



Massachusetts History and Social Science Curriculum Framework

What Citizens Need to Know About Economics

addresses Massachusetts economics standards for the history and social science curriculum Grade 12.



Grade 12 Elective: Economics

This course examines the allocation of scarce resources and the economic reasoning used by people as consumers, producers, savers, investors, workers, voters, and as government agencies. Key elements include the study of scarcity, supply and demand, market structures, the role of government, national income determination, money and the role of financial institutions, economic stabilization, and trade.

Scarcity and Economic Reasoning

Students will understand that productive resources are limited; therefore, people cannot have all the goods and services they want. As a result, they must choose some things and give up others.

- E.1.1 Define each of the productive resources (natural, human, capital) and explain why they are necessary for the production of goods and services.

- *Chapter 2 identifies the factors of production (productive resources) as land, labor, capital and management. A graphic is included to illustrate how the factors of production interact to produce goods and services. Web links provide current information on the availability of factors of production in the United States.*

- E.1.2 Explain how consumers and producers confront the condition of scarcity, by making choices that involve opportunity costs, and tradeoffs.

- *Chapter 2 defines the terms scarcity and opportunity costs and explains how producers and consumers make choices in determining what to produce or purchase. Links to related articles and Web sites are included for further research.*

- *Chapter 4 describes the choices consumers must make in determining what to purchase. The impact this has on the producer is also discussed and illustrated with a graphic. Key concepts and terms, such as caveat emptor and diminishing utility are defined. Factors that influence consumer choices, such as advertisements, are explored. Links to related articles and Web sites are included for more information.*

- Chapter 7 explains how producers confront the conditions of scarcity. Key concepts like diminishing returns and marginal costs are explored. The role of the entrepreneur to take risks and organize the factors of production is discussed and successful entrepreneurs are highlighted. Links to related articles and Web sites include biographies of famous entrepreneurs, such as Ray Kroc, the founder of McDonald's, and Bill Gates, the founder of Microsoft.

E.1.3 Identify and explain the broad goals of economic policy, such as freedom, efficiency, equity, security, growth, price stability, and full employment.

- Chapter 3 explains the broad goals of economics, such as freedom, efficiency, equity, security, growth, price stability and employment. The ways different economic systems address these issues are compared and examples are cited. A comparison of capitalism, socialism and communism is also included. Links to related articles and Web sites provide biographies of influential economic philosophers, such as Adam Smith and Karl Marx, and the complete texts of their most important works.

- Chapter 12 discusses the broad economic goals of government policies, such as equity, security, growth and employment. The role of government agencies to formulate and enforce economic policies is explored and Web links are included to various government regulatory agencies, such as the Equal Employment Opportunity Commission and the Federal Trade Commission.

- Chapter 15 explores issues associated with the goal of economic growth. Factors that contribute to economic growth, such as technology and abundant natural resources, are identified. Problems associated with economic growth, like pollution, are highlighted and links to related articles and Web sites are available for further research.

- Chapter 17 identifies the broad goals of economic policy in the context of stabilizing the economy. The use of fiscal and monetary policy tools to maintain price stability and economic stability are explored. Key concepts and terms like deficit financing and open market operations are defined. The debate between Keynesian and supply side economists is discussed. Links to related articles and Web sites identify current fiscal and monetary policy decisions and present opposing views of the best way to stabilize the economy.

E.1.4 Describe how people respond predictably to positive and negative incentives.

- Chapter 4 identifies how consumers respond to positive and negative incentives in making choices on what to purchase. Key concepts and terms, such as caveat emptor and diminishing utility, are defined. Web links to consumer protection sites are provided.

- Chapter 7 identifies incentives, such as property rights and profit, which encourage entrepreneurs to take the risks associated with organizing the factors of production to provide goods and services. Successful entrepreneurs are identified and biographies are available to such entrepreneurs as Ray Kroc, the founder of McDonald's, and Bill Gates, the founder of Microsoft.

E.1.5 Predict how interest rates will act as an incentive for savers and borrowers.

