

Reading Essentials and Study Guide

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ECONOMICS:
PRINCIPLES AND PRACTICES
Reading Essentials
and
Study Guide



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TO THE TEACHER

The Reading Essentials and Study Guide is designed to help students use recognized reading strategies to improve their reading-for-information skills. For each section of the student textbook, the students are alerted to key terms, asked to draw from prior knowledge, organize their thoughts with a graphic organizer, and then follow a process to read and understand the text. The Reading Essentials and Study Guide was prepared to help you help your students get more from their textbook by reading with purpose.

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STUDY GUIDE Chapter 1, Section 1

For use with textbook pages 5–10

SCARCITY AND THE SCIENCE OF ECONOMICS

KEY TERMS

scarcity The condition that results from society not having enough resources to produce all the things people would like to have (page 5)

economics The study of how people try to satisfy what appears to be seemingly unlimited and competing wants through the careful use of relatively scarce resources (page 6)

need A basic requirement for survival that includes food, clothing, and shelter (page 6)

want A way of expressing a need (page 6)

factors of production Resources required to produce things people would like to have; they include land, capital, labor, and entrepreneurs (page 7)

land Natural resources not created by humans (page 7)

capital The tools, equipment, machinery, and factories used in the production of goods and services (page 7)

financial capital The money used to buy the tools and equipment used in production (page 7)

labor People with all their efforts, abilities, and skills (page 8)

entrepreneur A risk-taker in search of profits who does something new with existing resources (page 8)

production The process of creating goods and services (page 8)

Gross Domestic Product (GDP) The dollar value of all final goods, services, and structures produced within a country's borders in a 12-month period (page 9)

DRAWING FROM EXPERIENCE

Have you ever wanted more than you had? What did you do to get what you wanted? Where did you go to get it?

This section focuses on basic economic concepts such as people's needs and wants and how the economy produces goods and services to satisfy them.

ORGANIZING YOUR THOUGHTS

Use the table below to help you take notes as you read the summaries that follow. Think about the three basic economic questions that face every society and how the four factors of production try to answer them.

Basic Economic Questions	Factors of Production
1.	1.
2.	2.
	3.
3.	4.

STUDY GUIDE (continued)**Chapter 1, Section 1****READ TO LEARN****■ The Fundamental Economic Problem** (page 5)

A problem that faces everyone is scarcity. **Scarcity** is not having enough resources to make all the things people would like to have. The study of how people try to be satisfied with scarce resources is called **economics**. By knowing about economics, people can help themselves find the best ways to meet their needs and wants.

A **need** is something basic that people need in order to survive. Needs include food, clothing, and shelter. A **want** is a way of deciding how you would like to get something you need. For example, when you are hungry, your **need** is food. Your **want** may be pizza, or a taco, or a pear. Because resources are limited, the things that meet our wants and needs have a cost. Someone has to pay for making them. Economic educators call this concept TINSTAAFL, or There Is No Such Thing As A Free Lunch.

1. Why is the study of economics important?

■ Three Basic Questions (page 6)

Because of scarcity, each society, or large group of people, has to answer the following basic questions:

- A. What to produce** Resources are limited, which means that there are not enough resources to produce everything that everybody wants. Therefore, a society needs to make choices about what to produce.
- B. How to produce** Societies need to decide how to produce what they need. For example, some people might choose to use mass production methods that require a lot of equipment and few workers. Other people, on the other hand, might want to use less equipment and more workers.
- C. For whom to produce** Societies need to decide whom production should help. For example, if society makes new houses for people, it might need to determine whether the new homes should go to workers, professional people, or government employees.

2. In what three ways do limited resources affect a society's production of goods and services?

STUDY GUIDE (continued)**Chapter 1, Section 1****■ The Factors of Production** (page 7)

The **factors of production** are all the things that are needed to make what people need and want. The factors of production include land, capital, labor, and entrepreneurs. **Land** refers to natural resources, which are limited—that is, there is not an unending supply of them. **Capital** is the tools, equipment, machinery, and factories used to make goods and services. **Financial capital**, however, is the money used to buy the tools used in production. **Labor** includes all people who are needed to make these things, except for entrepreneurs. **Entrepreneurs** start new businesses or bring new products to the market. They work with the resources of land, capital, and labor. All four of these factors are necessary for **production**—the process of creating goods and services.

3. Give an example of each factor of production required to make cookies that you buy in a store.

■ The Scope of Economics (page 9)

Why is the study of economics important?

