's currency. There are two types of exchange rates. Under a 3 ________________ system, the price of one currency is fixed in terms of another so that the rate does not change. This system was used when the world was on the gold standard. Now, under the 4 ________________, the forces of supply and demand establish the value of one country's currency in terms of another country's currency.

Trade Deficits and Surpluses
A country has a 5 ________________ whenever the value of the products it imports exceeds the value of the products it exports. It has a 6 ________________ whenever the value of its exports exceeds the value of its imports. Each is dependent on the international value of its currency. The Fed keeps a statistic that measures the international value. It is called the 7 ________________, and it is an index that shows the strength of the dollar against a group of foreign currencies. When the index falls, the dollar is weak. When the index rises, the dollar is strong.

A persistent trade imbalance tends to reduce the value of a country's currency. The devalued currency can affect income and employment in that country's industries. A shift in employment between import and export industries is one of the biggest problems with a 8 ________________. That shift can correct itself, as it did in the automobile industry. The 9 ________________ encourages an automatic correction of trade deficits. A strong currency tends to cause a trade deficit; a weak currency tends to cause a 10 ________________, which eventually pulls up the value of the currency.
THE SPECTRUM OF ECONOMIC SYSTEMS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What are the six advantages of capitalism?
   a. 
   b. 
   c. 
   d. 
   e. 
   f. 

2. Which group benefits most from socialism and why?

3. What makes socialism less efficient than capitalism?

4. What are four characteristics of communism?
   a. 
   b. 
   c. 
   d. 

5. What are five disadvantages of communism? Explain briefly why they are disadvantages.
   a. 
   b. 
   c. 
   d. 
   e. 

For use with textbook pages 491-494
THE RISE AND FALL OF COMMUNISM

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. The Economy Under Lenin and Stalin
   A. What happened to private property under Lenin?

   B. What was Stalin’s Five-Year Plan designed to do?

   C. After World War II, what did the later economic plans concentrate on?

II. The Soviet Economy After Stalin
   A. Introduction—What was the status of the Soviet economy at the time of Stalin’s death?

   B. Difficulties with Agriculture—What was one reason that contributed to agricultural inefficiency?

III. The Soviet Economy Collapses
   A. How close did the Soviet Union come to catching up with the United States economy?

   B. Production Quotas—How did quotas affect the quality of goods produced?

   C. Perestroika—What was perestroika?
THE TRANSITION TO CAPITALISM

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

benefits Solidarity black market
privatization private property unemployment
entrepreneurs vouchers Great Leap Forward

Introduction/Problems of Transition
A key feature of capitalism is 1 _________________, especially capital. The process of converting state-owned factories to private ownership is called 2 _________________. Some communist governments gave or sold its people 3 _________________, certificates that were essentially corporate shares in companies that were privatized. In other cases, state-owned companies were sold to foreign investors. The transition to capitalism transferred power from political leaders to capitalists and 4 _________________. However, there are disadvantages in making the transition from communism to capitalism. Disadvantages of capitalism include instability and 5 _________________. Nations in transition may experience the instabilities of capitalism before they experience its 6 _________________. People in these countries must learn to think for themselves.

Countries and Regions in Transition
The newest nations to embrace capitalism are those that were unwilling members of the Soviet bloc. These include Poland, where freedom began with 7 _________________, the independent and sometimes illegal union that Lech Walesa established in 1980. Hungary was well on its way to capitalism, in part because it had a flourishing 8 _________________—a market in which entrepreneurs and merchants sold goods illegally. In China the 9 _________________ of 1958 was a disaster. Although other plans followed, the government eventually recognized that the country was too big for large-scale centralized planning. By the 1980s, some parts of China were following free market practices. Today China is allowing the 10 _________________ of industry and introducing market reforms in a decidedly capitalistic manner.
THE VARIOUS FACES OF CAPITALISM

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. In what major way is Japan’s capitalist economy different from that of the United States?

2. What factor forced Japan to boost productivity by developing capital-intensive industries?

3. What is a keiretsu? Explain its purpose.

4. How has the Japanese government helped to limit foreign competition in the domestic market?

5. In what way have Japanese consumers suffered from the government’s actions?

6. What led to the banking crisis in the 1990s?

7. What did the government do in response to this crisis?

8. What four countries are known as the “Asian Tigers”?

9. What was the reason behind Sweden’s economic restructuring?
For use with textbook pages 521–526

ECONOMIC DEVELOPMENT

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

developing countries   external debt   crude birthrate
population growth      life expectancy   capital flight
technical skills       International Monetary Fund   zero population growth
World Bank

Introduction/Interest in Economic Development
The industrialized countries of the world have helped 1 ________________ for various humanitarian, economic, and political reasons. The income gap between the two groups is large.

Obstacles to Economic Development
One major obstacle to closing that gap is 2 ________________. The populations of most developing countries grow at a rate much faster than the populations of industrialized nations. One reason for this growth is the high 3 ________________, the number of live births per 1,000 people. People in developing countries are also experiencing an increasing 4 ________________—the average remaining lifetime in years for persons who reach a certain age. Some countries, like China, have actively encouraged smaller families, and many people feel that because the earth is so crowded, societies should work for 5 ________________—the condition in which the average number of births and deaths balance so that a population stops growing.

Still another obstacle to economic development is lack of education and the high level of 6 ________________, needed to build an industrial society. Religious beliefs may also stand in the way of economic development. Another major problem is the size of these countries’ 7 ________________, money borrowed from foreign banks and governments. Other problems include 8 ________________, the legal or illegal export of a nation’s currency and foreign exchange, corruption, and war and its aftermath.

Countries wanting to set up an international system of fixed exchange rates formed the 9 ________________ in 1944. Today the IMF offers advice to all nations on monetary and fiscal policies and helps developing nations compete in an open market and attract foreign investors. Another important international lending and development agency is the 10 ________________, which makes loans and provides financial assistance.
A FRAMEWORK FOR DEVELOPMENT

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Stages of Economic Development
   A. Introduction/Primitive Equilibrium
      1. What is the first stage toward economic development?
      2. In what way is it “primitive”?
   B. Transition
      1. What happens in the second stage of economic development?
      2. What is usually the cause of a country reaching this stage?
   C. Takeoff
      1. When does a country reach this stage?
      2. What begins to happen at this stage?
   D. Semidevelopment
      1. What begins to change at this stage?
      2. What part does international trade have in this stage?
   E. High Development
      1. Where does people’s attention turn at this stage?
      2. What are signs of a highly developed economy?