- *Chapter 11 describes how the Federal Reserve System adjusts the interest rates it charges to member banks and how that impacts savers and borrowers. Web links to all branches of the Federal Reserve System are provided for further research.*
- *Chapter 17 describes how interest rates are adjusted to influence households and businesses to save or borrow in efforts to stabilize the economy. Web links are available to the Federal Reserve System for current information on interest rates and monetary policy.*

E.1.6 Recognize that voluntary exchange occurs when all participating parties expect to gain.

- *Chapter 3 describes Adam Smith's concept of an "invisible hand" that guides the marketplace, which contends that individuals acting in their own self-interest interact in voluntary exchanges that benefit all participants. Web links are available to biographies of Adam Smith and other economic philosophers and the complete texts of their most influential works, including the Wealth of Nations.*

E.1.7 Compare and contrast how the various economic systems (traditional, market, command, mixed) try to answer the questions: What to produce? How to produce it? And for whom to produce?

- *Chapter 2 explains how economics works to answer the questions: What to produce? How to produce it? And for whom to produce? Graphics are included to illustrate how these questions interact and links to related articles and Web sites are available for further research.*
- *Chapter 3 describes how various economic systems attempt to answer these questions. A detailed comparison and contrast of traditional, market, command and mixed economies is provided. A comparison of capitalism, socialism and communism is also highlighted and examples of each are included. Biographies of influential philosophers and the complete texts of their most influential works are available.*

E.1.8 Describe how clearly defined and enforced property rights are essential to a market economy.

- *Chapter 3 describes the importance of property rights in a capitalist system. The role of property rights in a socialist and communist system is compared to that of the capitalist system. Web links are available to biographies of influential philosophers, such as Adam Smith and Karl Marx, and the complete texts of their most important works.*

- Chapter 7 identifies property rights as an important incentive in a market economy that encourages entrepreneurs to take risks associated with organizing the factors of production. Web links include biographies of successful entrepreneurs like Ray Kroc, the founder of McDonalds, and Bill Gates, the founder of Microsoft.

E.1.9 Use a production possibilities curve to explain the concepts of choice, scarcity, opportunity cost, tradeoffs, unemployment, productivity, and growth.

- Chapter 2 illustrates the production possibilities curve as it relates to scarcity and opportunity cost. A graphic of the production possibilities curve is included to illustrate the options and tradeoffs associated with economic choices. Links to related articles and Web sites are provided for further research.

E.1.10 Formulate a savings or financial investment plan for a future goal (e.g., college or retirement).

- Chapter 6 describes the importance of maintaining proper credit. A suggested activity in the Educator's Guide for this chapter involves creating a budget for a future goal. A graphic of a household budget is included in the chapter and can be used as a worksheet to formulate a personal investment plan.

Supply and Demand

Students will understand the role that supply and demand, prices, and profits play in determining production and distribution in a market economy.

E.2.1 Define supply and demand.

E.2.2 Describe the role of buyers and sellers in determining the equilibrium price.

E.2.3 Describe how prices send signals to buyers and sellers.

- Chapter 8 defines the laws of supply and demand and explains how buyers and sellers interact to determine the equilibrium price. The impact of prices on supply and demand is also discussed. Graphics are provided throughout the chapter to help illustrate these concepts and links to related articles and Web sites are included for more information and specific examples.

E.2.4 Recognize that consumers ultimately determine what is produced in a market economy (consumer sovereignty).

- Chapter 4 describes the role of the consumer in determining what is produced in the marketplace. A graphic is included to illustrate this concept and terms, such as caveat emptor and diminishing utility, are defined. Links to consumer protection Web sites run by the government and consumer watchdog groups are available for further research.

E.2.5 Explain the function of profit in a market economy as an incentive for entrepreneurs to accept the risks of business failure.

- Chapter 7 discusses the role of the entrepreneur in a market economy. Incentives, such as profit and property rights, are identified. Web links are available to biographies of influential American entrepreneurs, such as Ray Kroc, the founder of McDonald's, and Bill Gates, the founder of Microsoft.

E.2.6 Demonstrate how supply and demand determine equilibrium price and quantity in the product, resource, and financial markets.

E.2.7 Identify factors that cause changes in market supply and demand.

