

EDUCATOR'S GUIDE to

What Citizens Need to Know About Economics

Link to National Standards for Economics: <http://www.ncee.net/ea/standards>

Link to State Standards: <http://www.sirs.com/wrc/teachers.html>

Link to Correlations of *What Citizens Need to Know About Economics* and your State Standards:
<http://www.sirs.com/wrc/economicstoc.html>

Link to chapter-by-chapter resources for Key Concepts and Terms, Generalizations, Analytical Questions,
Key Problem and Activities. [Educator's Guide](#)



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MESSAGE TO THE EDUCATOR

PURPOSE

What Citizens Need to Know About Economics is an interactive electronic book based on The Voluntary National Content Standards in Economics providing a framework for understanding enduring concepts in economics. Utilizing inquiry, discovery and problem solving strategies, students will practice “decision-making and reasoning skills” that are fundamental to the discipline of economics in order to prepare them to become “better informed consumers, savers, producers, investors and, importantly, citizens.” They will be empowered to participate “fully and effectively in the complex global economy they will inherit.”

The Voluntary National Content Standards in Economics, National Council on Economic Education
<<http://www.ncee.net/ea/standards>> [2002, November 4]

To link to individual state standards, go to <http://www.sirs.com/wrc/teachers.html>

ORGANIZING THE READINGS

This guide is designed to help organize the readings for the maximum learning experience. Additional Interactive Citizenship® navigational information is located in the User’s Guide.

CHAPTER READINGS

What Citizens Need to Know About Economics, appears in two formats, Hypertext Markup Language (HTML) and Portable Document Format (PDF) and is organized into 24 chapters, each representing core concepts. Students may choose to work in either format. The HTML format contains hypertext links to related source documents and relevant Web sites located throughout the chapters that provide ready access to supporting information. Additionally, at the end of each chapter, hypertext links that are dynamically updated to related articles allow students to continue their investigation into each topic. The PDF version allows students to highlight text or write marginal notes as they read, print a clean copy of the text and read it off-line. Users looking for information on a specific subject can review the Index at the end of the Table of Contents. The index headings refer to the number of the chapter section where the information can be found. For example, the index indicates that information on credit card fraud can be found in 6.4 (Chapter 6, section 4). To ease with navigation, numbers appear next to the section within the chapter text.

INQUIRY AND DISCOVERY FORMS

Four activities, *Understanding Basic Knowledge*, *Problem Solving*, *Analyzing Graphs and Charts* and *Map Skills* are accessed from the “Learning Tools” icon on the Table of Contents Toolbar. These are designed primarily for use with this interactive electronic book, but can also be used with texts and articles from newspapers or magazines. The activities can serve as the basis for student assignments and class discussions. Completed forms can be E-mailed to the teacher for review and can form the basis of a student portfolio documenting the student’s learning. As students become familiar with the format, they achieve insight and become more competent at completing the inquiry and problem solving tasks. The analytical skills elicited by the activities are intended to be cross-curricula and are transferable to other disciplines.

UNDERSTANDING BASIC KNOWLEDGE

This activity provides a format for outlining a chapter or article. Students are called on to identify **concepts**, list **facts** and **data**, formulate **generalizations**, and pose **analytical questions**. Concepts and generalizations are shaped by relevant facts, while analytical questions serve to reveal important information. The process of selecting significant information and constructing new understandings is at the heart of creative learning. When the outline is completed, it can serve as the basis for a discussion of the topic or an essay.

PROBLEM SOLVING

A problem-solving approach is useful for examining issues. A concise statement of the problem is solicited, followed by an outline of **significant information**, **causes** and **solutions** related to the problem. While the Understanding Basic Knowledge activity is a broad view of an entire chapter or article, the problem-solving approach is an examination of a specific issue.

ANALYZING GRAPHS AND CHARTS

A salient feature of the Interactive Citizenship database is the use of many illustrated charts, tables and graphs. Like concepts and generalizations, graphic materials are part of the shorthand of a discipline: They convey information quickly and vividly. Still, charts and graphs can be misinterpreted or misleading.

Knowing how to read and interpret charts, graphs and tables is an important but often neglected skill. Students can be challenged to question the presentation or arrangement of data, the selection of information and the conclusions drawn. They can make their own charts, graphs or tables of relevant information found in their research.

MAP SKILLS

Educators may wish to use outline maps of the United States, the world and its regions to enhance students' map skills. As an introductory, evaluative exercise, ask students to draw a free-hand map of the world showing their location on it. Comparison of the results will illustrate that everyone has a unique "mental map" of the world in which they live and that all maps of the globe distort reality to some extent.