II. Priorities for Industrialized Nations
   A. What does the World Bank recommend developed nations do about trade barriers?
   B. What would be the results of reforming macroeconomic policy?

III. Priorities for the Developing Countries—In what way will countries with open markets benefit?
FINANCING ECONOMIC DEVELOPMENT

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What makes internal funds important to a developing country?

2. What makes it difficult for a developing country to produce financial capital from savings?

3. In what three ways can a developing country obtain external funds?
   a. 
   b. 
   c. 

4. What are two forms that regional cooperation between countries can take? Explain each one briefly.
   a. 
   b. 

5. In what way is the European Union (EU) a single market?

6. What is ASEAN and what are its goals?

7. What is OPEC and what are its goals?

8. What decision did the South Korean government make that turned its economy around?
THE GLOBAL DEMAND FOR RESOURCES

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. The Global Population Issue
   A. Malthus’ Views on Population—What makes Malthus’ views relevant in today’s world?
   B. World Population Trends—What is the annual population growth rate?

II. Nonrenewable Energy Sources
   A. How is population pressure affecting the supply of fossil fuels?
   B. What is the prediction for the depletion of coal deposits?

III. Renewable Energy Sources
   A. When did the search for renewable energy sources become more popular?
   B. What is an example of biomass and what makes biomass sources important?

IV. Other Resources
   A. What is an aquifer?
   B. What is urban sprawl?
ECONOMIC INCENTIVES AND RESOURCES

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. The Price System
   A. What was the result of the 1973 oil embargo?
   B. What caused the worldwide oil glut in 1981?
   C. How does the price system encourage the conservation of water?
   D. What will be the end result of the effect of the price system on agricultural output?
   E. How did Congress try to stimulate gas production?
   F. How was gas production consistent with the Law of Supply?

II. Pollution and Economic Incentives
   A. The Incentive to Pollute
      1. Why does pollution occur?
      2. How was polluting based on sound economic reasoning?
      3. How can pollution be controlled?
   B. Controlling Pollution
      1. What are legislated standards?
      2. What is a problem with legislative standards?
      3. How do pollution taxes motivate companies to stop polluting?
      4. Even if a company does not stop polluting, how does this non-compliance improve the quality of the environment?
   C. Pollution Permits
      1. What government agency issues pollution permits?
      2. How do pollution permits contribute to the price system?

III. Using Resources Wisely—How do higher prices help conserve resources?
APPLYING THE ECONOMIC WAY OF THINKING

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What are the five steps to economic decision making as recommended by the National Council on Economic Education?
   a. ____________________________________________________
   b. ____________________________________________________
   c. ____________________________________________________
   d. ____________________________________________________
   e. ____________________________________________________

2. What is cost-benefit analysis? ____________________________________________________

3. What types of costs does any economic decision involve? ________________________________

4. What was the capitalism of the 1930s like? __________________________________________

5. In what ways has that early capitalism been modified? _________________________________

6. What has happened to these competing economic systems?
   a. communism in the Soviet Union: _______________________________________________
   b. socialism: _________________________________________________________________

7. What do we know about capitalism that encourages us to be optimistic about its future?
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
Chapter 1
Chapter 1–1
1. scarcity of resources, which results from society not having enough resources to produce all of the things people would like to have
2. A need is a basic requirement for survival and includes food, clothing, and shelter. A want is a way of expressing a need.
3. “There is no such thing as a free lunch.” It means that most things in life are not free because someone has to pay for the production in the first place.
4. a. What to produce? b. How to produce? c. For whom to produce?
5. a. land: natural resources not created by humans; b. capital: the tools, equipment, machinery, and factories used in the production of goods and services; c. labor: people with all their efforts, abilities, and skills; d. entrepreneur: a risk-taker in search of profits who does something new with existing resources
6. the process of creating goods and services
7. a. description: We need to know what the world around us looks like. b. analysis: It helps us to discover why things work and how things happen. c. explanation: If we all have a common understanding of the way our economy works, some economic problems will be much easier to address or even fix in the future. d. prediction: It can help predict what may happen as well as the likely consequences of different courses of action.

Chapter 1–2
I.A. One cannot get enough economic products to satisfy individual wants and needs
I.B. A consumer good is intended for final use by individuals; a capital good is used to produce other goods and services.
I.C. work performed for someone
I.D. a person who uses goods and services to satisfy wants and needs
II.A. a worth that can be expressed in dollars and cents
II.B. the situation in which some necessities have little monetary value while some non-necessities have a much higher value
II.C. utility
II.D. the accumulation of those economic products that are tangible, scarce, useful, and transferable
III.A. the market
III.B. the markets in which productive resources are bought and sold
III.C. in product markets
IV.A. the amount of output produced by a given amount of inputs in a specific period of time
IV.B. They increase productivity.
IV.C. Government can help provide education and health care; businesses can provide training; individuals can further their own education.

Chapter 1–3
1. trade-offs
2. decision-making grid
3. Opportunity cost
4. opportunity cost
5. fully employed
6. production possibilities frontier
7. maximum combinations
8. fully employed
9. opportunity cost
10. production possibilities frontier
11. cost-benefit analysis
12. free enterprise economy
13. standard of living

Chapter 2
Chapter 2–1
1. an organized way of providing for the wants and needs of people
2. a. The allocation of scarce resources and nearly all other economic activity stems from ritual, habit, or custom.
   Advantages: Everyone knows what role to play.
   Disadvantages: It tends to discourage new ideas and new ways of doing things; lack of progress leads to a lower standard of living than in other types of economic societies.
   b. A central authority makes most of the economic decisions, and people are expected to go along with the leaders’ choices.
   Advantages: It can change direction drastically in a relatively short time; public services available.
Disadvantages: It is not designed to meet the wants of consumers; does not give people the incentive to work hard; requires a large decision-making bureaucracy; does not have the flexibility to deal with minor, day-to-day problems; people with new or unique ideas find it difficult to get ahead.

c. People and firms act in their own best interests; buyers and sellers can come together in order to exchange goods and services.