E.2.8 Demonstrate how changes in supply and demand influence equilibrium price and quantity in the product, resource, and financial markets.

- Chapter 8 explores issues associated with the laws of supply and demand. Concepts like equilibrium price are defined and factors that cause changes in the markets are discussed. Graphics are provided to help illustrate these concepts.

E.2.9 Demonstrate how government wage and price controls, such as rent controls and minimum wage laws, create shortages and surpluses.

- Chapter 10 explains how minimum wage laws impact the laws of supply and demand with regard to employment. The concept of a living wage is discussed and links to related articles and Web sites include more information and opposing views on the impact of minimum wage laws.
- Chapter 21 describes how the government uses price controls to manipulate the laws of supply and demand, in the context of aiding American farmers. Different types of price controls, such as price floors and price ceilings, are identified. The impact of price controls on the consumer and foreign markets is discussed. Links to related articles and Web sites include opposing views on the necessity and fairness of price controls.

E.2.10 Use concepts of price elasticity of demand and supply to explain and predict changes in quantity as price changes.

- Chapter 8 describes the concept of elasticity of demand and supply. Graphics are provided to better illustrate this concept. The effect of the change in price for a breakfast on the quantity sold is cited as an example. Links to related articles and Web sites include other examples.

E.2.11 Explain how financial markets, such as the stock market, channel funds from savers to investors.

- Chapter 7 examines the role of financial markets, such as the stock market and commodity exchanges, to channel funds from savers to investors. The impact of investment on businesses is discussed and illustrated with a graphic. Web links are included to major stock and commodity exchanges around the world, such as the New York Stock Exchange, the London Stock Exchange, the Tokyo Stock Exchange and the Chicago Mercantile Exchange.

Market Structures

Students will understand the organization and role of business firms and analyze the various types of market structures in the United States economy.

- E.3.1 Compare and contrast the following forms of business organization: sole proprietorship, partnership, and corporation.
- E.3.2 Identify the three basic ways that firms finance operations (retained earnings, stock issues, and borrowing), and explain the advantages and disadvantages of each.

- Chapter 7 describes the role of business in the economic system. Different forms of business organizations—sole proprietorships, partnerships and corporations—are compared. The ways that firms finance operations are also discussed and the role of the stock market in providing investment capital to corporations is explained and illustrated with a graphic. Web links are included to stock exchanges around the world, including the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange.

- E.3.3 Recognize the role of economic institutions, such as labor unions and non-profit organizations in market economies.

- Chapter 7 discusses the role of nonprofit organizations in market economies. Examples of nonprofit organizations are cited and Web links are included to leading nonprofit organizations in the United States, such as the National Association of Manufacturers and the American Red Cross.
- Chapter 10 explores the role of labor unions in the economic system. A history of Labor in America is provided. Tools of labor organizations like collective bargaining and strikes are identified. The role of the government in the labor dispute process is discussed and links are included to the complete texts of important government legislation, such as the National Labor Relations Act and the Taft-Hartley Act. Web links are also available to major labor organizations, such as the Teamsters and the AFL-CIO.

- E.3.4 Identify the basic characteristics of monopoly, oligopoly, and pure competition.
- E.3.5 Explain how competition among many sellers lowers costs and prices and encourages producers to produce more.
- E.3.6 Demonstrate how firms with market power can determine price and output through marginal analysis.

E.3.7 Explain ways that firms engage in price and non-price competition.

- *Chapter 7 explains how firms must weigh the marginal cost against the marginal benefit of a product to determine the ideal price and output. Key concepts and terms, such as diminishing returns, are defined. Links to related articles and Web sites are included for further research.*
- *Chapter 9 examines issues associated with competition in the marketplace. The terms monopoly, oligopoly and pure competition are defined and ways that firms engage in competition are discussed. The Microsoft antitrust suit is cited as an example.*

E.3.8 Illustrate how investment in research and development, equipment and technology, and training of workers increases productivity.