- A. Economics describes economic activity. For example, it uses terms such as **Gross Domestic Product (GDP)**, which is the dollar value of all final goods, services, and structures made within a country's borders during a 12-month period.
- B. Economics analyzes, or figures out, why things work and how things happen in an economy.
- C. Economics explains the way the economy works to others so they can address and fix problems.
- D. Economics can help people see how their decisions will affect their futures.
4. Why should people try to understand economics?

STUDY GUIDE



Chapter 1, Section 2

For use with textbook pages 12–17

BASIC ECONOMIC CONCEPTS

KEY TERMS

economic product A good or service that is useful, relatively scarce, and transferable to others (page 12)

good An item that is economically useful or satisfies an economic want (page 12)

consumer good An item intended for final use by individuals (page 12)

capital good A manufactured item used to produce other goods and services (page 12)

service Work that is performed for someone (page 13)

value A worth that can be expressed in dollars and cents (page 13)

paradox of value The situation in which some non-necessities have a much higher value than some necessities (page 13)

utility The capacity to be useful and provide satisfaction (page 13)

wealth The accumulation of those economic products that are tangible, scarce, useful, and transferable from one person to another (page 14)

market A location or other mechanism that allows buyers and sellers to exchange a certain economic product (page 14)

factor market A market where productive resources are bought and sold (page 14)

product market A market where producers sell their goods and services to consumers (page 14)

economic growth The increase in a nation's total output of goods and services over time (page 15)

productivity A measure of the amount of output produced by a given amount of inputs in a specific period of time (page 15)

division of labor Work arranged so that individual workers do fewer tasks than before (page 16)

specialization Situation in which a factor of production performs tasks that it can do relatively more efficiently than others (page 16)

human capital The sum of the skills, abilities, health, and motivation of people (page 16)

economic interdependence Reliance on one another to provide the goods and services that people consume (page 17)

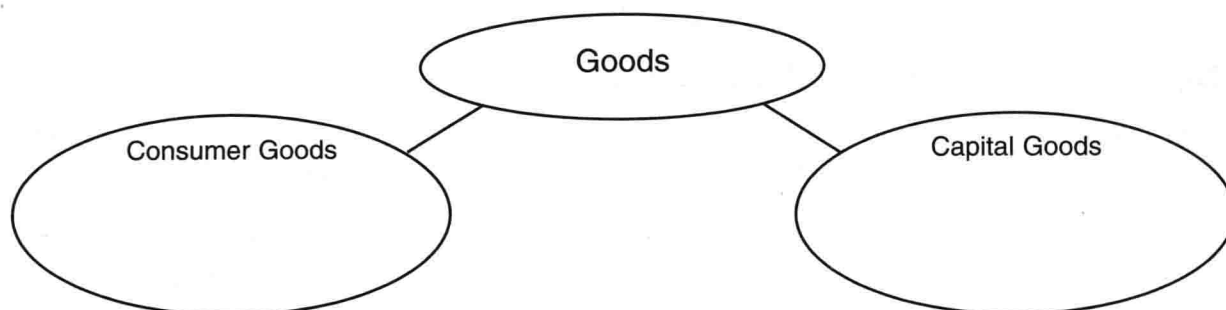
DRAWING FROM EXPERIENCE

Have you ever used the terms *goods*, *services*, or *consumers*? What did you mean by them? What do you think an economist means when he or she uses these terms?

In the last section, you read about scarcity and how it affects the choices that people make. In this section, you will focus on key terms that you must know to understand economics.

STUDY GUIDE (continued)**Chapter 1, Section 2****ORGANIZING YOUR THOUGHTS**

Use the diagram below to help you take notes as you read the summaries that follow. Think about the differences between consumer goods and capital goods.

**READ TO LEARN****☐ Goods, Services, and Consumers** (page 12)

Economic products are useful, at least a little bit scarce, and can be passed from one person to another. An economic product, such as a book or car, that is useful or satisfies a want, is a **good**. A **consumer good**, such as a sports car, is intended for use by individuals. A **capital good**, such as an oven, is made to produce other goods and services. Any good that lasts three or more years when used on a regular basis is called a durable good. An item that lasts for less than three years when used on a regular basis is called a nondurable good. Another kind of economic product is a **service**, or work performed for someone. A consumer is a person who uses goods and services. The process of using goods and services is called consumption.