Advantages: It can adjust to change over time; there is a high degree of individual freedom; there is a relatively small degree of government interference; decision making is decentralized; there is a great variety of goods and services available to consumers; there is a high degree of consumer satisfaction.

Disadvantages: It does not provide for everyone’s basic needs; it does not provide enough of the services that people want and need; there is a relatively high degree of uncertainty; market economies can fail under certain conditions.

Chapter 2–2

I.A.1. economic and social
I.A.2. seven
I.B.1. They can choose their own occupations, employers, and uses for their money.
I.B.2. the freedom to choose where and how they produce
I.C.1. Fewer goods and services are produced and fewer wants and needs can be satisfied.
I.C.2. so that benefits gained are greater than costs incurred
I.D.1. equal pay for equal work; forbidding advertisers to make false claims about their products
I.D.2. laws that allow new car buyers to return their cars if they have too many repairs
I.E.1. adverse economic events
I.E.2. disability and retirement benefits
I.F.1. They earn income for themselves while they produce goods and services for others.
I.F.2. People cannot support themselves or their families, nor can they produce output for others.
I.G.1. a rise in the general level of prices
I.G.2. They find it harder to meet their bills and plan for the future.
I.H. so that people can continue to have adequate goods and services

Chapter 2–3

1. capitalism
2. free enterprise
3. economic freedom
4. voluntary exchange
5. private property rights
6. profit
7. profit motive
8. capitalism
9. competition
10. free enterprise
11. consumer sovereignty
12. mixed economy
13. modified private enterprise economy

Chapter 3

Chapter 3–1

1. Advantages: It is easy to start up; there is a relative ease of management; the owner does not have to share profits; the business is exempt from taxes on income; owners have a sense of personal satisfaction; the business can be closed down easily.

Disadvantages: The owner has unlimited liability; financial capital may be difficult to raise; sole proprietors often have limited capital and limited inventory; the owner may not have good managerial experience; it may be difficult to attract qualified employees; the business ceases to exist when the owner dies, quits, or sells the business.

2. In a general partnership, all partners are responsible for the management and financial obligations of the business. In a limited partnership, at least one partner is not active in the daily affairs of the business.

3. a court-granted permission to an individual or business to cease or delay debt payments

4. Advantages: Capital is easy to raise by selling stock; owners can hire professional managers to run the firm; owners have limited liability; the firm continues to exist even when ownership changes.
Disadvantages: Obtaining a charter is expensive; owners have little say in the running of the business once they have voted for a board of directors; some corporate income is double taxed; corporations are subject to more government regulation.

5. A bond is a written promise to repay, at a later date, the amount borrowed, which is known as the principal. While the money is borrowed, the corporation pays interest, or the price paid for the use of another’s money.

Chapter 3–2
I.A. the real measure of profits
I.B.1. reinvest it in the form of new plants, equipment, and technologies
I.B.2. may produce additional products to generate additional sales and a larger cash flow during the next sales period
II.A.1. One gives up its separate legal identity.
II.A.2. to grow faster, become more efficient, acquire or deliver a better product, eliminate a rival, or change an image
II.B. A horizontal merger is when two or more firms producing the same kind of product merge. A vertical merger is when firms involved in different steps of manufacturing or marketing merge.
II.C. to protect overall sales and profits if one product line fails
II.D. Advantages include: They transfer new technology and generate new jobs in areas where jobs are needed and produce tax revenues for the host country.
Disadvantages include: They may abuse their power by paying low wages, export scarce natural resources, or adversely interfere with the development of local businesses.

Chapter 3–3
1. nonprofit organizations
2. cooperative
3. consumer cooperative
4. service cooperative
5. credit union
6. labor union
7. collective bargaining
8. professional association
9. public utilities

Chapter 4
Chapter 4–1
1. the consumer’s desire, ability, or willingness to buy the product
2. the part of economics that deals with the behavior and decision making of small groups
3. to show the quantity demanded of a particular product at all possible prices that might prevail in the market at a given time
4. The demand curve is similar to a demand schedule because it tells the quantity that consumers will demand at each and every price. It is different from a demand schedule because it presents information in the form of a graph instead of a table.
5. that the demand for a good or service varies inversely with its price
6. the quantities demanded by everyone who is interested in purchasing the product
7. the extra usefulness or satisfaction a person gets from acquiring or using one more unit of a product
8. The more units a person has bought, the less willing the person is to buy more.

Chapter 4–2
I.A. a change in price
I.B.1. Consumers pay less for a product and thus have more income to spend.
I.B.2. The quantity demanded goes down.
I.C. replace the more costly item with a less costly one
II.A. when people are willing to buy different amounts of a product at the same prices
II.B. Consumers are able to buy more products at each and every price.
II.C. advertising, news reports, fashion trends, the introduction of new products, and changes in season
II.D. It tends to increase.
II.E. It usually leads to a decrease in demand for its complement.
II.F.1. Demand decreases because consumers are willing to put off purchases and wait for the new product.
II.F.2. It increases because consumers stock up.
II.G.1. It shifts to the right, reflecting the increase in consumer demand.
II.G.2. It shifts to the left, reflecting the decline in market demand.

Chapter 4–3
1. elasticity
2. demand elasticity
3. elastic
4. inelastic
5. unit elastic
6. proportional
7. total expenditures
8. inverse
9. elastic
10. inelastic
11. unit elastic
12. inelastic
13. elastic
14. elastic

Chapter 5
Chapter 5–1
1. Suppliers will normally offer more for sale at high prices and less at lower prices.
2. a. A supply schedule shows the various quantities of a particular product supplied at all possible prices in the market. b. A supply curve shows the various quantities supplied at each and every price that might prevail in the market. c. A market supply curve shows the quantities offered at various prices by all firms that offer the product for sale in a given market.
3. a change in price
4. less is offered for sale at each and every price
5. a. cost of inputs; b. productivity; c. technology; d. taxes and subsidies; e. expectations; f. government regulations; g. number of sellers
6. a measure of the way in which quantity supplied responds to a change in price
7. a relatively smaller change in quantity supplied
8. a proportional change in the quantity supplied

Chapter 5–2
I.A. In the short run output will change as one input is varied while the others are held constant.
I.B. It becomes harder to gauge the impact of a single variable on total output.