In geography, maps are principal graphic organizers, visually depicting and clarifying the world's infinite variety. Maps organize the physical, political, economic and demographic features of regions, countries and neighborhoods. Help students improve their knowledge of where places are in the United States and the world by completing outline maps of regions, states and cities. Encourage them to reinforce their understanding of a chapter topic by interpreting it in a sketch map. Such topics as the terms of a treaty or UN resolution, voter turnout in a presidential election, agricultural regions, the location of fossil fuel resources or immigration trends can be readily summarized in a sketch map.

TEACHING STRATEGIES

INQUIRY

Asking and answering questions is a traditional way of teaching and learning. Generally, the teacher or textbook asks the questions; the students answer them. However, there is not always a complete or adequate answer to questions raised. The resolution of problems is not easy and the desire to find simplistic responses does not aid in solving the problem, but may create additional complications. The Interactive Citizenship database encourages a different approach, one in which the teacher acts as the facilitator for student learning. We suggest that the student ask analytical questions, and look to the text and additional resources for the answers. The teacher leads the students through this inquiry process by teaching students how to ask analytical questions, ones that deeply probe a subject to get to the essence of the issue.

Additionally, students should be encouraged to develop peer study/discussion groups where they can pose questions, share ideas and research findings and determine answers to their questions. In this learning environment, students will not only learn from one another, but will develop mutual respect for varying opinions. Students participating in this type of learning develop self-confidence. Each student can teach every other student something from what he or she has read. Questions raised by the readings should lead students to other materials and the development of an inquiring mind.

E-FORUM DISCUSSION GROUPS

An integral component of the Interactive Citizenship database is to engage students in academic discourse. To achieve this goal, we suggest employing E-Forums, such as E-mail, Listservs and Bulletin Boards to encourage students to discuss the issues and topics they are reading about and share their thoughts with their peers.

VOCABULARY DEVELOPMENT

Each discipline has its unique vocabulary. Instead of presenting students with a list of words to be learned, challenge them to discover words new to them in the readings. Allow the students to compile their own vocabulary lists. Utilizing the Glossary of Terms and the SIRS Knowledge Source dictionary/thesaurus feature, students can easily find the definitions of new words. Incorporating these new words into their writing and portfolio projects will allow students to take ownership of this new vocabulary.

EVALUATION

We suggest that each student retain a collection of completed activities, essays and reports thus creating a portfolio that reflects the quality and progress of the student's efforts. The portfolio accomplishes at least three major educational objectives: emphasis on student accomplishments; easy detection of problem areas; and accessibility to interested parties, namely teacher, student and parents.

For grading purposes, a reasonable number of samples from the student portfolio can be randomly evaluated during the term. To read all materials turned in by every student is an unnecessary and probably an impossible task. By allowing students to use their written work as a basis for evaluation, they are given the direct responsibility for their own learning. To supplement instruction, students should be assigned readings from SIRS Knowledge Source, SIRS Enduring Issues or other available sources relating to topics in the Interactive Citizenship database. The Inquiry and Discovery Activities can be used to structure the outside reading. The activity responses can also be used for background information for an essay or term paper.

EDUCATOR'S GUIDE

To encourage classroom dialogue the Educator's Guide includes a list of Key Concepts and Terms, Generalizations, Analytical Questions, Key Problems and Activities for each chapter. Each of these components exemplifies an inquiry approach. Discussions that ensue can be stimulating and enlightening. We do not want to deprive students of a valuable learning experience by overstructuring, thereby leaving little to discover in the reading and research process.

KEY CONCEPTS AND TERMS

Every subject or discipline has data consisting of factual content and a specialized vocabulary. The specialized vocabulary contains terms and concepts with which to convey or describe information efficiently and meaningfully. In studying a discipline, it is important to master an inventory of those terms and concepts that provide order, structure and meaning to the content.

Terms define; concepts categorize and give meaning to otherwise disparate information. The distinction between **terms** and **concepts** is not always clear. A term has a simple, readily understood and widely agreed-upon definition. A concept is a "big idea" that conjures up understandings, impressions and feelings. A store of knowledge is necessary for a person to be able to conceptualize. Developing concepts involves a higher order of thinking than does learning terms. Learners can memorize the definitions of terms, but conceptualization requires basic information and experience. The more experience and knowledge a learner acquires, the richer his or her understanding of a concept. In order to be a competent decision-maker, a person must be able to conceptualize, then to generalize.