1. Do durable goods include consumer goods and capital goods? Explain your answer.

☐ Value, Utility, and Wealth (page 13)

Value is how much something is worth in dollars and cents. Early economists were puzzled by the **paradox of value**—a situation in which some things that people really do not need, such as diamonds, are worth more than some things that people cannot live without, such as water. They realized that something must be scarce to be valuable. However, scarcity is not enough. That something must also have **utility**, or the ability to be useful and satisfy people.

Another economic concept is **wealth**. The wealth of a person is the total products that he or she owns. These products must be scarce, useful, and able to be given to other people. They must also be tangible, which means that they need to be objects that you can see and touch. Services are not included in wealth because they are not tangible. Nations, as well as individual people, own wealth.

STUDY GUIDE (continued)**Chapter 1, Section 2**

2. Why, in most places, are diamonds more valuable than water?

■ **The Circular Flow of Economic Activity** (page 14)

A place that allows buyers and sellers to exchange a certain economic product is called a **market**. A market can be something other than a place—for example, a telephone connection and the Internet can serve as markets. Individuals earn their incomes in **factor markets**—wherever useful resources are bought and sold. Individuals spend their incomes in **product markets**—wherever producers sell their goods and services to consumers. Businesses use the money they receive for goods and services to produce more goods and services to sell in the factor markets. Thus, economic activity flows in a circle, from producer, to consumer, back to producer. This process happens over and over again.

3. Is a toy factory a factor market or product market? Explain your answer.

■ **Productivity and Economic Growth** (page 15)

Economic growth occurs when a nation's total output of goods and services increases over time. The most important factor for economic growth is productivity. **Productivity** is a measurement of the amount produced from specific amounts of resources over a specific time. Productivity increases whenever more goods and services are produced with the same amount of resources in the same period of time.

Division of labor and specialization both improve productivity. **Division of labor** is work that is divided up so that each worker does just a few jobs rather than a lot of different jobs.

Specialization takes place when factors of production do jobs that they can do better and more quickly than others. Another important thing that contributes to productivity is **human capital**, or the total ability and eagerness of a group of people to do their jobs. Productivity is also helped by **economic interdependence**—the fact that we depend on one another for goods and services.

4. How has division of labor and specialization made Americans more economically dependent on one another and less able to do everything for themselves?

STUDY GUIDE



Chapter 1, Section 3

For use with textbook pages 19–25

ECONOMIC CHOICES AND DECISION MAKING

KEY TERMS

trade-offs Alternative choices (page 19)

opportunity cost The cost of the next best alternative use of money, time, or resources when one choice is made rather than another (page 20)

production possibilities frontier A diagram representing various combinations of goods and/or services an economy can produce when all productive resources are fully employed (page 21)

cost-benefit analysis A way of thinking about a problem that compares the costs of an action to the benefits received (page 24)

free enterprise economy One in which consumers and privately owned businesses, rather than the government, make the majority of the WHAT, HOW, and FOR WHOM decisions (page 24)

standard of living The quality of life based on possessions that make life easier (page 25)

DRAWING FROM EXPERIENCE

Have you ever traded items in your lunch with a classmate? Or traded sports cards? Why did you make these trades? What do you think economists mean when they talk about trade-offs? In the last section, you read about basic economic concepts. This section focuses on making economic choices.

ORGANIZING YOUR THOUGHTS

Use the chart below to help you take notes as you read the summaries that follow. Think about how economists use economic models.

Economic Models	
What is a model?	
Why are models useful?	
What are examples of economic models?	
What happens if a model's predictions turn out to be incorrect?	

STUDY GUIDE (continued)**Chapter 1, Section 3****READ TO LEARN****Trade-offs and Opportunity Cost** (page 19)

People face **trade-offs**, or different choices, whenever they make an economic decision. A decision grid is one way to study an economic problem. The grid lists choices and several ways in which to judge them. Cost in dollars is not the only factor for economists. They also consider the opportunity cost. The **opportunity cost** is the cost of whatever the chooser gives up in order to obtain the choice. In other words, the opportunity cost is the next best choice. Opportunity cost can be measured in money, but it can be measured in time and resources. You can see that economic decisions involve both making choices and recognizing the cost of the choices.

1. Camille has a piano lesson during the first hour of practice for the class play. If Camille goes to the lesson, is her opportunity cost measured in money, time, or resources? Explain.

Production Possibilities (page 21)

The **production possibilities frontier** is a diagram that shows how goods and/or services can be combined in different ways in an economy that is using all its resources. For example, the diagram might show that the country of Alpha can produce 70 guns and 300 units of butter using all its resources.