- *Chapter 7 describes how investment increases productivity. The law of diminishing returns is explained and a graphic is provided to help illustrate this concept. Links to related articles and Web sites include specific examples of how investment increases productivity.*
- *Chapter 15 identifies factors that contribute to increased productivity and economic growth, such as investment in technology, equipment and workers. Key concepts and terms, such as accelerator effect and multiplier effect, are defined. Links to related articles and Web sites are available for further research.*
- *Chapter 24 discusses economic development and describes factors that need to be addressed to help developing countries improve their standard of living. Key concepts like technology, research and development, and brain drain, are defined. The responsibility of developed countries to aid developing countries is debated and Web links are provided to development aid organizations, such as the U.S. Agency for International Development and the Grameen Bank.*

E.3.9 Describe how the earnings of workers are determined by the market value of the product produced and workers' productivity.

E.3.10 Identify skills individuals need to be successful in the workplace.

- *Chapter 10 explores issues associated with the labor market. The concept of how the laws of supply and demand influence workers' pay is discussed, as is the importance of developing proper job skills. Web sites to governmental agencies that are involved in career training and career placement are included for more information.*

The Role of Government

The student will understand the roles of government in a market economy are the provision of public goods and services, redistribution of income, protection of property rights, and resolution of market failures.

E.4.1 Explain how government responds to perceived social needs by providing public goods and services.

- Chapter 1 describes the differences between the public and private sector of the economy and explains how the government provides goods and services that the private sector is unwilling or unable to offer. Collaboration between the private and public sectors is explored and links to related articles and Web sites include specific examples.

E.4.2 Describe major revenue and expenditure categories and their respective proportions of local, state, and federal budgets.

- Chapter 12 describes the roles of the local, state and federal government in the economic system. Major revenue and expenditure categories at the state and local levels are identified and graphics are included to illustrate the percentages of revenue and expenditure categories in state and local budgets. The budget-making process is discussed and Web links are provided to all state and local governments and important federal agencies, such as the Office of Management and Budget and the Congressional Budget Office.

E.4.3 Identify laws and regulations adopted in the United States to promote competition among firms.

E.4.4 Describe the characteristics of natural monopolies and the purposes of government regulation of these monopolies, such as utilities.

- Chapter 9 examines issues associated with competition. The concept of natural monopolies is explored and the government's response to unfair business practices is discussed. Links to the full text of important government legislation such as the Sherman Antitrust Act, the Clayton Antitrust Act and the Robinson-Patman Act, are provided for further research.

E.4.5 Define progressive, proportional, and regressive taxation.

- Chapter 13 explores issues associated with taxation and includes definitions of progressive, proportional and regressive taxation. The concept of a fair tax is discussed and Web links to organizations that advocate tax reform and a link to the Internal Revenue Service are available for comparative purposes.

E.4.6 Describe how costs of government policies may exceed benefits, because social or political goals other than economic efficiency are being pursued.

- Chapter 12 discusses the federal budget-making process and explains how bureaucrats use cost/benefit ratios to determine what social programs to fund. Concepts, such as externalities, are explored. Links to related articles and Web sites include opposing views of the efficiency of government programs.

- Chapter 20 describes how the federal government distributes federal subsidies to help the unemployed, elderly, minorities and other disadvantaged people in society. The politics of these policies is discussed and links to related articles and Web sites present opposing views of federal subsidy programs. Web links are available to government agencies that oversee such programs as Social Security, Medicare, Medicaid and Head Start.

- E.4.7 Predict how changes in federal spending and taxation would affect budget deficits and surpluses and the national debt.
- E.4.8 Define and explain fiscal and monetary policy.
- E.4.9 Analyze how the government uses taxing and spending decisions (fiscal policy) to promote price stability, full employment, and economic growth.
- E.4.10 Analyze how the Federal Reserve uses monetary tools to promote price stability, full employment, and economic growth.

- Chapter 11 explores the role of the Federal Reserve System in maintaining a stable money supply. Key concepts and terms, such as reserve requirement and discount rate, are defined. Web links are included to all branches of the Federal Reserve for more information on its roles and functions.

- Chapter 12 discusses the federal budget-making process. Key concepts and terms, such as deficit financing and mandatory spending, are defined. The impact of the national debt on individuals and the economy as a whole is explained. Web links are available to government agencies involved in the budget-making process, including the Office of Management and Budget and the Congressional Budget Office.