GENERALIZATIONS

Generalizations are statements, usually in sentence form, drawn from assorted information: facts, data, terms and concepts. The purpose of acquiring information is to develop generalizations with the potential for broad application and predictability. Otherwise, information is trivial. Generalizations and concepts are similar in that they structure and add meaning to information. However, a **concept** categorizes and describes, a **generalization** summarizes.

ANALYTICAL QUESTIONS

Analytical questions are designed to engage the student in critical thinking and to exercise a variety of intellectual skills. Typical questions require students to first gather facts, then to summarize, compare or contrast, or draw inferences. Students may be asked to note historic trends and, based on them, hypothesize future directions. Value judgments are often solicited. Analytical questions help students go beyond what is presently known in order to gain new insights about an issue. Such questions serve as points of departure for classroom discussions and essays.

KEY PROBLEM

With many topics covered, there are usually several key problems in each chapter. We have selected one problem for each chapter as an example, but students may identify others. Problem solving takes students beyond obtaining basic information on a subject to applying, analyzing and evaluating that information.

ACTIVITIES

Activities that involve student interaction with an online database such as SIRS Knowledge Source allow students to explore and understand the nuances of the information in the chapters. These activities are designed as a point of departure for the educator, who as a facilitator of the learning process, is expected to modify or create his/her own activities based upon the class' unique learning environment.

The three activities listed below provide a foundation for analyzing and synthesizing each of the 24 chapters. Chapter-specific activities are included within the Educator's Guide.

1. Review the chapter's generalizations. Choose one generalization. How does this generalization apply to your life? Based on your experiences and information found in the reading and/or related articles found in SIRS Knowledge Source, prove or disprove the original generalization.
2. From the Learning tools icon on the Table of Contents, access the Understanding Basic Knowledge Form. Using the Key Concepts and Terms provided, locate additional articles relating to the chapter's topic. Using the Quick Search method in SIRS Knowledge Source, perform a Subject Heading search using these key terms. Choosing four relevant articles, read each article and complete the Understanding Basic Knowledge activity for each article.
3. From the Learning Tools icon on the Table of Contents, access the Problem Solving Form. Complete this form for the chapter reading and two articles or Web sites linked to this chapter.

SUGGESTED IMPLEMENTATION

It is suggested that an overview of the chapter titles be the first classroom activity. Titles will serve to describe the program's organization. Following each chapter reading, students should complete the Inquiry and Discovery activities. Once the students are familiar with the content and organization, then an interactive activity that encourages collaborative learning and develops research, reading, writing, listening, speaking and creative thinking skills might be incorporated into this Interactive Citizenship database.

To ensure participation, we suggest organizing the classroom so that each student becomes a correspondent or reporter on a major economic principle, a component of the economy (such as labor, management, consumer or government), a trading partner of the United States or an international monetary organization. As a correspondent, the student will be responsible for gathering information on his or her topic. The database provides a structure and background information for selecting topics, components or countries. Links to current articles and Web sites can provide details and current happenings.

As a culminating activity, students can plan a mock meeting of the World Trade Organization (<http://www.wto.org>) to discuss an agenda of world trade issues, such as protectionism, dumping, workers' rights or the environment. Students would prepare themselves to represent the point of view of a specific nation, a group of nations or a special interest group for each of the issues on the agenda.

PART I: FUNDAMENTALS OF ECONOMICS

Chapter 1

Economics

KEY CONCEPTS AND TERMS

Economic goods: material objects that have value: a price in the marketplace.

Economic indicators: price indexes, production levels, employment figures and other data or statistics that show the status of some aspect of an economy.

Economic model: a representation, such as a diagram, blueprint or pattern, which helps economists and others to understand the state of economic activity and to predict economic events.

Economic services: activities of people that have a market value.

Free enterprise system: an economy in which there is little government intervention in citizens' economic activities.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Labor force: able-bodied workers who either have a job or are actively seeking one.

Macroeconomics: the study of the economic system as a whole, including total income and production, employment and price levels and economic growth.

Microeconomics: the study of forces that operate in various parts of an economic system, including business firms, consumers, labor unions and the banking system.

Private sector: part of the economy in which businesses produce goods and services for a profit.

Public sector: part of the economy in which federal, state and local governments conduct business.

Scarcity: an inadequate supply of goods in relation to the population's needs or desires.

Statistics: numerical facts or data.

Underground economy: unreported earnings that escape taxation—illegal drug sales, tips, bartering.