The diagram might also show that Alpha can produce 400 units of butter and 40 guns if it shifts resources from gun making. The opportunity cost of this decision consists of giving up 30 guns. Unused resources also have an opportunity cost. If some butter workers go on strike, the cost of unemployed resources is measured in butter not produced. As long as some resources are unused, Alpha cannot produce at its highest level. But Alpha can increase its productivity when its resources increase. For example, labor could increase through an increase in population.

2. Could other resources besides labor be unused? Explain your answer.

Thinking Like an Economist (page 23)

To help people make economic choices, economists use simple models such as the circular flow diagram of economic activity and the production possibilities frontier. They also use **cost-benefit analysis**. This is a way of thinking about a problem that compares the costs of an action to the benefits received. Finally, economists recommend taking small steps toward a solution. If the costs turn out to be too large, the decision can be changed without much loss.

STUDY GUIDE (continued) Chapter 1, Section 3

3. What is a cost and a benefit of buying a battery-operated cassette player?

■ The Road Ahead (page 24)

Economics provides a detailed understanding of the American **free enterprise economy**—one in which consumers and private businesses make most economic decisions. In addition, economics looks at the role of business, labor, and government in the American economy. These affect Americans' **standard of living**, or the things people own that make life easier. Thus, we need to understand economics to understand our world.

If people know about economics, they can make better decisions about which candidates to vote for. Some economics decisions affect not only individual people, but also large groups of people. A knowledge of economics will help you understand how the world works.

4. Give examples of how two businesses affect your standard of living.

STUDY GUIDE Chapter 2, Section 1

For use with textbook pages 33–39

ECONOMIC SYSTEMS

KEY TERMS

economy/economic system An organized way of providing for the wants and needs of people (page 33)

traditional economy An economy in which the allocation of resources and nearly all other economic activity stems from ritual, habit, or custom (page 34)

command economy An economy in which a central authority makes most of the WHAT, HOW, and FOR WHOM decisions (page 35)

market economy An economy in which people and firms act in their own best interests to answer the WHAT, HOW, and FOR WHOM questions (page 36)

DRAWING FROM EXPERIENCE

Does your family celebrate holidays in the same way each year? What other things does your family do year after year? How is this like a society that does things the same way for many years?

This section focuses on the three major kinds of economic systems—traditional, command, and market.

ORGANIZING YOUR THOUGHTS

Use the chart below to help you take notes as you read the summaries that follow. Think about who or what determines the answers to economic questions (WHAT, HOW, FOR WHOM) in each of the major kinds of economic systems.

Economic System	What/Who Determines the Answers to Economic Questions
Traditional	
Command	
Market	

STUDY GUIDE (continued)**Chapter 2, Section 1****READ TO LEARN**

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Introduction (page 33)

Each society has an **economy**, or **economic system**—a way of distributing goods and services to answer the WHAT, HOW, and FOR WHOM questions. Most societies in the world take part in one of three major economic systems—traditional, command, or market.

1. What role does an economic system play in society?

Traditional Economies (page 33)

Major economic decisions are made according to custom in a traditional economy. For example, generations of Inuit in Canada taught their children how to survive by fishing and hunting and sharing their food with others. These traditions helped the Inuit survive for thousands of years. Life in a traditional economy like the Inuit's is generally unchanging and predictable. The main drawback is that a traditional economy is not open to new ideas and ways of doing things.

2. What determined how the Inuit met their needs and wants?

Command Economies (page 35)

A central authority, generally a government, makes the major economic decisions in a **command economy**. The central authority expects people in the society to go along with its decisions. A command economy can change its focus in a short period, depending on whatever the government calls for at any time. Another advantage to a command economy is that there is little uncertainty for workers about jobs and basic public services. The disadvantages are little economic freedom and few consumer goods. Cuba and Korea are two societies with command economies.

3. What do people give up in a command economy?

STUDY GUIDE (continued)**Chapter 2, Section 1****Market Economies** (page 36)

In a **market economy**, people and firms work in order to make their economic situations better. Governments with market economies include the United States, Japan, Germany, Canada, France, and Great Britain. In this kind of economy, most economic decisions are not made by the central government. Consumers' decisions to buy act as votes that let producers know what to make. Advantages to a market economy are slow change, much individual freedom, little government control, and a wide variety of goods and services. However, a market economy fails to provide directly for those who cannot take care of themselves; also, it cannot provide for all the needs and wants of all people. In addition, both workers cannot count on keeping their jobs and businesses cannot count on making money.

4. What feature stands out more in market economies than in other kinds of economies?