Chapter 5–3
1. fixed costs
2. overhead
3. variable costs
4. total costs
5. marginal costs
6. variable costs
7. e-commerce
8. fixed costs
9. Total revenue
10. marginal revenues
11. marginal analysis
ANSWER KEY

12. total costs
13. marginal costs
14. marginal revenues

Chapter 6
Chapter 6–1
1. a. Prices are neutral because they are the result of competition between buyers and sellers. b. Prices are flexible because buyers and sellers adjust their consumption and production according to the level of prices. c. Prices have no cost of administration. d. Prices are familiar and easily understood.

2. a system under which an agency, such as government, decides everyone’s “fair” share; during wartime

3. a. fairness in that almost everyone feels his or her share is inadequate; b. high administrative costs because someone has to pay for such things as printing coupons and distribution; c. diminished incentives because rationing has a negative impact on people’s incentive to work and produce

4. a partial refund of the original price of the product; used to move inventories

Chapter 6–2
I.A. to help analyze behavior and predict outcomes
I.B. a competitive market
I.C. It will go down—a little if the surplus is small and much more if it is large.
I.D. Both will go up.
I.E. It will tend to remain stable.
II.A. a change in supply, a change in demand, or both; elasticity of demand
II.B. weather conditions
II.C. Price changes dramatically.
II.D. Political instability increases the demand for gold, which drives up the price.
III.A. It serves as a model by which to measure the performance of other, less competitive market structures.
III.B. They allocate resources efficiently.

Chapter 6–3
1. social goals
2. equity and security
3. social goals
4. price ceiling

Chapter 7
Chapter 7–1
1. The role of government is confined to protecting private property, enforcing contracts, settling disputes, and protecting businesses against foreign goods.

2. the nature and degree of competition among firms operating in the same industry

3. a. perfect competition; b. monopolistic competition; c. oligopoly; d. monopoly

4. a. There are a large number of buyers and sellers, so that no single group is powerful enough to affect the product’s price. b. Buyers and sellers deal in identical products, so there is no need to advertise. c. Buyers and sellers act independently, with sellers competing against each other for the consumer’s dollar and buyers competing for the best price. d. Buyers and sellers are well-informed about the product and price, so that the sellers can match the price of a competitor and buyers know the best price to pay. e. Buyers and sellers are free to enter into business, so that no single producer in any industry can keep the market to themselves.

5. a. natural: a market situation, such as a public utility, in which costs are minimized by having a single firm produce the product; b. geographic: based on the absence of other sellers in a geographic area; c. technological: based on ownership or control of a manufacturing method, process, or other scientific advance; d. government: involving products that private industry cannot adequately provide

Chapter 7–2
1. inadequate competition
2. artificial shortages
3. Inadequate competition
4. adequate information
5. market failure
6. unemployed
ANSWER KEY

7. externality
8. negative externality
9. positive externality
10. externality
11. market failure
12. market failure
13. public goods

Chapter 7–3
I.A. monopolies, combinations, and trusts
I.B. restraints and monopolies that hindered competition
I.C. to give government greater power against monopolies, especially regarding price discrimination
II.A. in the case of a natural monopoly that can take advantage of lower production costs and is government regulated
II.B. A public commission or other government agency usually approves prices.
III.A. to reveal information to the public
III.B. Companies cannot make false claims about their products.
IV.A. extensive information about business activities, product reviews, and virtually every government document and report
V.A. the passage of laws to prevent monopolies and protect the rights of workers; food and drug laws; strict government regulations of some industries
V.B. the mixture of different market structures, different kinds of business organizations, and varying degrees of government regulation

Chapter 8

Chapter 8–1
1. the branch of economics dealing with the economy as a whole, including employment, gross domestic product, inflation, economic growth, and the distribution of income
2. members of the armed forces, the prison population, and other institutionalized persons
3. The trade, or craft, union is an association of skilled workers who perform the same kind of work; the industrial union is made up of all workers in a given industry.
4. a. Workers can strike, or refuse to work until management meets certain demands. b. A boycott is a mass refusal to buy products from target employers or companies.
5. a. Employers can use a lockout, which is a refusal to let employees work until they meet management demands. b. Owners may set up a company union—organized, supported, or run by employees—to head off efforts by others to organize workers.
6. It exempted labor unions from prosecution under the Sherman Antitrust Act, so that it could not be charged with restraint of trade in its efforts to use boycotts to achieve its ends.
7. It established the right of unions to collective bargaining and created the National Labor Relations Board, with power to police unfair labor practices.
8. It fixed a federal minimum wage for workers involved in interstate commerce, established time-and-a-half pay for overtime, and prohibited oppressive child labor.
9. It gave employers the right to sue unions for breaking contracts and prohibited unions from making union membership a condition for hiring. It also made it illegal for unions to contribute to political campaigns, required them to give 60 days’ notice before going on strike, established an 80-day cooling off period to delay a strike in case of a national emergency, and allowed individual states to pass right-to-work laws that made it illegal to force workers to join a union as a condition of employment.

Chapter 8–2
I.A. to deal more effectively with management
I.B. a situation in which the employer agrees to hire only union members
I.C. an employment situation in which workers do not have to belong to the union to be hired but must join soon after
I.D. If workers voluntarily join the union, they must remain members for as long as they hold their jobs.
I.E. They are subject to the same contract.
II.A. Representatives from both sides meet to discuss issues and come to an agreement.
II.B. to find a solution that both parties will accept by bringing in a neutral third person or persons to help settle a dispute
II.C. Arbitration is binding; mediation is not.
II.D. an agreement between union and management to have a neutral third party collect facts about a dispute and present non-binding recommendations
II.E. to allow the government to negotiate with the union

II.F. A president can enter a labor-management dispute by publicly appealing to both sides to resolve their differences. A president can use emergency powers to end some strikes.