- Chapter 17 examines how the federal government stabilizes the economy using monetary and fiscal policies. The impact of taxation and spending policies is discussed, as is the impact of fiscal policy on the national debt. The debate between supply-side and Keynesian economists is also mentioned. The role of the Federal Reserve in monetary policy is discussed and monetary tools, such as open market operations, and changes to the reserve requirement and discount rate, are identified. Links to related articles and Web sites provide current information on U.S. monetary and fiscal policy decisions.

National Economic Performance

Students will understand the means by which economic performance is measured.

- E.5.1 Define aggregate supply and demand, Gross Domestic Product (GDP), economic growth, unemployment, and inflation.
- E.5.2 Explain how Gross Domestic Product (GDP), economic growth, unemployment, and inflation are calculated.

- *Chapter 1 explains how economic indicators, such as gross domestic product (GDP) and employment rates, are calculated. Graphics are included for all economic indicators to illustrate trends over long periods of time. Links to related articles and Web sites include current information on all economic indicators and assessments of their impact on the economy.*
- *Chapter 5 describes how the consumer price index (CPI) calculates inflation or deflation. The impact of inflation on individuals and the economy as a whole is explored and illustrated with a graphic. Links to related articles and Web sites include current CPI data and examinations of CPI's impact on individuals and the economy.*
- *Chapter 14 defines gross domestic product (GDP) and explains how it is calculated. The accuracy of GDP is debated and alternatives, such as the human development index (HDI), are presented. Links to related articles and Web sites include current GDP and HDI statistics.*
- *Chapter 15 explores economic growth. Factors that determine economic growth are described and problems associated with growth are addressed. Key concepts and terms like aggregate demand and aggregate supply are defined. The impact of unemployment and inflation on economic growth is discussed. Links to related articles and Web sites are available for further research.*
- *Chapter 19 explains how unemployment is calculated. Key concepts and terms, such as structural unemployment and displaced workers, are defined. The impact of unemployment on individuals and the economy is discussed and factors that lead to unemployment are identified. Links to related articles and Web sites include current unemployment statistics.*

E.5.3 Analyze the impact of events in United States history, such as wars and technological developments on business cycles.

E.5.4 Identify the different causes of inflation, and explain who gains and loses because of inflation.

- *Chapter 2 includes a timeline of important events in U.S. history that has had an impact on the economy. Topics, such as World War I, the Great Depression, World War II, the 1970s OPEC embargo and the September 11, 2001, terrorist attacks, are highlighted. Links to related articles and Web sites discuss the impact of these and other events on the U.S. economy.*
- *Chapter 5 explores the causes of inflation and the impact on individual households. Graphics are included to illustrate the impact of inflation on household economic decisions. The use of the consumer price index (CPI) to calculate inflation or deflation is discussed. Web links include current CPI statistics and a program that uses CPI to compare the value of the U.S. dollar during different time periods in U.S. history. An activity for this chapter in the Educator's Guide suggests students research the costs of goods and services they purchase and compare those costs to the costs of the same goods and services during their parents era.*

- Chapter 16 explains the four phases of the business cycle. A graphic is included to illustrate fluctuations in the business cycle and concepts, such as recession, depression and inflation, are defined. The impact of events in United States history, such as the September 11, 2001, terrorist attacks, on the business cycle is explored. An oral history of the Great Depression is included to demonstrate how the business cycle impacts individuals. The different causes of inflation are examined and individuals who gain and lose because of inflation are identified. Links to related articles and Web sites explore in more detail the impact of inflation on individual economic decisions.

E.5.5 Recognize that a country's overall level of income, employment, and prices are determined by the individual spending and production decisions of households, firms, and government.

- Chapter 1 describes the factors that impact the overall level of performance of the economy. Web links to governmental agencies provide the most current statistics on the state of the economy—including national income and employment trends.

- Chapter 15 identifies factors that contribute to economic growth including income levels and spending and production decisions by households, firms and government. Key concepts and terms, such as accelerator effect and multiplier effect, are defined. Links to related articles and Web sites are included for further research.