Chapter 8–3

1. unskilled labor
2. semiskilled labor
3. skilled labor
4. professional labor
5. cost
6. wage rate
7. traditional theory of wage determination
8. equilibrium wage rate
9. theory of negotiated wages
10. signaling theory
11. labor mobility

Chapter 8–4

1. When unions raise their wages substantially above the wages paid to nonunion workers, some union-made products become more expensive. Sales are lost to lower-cost foreign and nonunion producers. This forces unionized companies to cut back on production, which causes layoffs and unions to lose some of their members.
2. a wage, fringe benefit, or work rule given up when a union negotiates a labor contract
3. a system that keeps high wages for current workers but has a much lower wage for newly hired workers
4. an invisible barrier that obstructs the advancement of women and minorities
5. The Civil Rights Act set up the Equal Employment Opportunity Commission (EEOC), which investigates charges of discrimination. The government can bring suit against a company and force it to remedy discrimination.
6. the principle stating that people should receive equal pay for work that is different from, but just as demanding as, other work
7. a guaranteed contract reserved exclusively for a targeted group

8. Part-timers receive few of the health, retirement, and other benefits received by full-time workers. Also, part-time salaries may be lower than those of full-time workers.

Chapter 9

Chapter 9–1

I.A. Cost of production may rise; if people buy less, firms may cut back on production; unemployment may rise.

I.B. a relatively high tax designed to raise revenue and reduce consumption of a socially undesirable product such as liquor or tobacco

I.C. It might reduce them by changing the incentives to save, invest, and work.

I.D. a consumer’s demand curve that is relatively inelastic

II.A. fewer exceptions, deductions, and exemptions
II.B. They should be simple and easy to understand.
II.C. their being relatively easy to administer and reasonably successful at generating revenue

III.A. Those who benefit from government goods and services should pay in proportion to the amount of benefits they receive.

III.B. It recognizes that societies cannot always measure the benefits derived from government spending; it assumes that people with higher incomes suffer less discomfort paying taxes than people with lower incomes.

IV.A. proportional, progressive, and regressive
IV.B. the tax rate that applies to the next dollar of taxable income

Chapter 9–2

1. individual income tax
2. corporate income tax
3. payroll withholding system
4. Internal Revenue Service
5. indexing
6. FICA
7. medicare
8. medicare
9. corporate income tax
10. excise taxes
11. estate tax
12. gift tax
ANSWER KEY

13. customs duty
14. user fees

Chapter 9–3

1. funds collected by one level of government that are distributed to another level of government for expenditures
2. a. States receive funds from the federal government to help with certain expenditures. b. The sales tax, collected by merchants on consumer purchases of products, is the second largest source.
3. a. employee retirement contributions; b. individual income taxes
4. a. interest earnings on surplus funds; b. tuition and other fees collected from state-owned colleges, universities, and technical schools; c. corporate income taxes; d. hospital fees
5. a. intergovernmental revenues; b. property taxes; c. utility and liquor store income
6. income, tax withholdings, and any other deductions

Chapter 9–4

I.A. They got relief in the form of accelerated depreciation and investment tax credit.
I.B. the need for the government to balance its budget
I.C. the higher marginal tax brackets introduced in 1993 meant that individuals and corporations paid more taxes, and strong economic growth
I.D. a 10 percent bracket was added
II.A. The VAT is levied at every step of the production process while a sales tax is simply added at the end.
II.B. It is hard to avoid; it is widely spread; it is easy to collect.
II.C. It is not obvious that the VAT is what has raised the price of any item.
III.A. a proportional tax on individual income after a specified threshold has been reached
III.B. the simplicity it offers to taxpayers, it closes most loopholes, reduces the need for tax preparers
III.C. It removes homeownership and charitable deductions, and it will benefit those with high incomes at the expense of lower-income individuals.

Chapter 10

Chapter 10–1

1. goods and services
2. transfer payments
3. per capita
4. public sector
5. private sector
6. goods and services
7. transfer payments
8. grant-in-aid
9. resource allocation
10. distribution of income
11. goods and services
12. private sector

Chapter 10–2

1. Mandatory spending is authorized by law so that it continues without the need for annual approvals by Congress. Discretionary spending refers to programs that must receive annual authorization.
2. A fiscal year is any 12-month financial planning period; it may or may not coincide with the calendar year, January–December.
3. the executive branch
4. an excess of revenues over expenditures
5. the shortfall when expenditures are larger than revenues
6. an act of Congress that allows federal agencies to spend money for specific purposes
7. a congressional agency that evaluates the impact of legislation and projects future revenues and/or expenditures that will result from the legislation
8. Social Security; national defense; income security; medicare; interest on the federal debt; health; education, training, employment, and social services; transportation; veterans’ benefits; administration of justice; natural resources and environment
ANSWER KEY

Chapter 10–3
1. balanced budget amendment
2. intergovernmental expenditures
3. public welfare
4. insurance trust funds
5. higher education
6. bonds
7. interest on debt
8. elementary and secondary education
9. public utilities
10. police protection
11. interest on debt
12. public welfare

Section 4
I.A. spending in excess of revenues collected
I.B. by generating a surplus
I.C. because trust fund balances represent money the government owes to itself
I.D. 15 to 20 percent
II. It goes down.
III.A. Congress discovered a way around the law, and automatic cuts were suspended when the economy was weak.
III.B. a “pay-as-you-go” provision
III.C. the fact that the individual income tax became more progressive
III.D. legal limits on annual discretionary spending
III.E. Entitlements make up most of the mandatory appropriations in the budget.

Chapter 11
Chapter 11–1
1. a moneless economy that relies on trade
2. a. It must serve as a medium of exchange and be accepted by all parties as payment for goods and services. b. It must be accepted as a measure of value or a common denominator that can be used to express worth in terms that individuals understand. c. It must serve as a store of value and allow purchasing power to be stored until needed.
3. money that has an alternative use as an economic good, or commodity
4. money by government decree
5. gold and silver deposits in banks
6. for its mineral content and because it was in short supply
7. a standard unit of currency
8. a. portability; b. durability; c. divisibility; d. limited availability

Chapter 11–2
I.A. Continental currency became worthless after the Revolution.
I.B. There were hundreds of different kinds in circulation. A bank might issue more notes than it could redeem. Notes could be easily counterfeited.
II.A. to raise money for the Civil War
II.B. Any group wanting to set up a national bank had to first purchase government bonds as part of the requirement to get the national charter.
III.A. Some people feel more secure about their money if they know it can be converted into gold. It prevents the government from printing too much paper currency.
III.B. It would put a lot of pressure on it to change.
IV.A. The government or its designated agent controls the quantity, composition, and quality of the money supply.
IV.B. It contributed to price stability.
ANSWER KEY

Chapter 12

Chapter 12–1

1. the dollars that become available in the absence of consumption; the dollars left over after buying necessities
2. They make funds available to borrowers who then use them to produce new goods and services, build new plants and equipment, and create more jobs.
3. a network of savers, investors, and financial institutions that work together to transfer savings to investors
4. a claim on the property and the income of the borrower; property that has value
5. a financial institution that brings together the funds that savers provide and then lends them to others
6. Savers provide their funds directly or indirectly to the borrower. The borrowers then generate the financial assets, which return to the lender.
7. governments and businesses
8. a. Finance companies make loans directly to consumers. b. Life insurance companies provide financial protection and also make loans. c. Mutual funds invest money for investors in stocks and bonds of companies. d. Pension funds collect income and disburse payments to people eligible for retirement or disability payments. e. Real estate investment trusts make loans to construction companies to build homes.

Chapter 12–2

I.A. a situation in which the outcome is not certain, but the probabilities of different outcomes can be estimated
I.B. when saving for the long term, such as retirement
I.C. investing in what you know can help you make sounder investment choices
I.D. to save something every month even if it is only a small sum
I.E. through payroll deductions that are invested in mutual funds or other investments
II.A. long-term obligations that pay a stated rate of interest for a specified number of years
II.B. the coupon, the maturity, and the par value
II.C. changes in future interest rates and the risk that the company will default
II.D. the annual interest divided by the purchase price

III.A. one in which money is lent for more than one year
III.B. one in which money is lent for periods of less than one year
III.C. one in which only the original issuer can repurchase or redeem a financial asset
III.D. the liquidity it provides investors

Chapter 12–3

1. equities
2. Efficient Market Hypothesis
3. portfolio diversification
4. securities exchange
5. New York Stock Exchange
6. over-the-counter market
7. securities exchange
8. Dow-Jones Industrial Average
9. Standard & Poor's 500
10. bull market
11. equities
12. bear market
13. futures contract
14. options

Chapter 13

Chapter 13–1

1. a. intermediate products, whose value would otherwise be counted twice; b. secondhand sales because no new wealth is created; c. nonmarket transactions because they are so difficult to measure; d. transactions in the underground economy because they are difficult to measure and are not socially acceptable
2. a. Gross National Product (GNP); b. net national product (NNP); c. national income (NI); d. personal income (PI); e. disposable personal income (DPI)
3. a. consumer sector: households; b. investment sector: proprietorships, partnerships, and corporations; c. government sector: all local, state, and federal levels of government; d. foreign sector: all consumers and producers outside the United States
4. a macroeconomic model used to show aggregate demand by the consumer, investment, government, and foreign sectors
**ANSWER KEY**

**Chapter 13–2**

1. inflation
2. price index
3. base year
4. price index
5. market basket
6. consumer price index
7. producer price index
8. base year
9. implicit GDP price deflator
10. current GDP
11. real GDP
12. GDP in constant dollars

**Chapter 13–3**

I.A. It is required by the Constitution.
I.B. urban and rural population
I.C. It is declining.
I.D. The West and South are growing, while the Northeast and Central Plains regions are losing population.
II.A. to help determine new plant locations, products and services, and sales territories
II.B. fertility, life expectancy, and net immigration levels
II.C.1. a type of bar graph that shows the breakdown of population by age and gender
II.C.2. a ratio based on the number of children and elderly for every 100 persons in the working-age bracket of 18 through 64
II.D.1. whites
II.D.2. African Americans, Hispanic Americans, and Native Americans

**Chapter 13–4**

1. short term
2. real GDP
3. real GDP per capita
4. long-term
5. growth triangle
6. standard of living
7. tax base
8. economic need
9. market economies
10. renewable resources
11. capital-to-labor ratio
12. labor productivity

**Chapter 14**

**Chapter 14–1**

I.A. A recession is a period during which real GDP declines for six months in a row; a depression is more severe.
I.B. to prevent panic withdrawals by depositors
I.C. Many people borrowed heavily, which made them vulnerable to such things as high interest rates and business fluctuations.
II.A. when the economy is expanding
II.B. a change in the level of business inventories
II.C. increased profits for the innovator and heavy investment by competitors to catch up to the innovators
II.D. Interest rates are low, and loans are easy to get.
II.E. positive external shock: locating a new energy source; negative external shock: war

**Chapter 14–2**

1. those people who are available for work who have made a specific effort to find a job during the past month and who, during the most recent survey week, worked less than one hour for pay or profit
2. the percent of unemployed individuals divided by the total number of persons in the civilian labor force
3. a. The unemployment rate does not count those who have become too discouraged to seek work. 
b. People are considered employed even when they hold part-time jobs or have lost a high-paying job and are working fewer hours at a low-paying job.
ANSWER KEY

4. a. frictional: caused by workers who are between jobs; b. structural: occurs when a fundamental change in the operations of the economy reduces the demand for workers and their skills; c. cyclical: directly related to swings in the business cycle; d. seasonal: resulting from changes in the weather or the demand for certain products; e. technological: caused when workers with fewer skills or less talent or education are replaced by machines that do their jobs

5. Fewer workers are needed, so unemployment rises.

6. In full employment the employment rate is below 4.5 percent.

Chapter 14–3

I.A. Inflation is determined by the annual rates of change of the price level. The change in the price level is divided by the beginning price level.

I.B. Creeping inflation is in the range of 1 to 3 percent per year; galloping inflation is more intense, going as high as 100 or 300 percent.

II.A. Prices are pulled up by the excessive demand.

II.B. Inflation should be much lower.

II.C. Higher wages drive up the manufacturers’ cost of products.

II.D. a self-perpetuating spiral of wages and prices that is difficult to stop

II.E. when the money supply grows faster than real GDP

III.A. The dollar buys less and loses value over time.

III.B. those with fixed incomes

III.C. It disrupts the economy.

III.D. They order less and eventually factories have to lay off workers.

Chapter 14–4

1. Lorenz curve

2. distribution of income

3. discrimination

4. monopoly power

5. poverty guidelines

6. income gap

7. welfare

8. income assistance

9. food stamps

10. Earned Income Tax Credit

11. enterprise zones

12. workfare

Chapter 15

Chapter 15–1

1. National banks chartered by the federal government must belong; those chartered by state governments can choose whether to belong.