E.5.6 Illustrate and explain how the relationship between aggregate supply and aggregate demand is an important determinant of the levels of unemployment and inflation in an economy.

- Chapter 15 defines the terms aggregate supply and aggregate demand, and explains how they are important determinants of the state of the economy. Links to related articles and Web sites are provided for more information.

Money and the Role of Financial Institutions

Students will understand the role of money and financial institutions in a market economy.

- E.6.1 Explain the basic functions of money (e.g., medium of exchange, store of value, unit of account).
- E.6.2 Identify the composition of the money supply of the United States.
- E.6.3 Explain the role of banks and other financial institutions in the economy of the United States.
- E.6.4 Describe the organization and functions of the Federal Reserve System.
- E.6.5 Compare and contrast credit, savings, and investment services available to the consumer from financial institutions.

- *Chapter 6 compares and contrasts various credit, savings and investment services available from financial institutions. Different types of lending options, such as mortgages, personal loans, loan sharks and payday loans, are explored and the positive and negative aspects of each are discussed. An activity for this chapter in the Educator's Guide involves researching various credit options and determining the best economic choice.*
- *Chapter 11 explores issues associated with money and banking. Functions of money are discussed and the composition of the money supply in the United States is identified. The roles, organization and functions of the Federal Reserve System and financial institutions are also presented. Credit savings and investment services of financial institutions are explored and different types of banking institutions are identified. The way banks create money is explained and illustrated with a graphic. Web links to all branches of the Federal Reserve System are available for more information on its roles, functions and organization.*

E.6.6 Research and monitor financial investments, such as stocks, bonds, and mutual funds.

- *Chapter 7 examines issues associated with financial investments. Concepts such as the stock market, bonds and mutual funds are defined. Web links are available to major stock exchanges in the United States and around the world, including the American Stock Exchange, the New York Stock Exchange, the National Association of Securities Dealers Automated Quotations (NASDAQ), the London Stock Exchange and the Tokyo Stock Exchange. An activity for this chapter in the Educator's Guide includes investing an imaginary sum of money in the stock market and charting the progress of the investment over a specified period of time.*

E.6.7 Formulate a credit plan for purchasing a major item such as a car or home comparing different interest rates.

- *Chapter 6 identifies issues associated with consumer credit and the importance of maintaining proper credit is stressed. An activity for this chapter in the Educator's Guide suggests students compare interest rates and other fees in credit card disclosure statements to find the best deal.*

Trade

Students will understand why individuals, businesses, and governments trade goods and services and how trade affects the economies of the world.

- E.7.1 Explain the benefits of trade among individuals, regions, and countries.
- E.7.2 Define and distinguish between absolute and comparative advantage and explain how most trade occurs because of a comparative advantage in the production of a particular good or service.
- E.7.3 Define trade barriers, such as quotas and tariffs.

- E.7.4 Explain why countries sometimes erect barriers to trade.
- E.7.5 Explain the difference between balance of trade and balance of payments.
- E.7.6 Compare and contrast labor productivity trends in the United States and other developed countries.
- E.7.7 Explain how changes in exchange rates impact the purchasing power of people in the United States and other countries.
- E.7.8 Evaluate the arguments for and against free trade.

- *Chapter 10 highlights labor issues. The global view of labor organizations is discussed and Web links to major U.S. labor organizations, such as the Teamsters and the AFL-CIO, are provided. Labor productivity trends in the U.S. are identified and links to related Web sites include statistics on foreign labor trends for comparative purposes.*
- *Chapter 22 explores issues associated with foreign trade. The benefits of trade are explored and key concepts like comparative advantage and balance of trade are defined. Trade barriers, such as import quotas and tariffs, are identified. The reasons why some countries erect trade barriers and the argument for and against free trade is discussed. Links to related articles and Web sites provide opposing views of the free trade debate. Web links are also available to major international trade organizations, such as the European Union and the North American Free Trade Agreement.*
- *Chapter 23 examines issues associated with the interdependent global economy. Key concepts, such as the balance of payments and foreign currency exchange, are defined. A Web link to a program that compares and calculates exchange rates for the U.S. dollar and other currencies is available for current information on foreign currency exchange rates.*