2. It sets general policies for Federal Reserve and member banks to follow, regulates certain operations of state-chartered member banks, and conducts some aspects of monetary policy.

3. It makes decisions about the growth of the money supply and the level of interest rates.

4. a. Federal Advisory Council, which provides advice to the Federal Reserve Board on matters concerning the overall health of the economy; b. Consumer Advisory Council, which meets with the Board on consumer credit laws; c. Thrift Institutions Advisory Council, which meets with the Board to advise on matters pertaining to the thrift industry

5. a. to clear checks; b. to control the size of the money supply

6. a corporation that owns one or more banks and, unlike banks, does not accept deposits or make loans

7. a. clearing checks: The reserves that member banks keep are shifted from one bank to another, depending on the way checks are written on the member banks. b. enforcing consumer legislation: The Fed has the authority to extend truth-in-lending disclosures. c. maintaining currency and coins: The Fed destroys old money that is mutilated or for other reasons cannot be used. d. financial services to the government: The Fed conducts nationwide auctions of Treasury bills, bonds, and notes; it also issues, services, and redeems these securities; and it serves as the federal government’s bank, holding various accounts for it.

Chapter 15–2

1. fractional reserve system

2. reserve requirement

3. legal reserves

4. excess reserves

5. liabilities

6. assets

7. balance sheet

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ANSWER KEY

8. money supply
9. member bank reserve
10. excess reserves
11. reserve requirement
12. open market operations
13. discount rate
14. margin requirements
15. selective credit controls

Chapter 15–3

1. It affects the interest rate, which goes down when the Fed expands the money supply and up when it contracts it.

2. the best or lowest interest rate commercial bankers charge their customers

3. create enough extra money to offset the deficit spending in order to keep interest rates from changing

4. the market rate of interest minus the rate of inflation; used because inflation distorts economic statistics

5. a. The amount of time it takes for a change in monetary policy to take effect is not predictable, so the Fed cannot use monetary policy to fine-tune the economy. b. Monetary policy has an uneven impact on the economy, hurting or benefiting some industries more than others.

6. People may spend more today and end up saving less, therefore consuming less in the future.

7. People may either try to make some purchases right away, before prices get higher, thus spending less in the future; or they may put off spending until prices come down, thus spending more in the future.

8. a. M1 is the components of the money supply that most closely match money's role as a medium of exchange: traveler's checks, coins, currency, demand deposits, and other checkable deposits. b. M2 is a measure of money that includes those components most closely conforming to money's role as a store of value. It includes M1, small denomination time deposits, savings deposits, and money market funds.

Chapter 16

Chapter 16–1

I.A. the cost of unemployed resources in terms of output not produced

I.B. There are wide month-to-month swings in some of the numbers.

I.C.1. They might not buy something because of concern over their jobs.

I.C.2. They might decide against an expansion and even raise prices.

II.A. People who want work and cannot find it are unable to be productive members of society.

II.B. Incumbents may be voted out of office by dissatisfied voters.

II.C.1. high crime rates, too few economic and social opportunities for minorities, the loss of individual freedoms, and lack of economic stability

II.C.2. make them more certain of their ability to provide for themselves and their families, make them more positive about the future

Chapter 16–2

1. supply and demand
2. aggregate supply
3. aggregate supply curve
4. aggregate supply
5. aggregate supply curve
6. aggregate supply curve
7. aggregate demand
8. aggregate demand curve
9. aggregate demand
10. macroeconomic equilibrium

Chapter 16–3

1. to increase or decrease total demand in the economy by shifting the aggregate demand curve to the right or to the left

2. the federal government's attempt to stabilize the economy through taxing and government spending, derived from the theories put forth by Keynes in 1936

3. the business or investment sector

4. The deficit is unfortunate but necessary to stop further declines in economic activity. When the economy recovers, tax collections will rise, the government will run a surplus, and the debt will be paid back.

5. They are programs that automatically trigger benefits if changes in the economy threaten incomes. They guarantee that economic instability will not cause demand to fall below a certain level for selected individuals.
ANSWER KEY

6. policies designed to stimulate output and lower unemployment by increasing production rather than demand
7. It is a hypothetical relationship between federal tax rates and tax revenues. Tax revenues were supposed to go up after steep cuts in tax rates, but this never took place.
8. Monetarists believe that fluctuations in the money supply can be a destabilizing element that leads to inflation and unemployment. They favor policies that lead to stable, long-term monetary growth and levels low enough to control inflation.

Chapter 16–4
1. discretionary
2. passive
3. structural
4. recognition lag
5. discretionary
6. budget caps
7. passive
8. monetary policy
9. demand-side
10. monetarist
11. economic politics
12. Council of Economic Advisers

Chapter 17

Chapter 17–1
1. because people sell the goods and services they are best at, then purchase the goods and services that other people are the best at
2. Exports are the goods and services that a country produces and sells to others. Imports are the goods and services that one country buys from others.
3. Many products would not be available on the world market.
4. when it is able to produce more of a given product than another country
5. when it is able to produce a product relatively more efficiently, or at a lower opportunity cost
6. that everyone will be better off producing the products they produce relatively best so that specialization and trade increase total world output

Chapter 17–2
I.A. a tariff high enough to protect less efficient domestic industries
I.B. to reduce the total supply of a product in order to keep prices high for domestic producers
II.A.1. trade barriers that protect domestic industries
II.A.2. fewer or even no trade restrictions
II.B.1. that without trade barriers a country could become too dependent on other countries and not have enough domestic supplies of oil and weapons
II.B.2. that without free trade the domestic supplies would be smaller and possibly less efficient; also, it is difficult to determine which industries are critical to national defense
II.C. the belief that new or emerging industries should be protected from foreign competition
II.D.1. by limiting the import of lower-cost products, thereby decreasing competition with domestic goods
II.D.2. Consumer costs rise so people buy less. Production declines so protected jobs are lost.
II.E.1. American dollars that go abroad generally come back.
II.E.2. those that depend on exports
II.F. the difference between the money a country pays to, and receives from, other nations when it engages in international trade

Chapter 17–3
1. foreign exchange markets
2. foreign exchange rate
3. fixed exchange rate
4. flexible exchange rate
5. trade deficit
6. trade surplus
7. trade-weighted value of the dollar
8. trade deficit
9. flexible exchange rate
10. trade surplus
Chapter 18
Chapter 18–1

1. a. efficiency; b. freedom; c. highly decentralized; d. smaller role of government; e. high degree of consumer satisfaction; f. flexibility to accommodate change
2. those who are not fortunate or productive enough to earn a competitive income
3. If workers receive government guarantees of jobs, more workers will be hired than are necessary, driving up the cost of production, and more may be kept employed than are actually needed.
4. a. central planning authority sets prices; b. resources strictly controlled; c. state owns major factors of production; d. state assumes all risks
5. a. Individual freedom is lost, meaning people have little say in economic decisions. b. It lacks effective incentives to encourage people to work hard, causing frustration, low productivity, and shoddy products. c. It fails to meet the needs and wants of consumers, who cannot get products available elsewhere. d. Centralized planning is inefficient, because it cannot work in a large, complex economy. e. It lacks the flexibility to deal with day-to-day changes.

Chapter 18–2
I.A. It was outlawed.
I.B. achieve rapid industrialization
I.C. defense industries, space exploration, and some consumer goods
II.A. It was now a major industrial power.
II.B. Many of the planners did not understand agriculture.
III.A. It never exceeded two-thirds of the GNP of the United States.
III.B. They resulted in some of the world’s poorest consumer and industrial goods.

Chapter 18–3
1. private property
2. privatization
3. vouchers
4. entrepreneurs
5. unemployment
6. benefits
7. Solidarity
8. black market
9. Great Leap Forward
10. privatization

Chapter 18–4
1. Japan’s government is very involved in the day-to-day activities of the private sector.
2. its relatively small population
3. a tightly knit group of firms governed by an external board of directors drawn from potential competitors, whose purpose is to make sure that competition does not threaten individual firms
4. by delaying government permission to creating huge amounts of paperwork
5. Products are generally high priced.
6. Banks had made so many bad loans that they stopped lending. Banks were so secretive that banking regulators did not even know who received the loans, making defaults relatively easy. Qualified borrowers couldn’t get loans and industries came to a halt. Unemployment rose.
7. It tried to stimulate the economy by subsidizing employee wages.
8. Hong Kong, South Korea, Singapore, and Taiwan
9. The heavy tax burden and the costs of the welfare state began to cut into the country’s economic growth.

Chapter 19
Chapter 19–1
1. developing countries
2. population growth
3. crude birthrate
4. life expectancy
5. zero population growth
6. technical skills
7. external debt
8. capital flight
9. International Monetary Fund
10. World Bank
Chapter 19–2

I.A.1. primitive equilibrium
I.A.2. in the sense that the society has no formal economic organization
I.B.1. transition, a breaking with primitive equilibrium, and a move toward economic and cultural changes
I.B.2. contact with outside forces that show a different, more attractive way of life
I.C.1. after the barriers of primitive equilibrium are overcome
I.C.2. The country begins to grow more rapidly than before, saves and invests more of its national income, starts new industries, uses new production techniques, and improves agricultural productivity.
I.D.1. the makeup of the country’s economy, with national income growing faster than population, industry and spending on capital investment expanding, and advances in technology
I.D.2 The country begins to find its place in the international economy, making goods it once bought from other countries and selling finished products to other nations.
I.E.1. to services and consumer goods, now that their basic needs and wants have been met
I.E.2. mature service and manufacturing sectors
II.A. reduce or eliminate them
II.B. increased international trade that often includes and benefits the developing countries
III. They will benefit from comparative advantage and will ultimately develop competitive specialties of their own.

Chapter 19–3

1. They are a source of capital.
2. They may be so poor that it takes a long time to accumulate savings.
3. a. foreign private investment; b. assistance from industrialized countries; c. borrowing from international agencies
4. a. a free-trade area: an agreement in which two or more countries reduce trade barriers and tariffs among themselves; b. a customs union: an agreement in which two or more countries abolish tariffs and trade restrictions among themselves and adopt uniform tariffs for nonmember countries
ANSWER KEY

5. There are no internal barriers to regulate the flow of workers, financial capital, or goods and services.

6. a ten-nation group in Southeast Asia working to promote regional peace and stability, accelerate economic growth, and liberalize trade policies in order to become a free trade area by 2008.

7. a group of oil-producing nations that agree to limit the production or sale of petroleum in order to push up world prices.

8. It decided to focus on labor-intensive industries and open its markets to trade.

Chapter 20
Chapter 20–1

I.A. the earth’s growing population and the increasing demand for resources

I.B. 1.4 percent

II.A. Fossil fuels are being used up at an alarming rate and may only last for a few more generations at the current rate of consumption.

II.B. At its current use, it will last about 200 years.

III.A. after the oil embargo in 1973

III.B. Examples of biomass include: wood and wood waste, peat, municipal solid waste, straw, corn, tires, landfill gases, fish oils; biomass is an important source of energy because it is renewable.

IV.A. underground water-bearing rock formations

IV.B. the spread of expressways, shopping centers, and housing developments on fertile fields

Chapter 20–2

I.A. The embargo caused prices to rise, so many countries increased production, and interest in alternative energy sources grew enormously.

I.B. decline in demand due to a recession; increased conservation

I.C. A decrease in water resources causes costs to rise, which leads to conservation.

I.D. Because the price system establishes an equilibrium, the amount of lost agricultural output will not be large.

I.E. through establishing price controls on deep gas production

I.F. Lower prices for shallow gas depressed production of it, while rising prices for deep gas encouraged production of that fuel.

II.A. People and firms have an incentive to pollute.

II.A.2. Firms lowered production costs by using the environment as a waste-disposal system; lowering production costs increases profits.

II.A.3. through legislated standards and economic incentives

II.B.1. laws that specify minimum standards of purity for air, water, and auto emissions

II.B.2. They are generally inflexible.

II.B.3. The pollution taxes are designed to make it cheaper to make changes to lower pollution than to pay the pollution tax.

II.B.4. Pollution taxes paid by companies that do not lower the amount of pollution they produce help to pay for the pollution clean-up fund.

II.C.1. the Environmental Protection Agency

II.C.2. As pollution permits become scarcer and more expensive, companies must either pay very high prices for the permits or install anti-pollution devices.

III. When the price of a scarce resource rises, this will encourage conservation and greater attempts to find alternatives.