GENERALIZATIONS

1. Economics is the study of the allocation of scarce resources.
2. Almost everything a human being needs to stay alive has become scarce.
3. Because economics is a social science that studies an aspect of human behavior, its theories and predictions are more likely to be incorrect than a science that studies the non-human physical world.
4. When a good or service can be provided to consumers at a profit, it probably will be produced in the private sector of the economy. When it is difficult to provide a necessary good or service at a profit, the product is more likely to be provided by the public sector.

ANALYTICAL QUESTIONS

1. Define scarcity and give two examples of how it affects your life and the economy as a whole. Discuss why scarcity is a fundamental issue, or problem, for all economies. What conditions would have to exist in order for the U.S. economy to be free from scarcity?
2. Describe ways in which economics is both a natural science and a social science.
3. Distinguish between gross national product and gross domestic product. Which do you think is a better measure of a nation's productivity?
4. Define the free enterprise system and distinguish between an economy's public and private sectors. List two organizations that are private economic producers and two that are public producers.

KEY PROBLEM

Most people in an economic system want to acquire more and more goods and services, placing a heavy demand on the limited supply of such natural resources as petroleum, timberland, water, metals and minerals.

ACTIVITIES

1. Define and distinguish among statistics, tables, graphs and models. Display your knowledge of these important economic tools by creating a statistic, a table, a graph and a model related to how you earn and spend money over a specific period of time (week, month or year).
2. Research the topic, "public-private cooperation," by conducting a keyword or subject heading search using SIRS Knowledge Source or similar database. After reading several articles, write a 300-word essay about the effectiveness or ineffectiveness of these ventures. Include your assessment of future prospects for this concept in the U.S. economy.
3. Using SIRS Knowledge Source or other similar databases, research an occupation that relates to economics from accountants to Federal Reserve board members. Contact via telephone, mail or E-mail a person that holds that position and interview him or her about his or her career. In an oral report, share your findings with the rest of the class.

Chapter 2

Basic Questions

KEY CONCEPTS AND TERMS

Capital: machines, tools and buildings that are used to produce goods and services. (In popular usage, money is also referred to as “capital.”)

Consumption: purchases of goods and services by households and businesses.

Distribution: the allocation of goods and services produced according to the purchasing power (available spending money) of individuals.

Entrepreneur(s): the owner or manager who organizes the factors of production in a business enterprise.

Factors of production: basic categories of economic resources used to create goods and services.

Households: consumers who live in one dwelling.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Labor force: able-bodied workers who either have a job or are actively seeking one.

Opportunity cost(s): the value of a good or service that one gives up when choosing an alternative good or service.

Production: the creation of goods and services by businesses and workers to satisfy human wants.

Production possibilities curve: an economic model that illustrates the maximum combinations of output that can be produced during a given time period with limited resources.

Recession: a general economic decline in sales, production, investments, employment and earned incomes.

Scarcity: an inadequate supply of goods in relation to a population’s needs or desires.

Standard of living: the amount of goods and services a nation has to meet the needs and wants of its people.

Subsistence level: a standard of living that is sufficient to sustain a person’s life with the bare minimum of food, clothing and shelter.

Unemployment: state of being out of work and actively seeking a job.

GENERALIZATIONS

1. People’s “wants,” or desires, far exceed their “needs,” or basic requirements.
2. Each society decides “who” will get “what.”
3. Because the supply of resources and the ability of workers and businesses is limited, choices of what to produce among competing goods and services have to be made by people in an economic society.
4. The distribution of goods and services in an economy is largely determined by how much money business owners, investors and workers receive.

ANALYTICAL QUESTIONS

1. Distinguish between needs and wants and explain the role that scarcity plays in meeting them.
2. List the basic questions that every economic system faces and describe the roles that producers, consumers and governments play in answering them.
3. Distinguish among the factors of production and discuss their application to a business in your community.
4. Explain how the “distribution” question is generally determined in the U.S. economy and suggest an alternative solution that might distribute goods and services more equally.

KEY PROBLEM

In the United States, as in most countries, the distribution of income is unequal, so that some people have large amounts of money, while others live in poverty or are just getting by financially.

ACTIVITIES

1. Investigate the expansion of one major industry, such as oil or steel, in the late nineteenth century. Identify individual entrepreneurs who were responsible for the expansion and explain how they obtained the needed factors of production. Create a chart of your findings.
2. Using SIRS Knowledge Source or another database, research a significant event in U.S. history. In a three-page essay describe the event and its impact on the U.S. economy.
3. In a small group brainstorm the creation of a business. As entrepreneurs, determine the factors of production for that business. How much and what kind of land, labor and capital will be required? Create a PowerPoint presentation based on your findings to use as a proposal to possible investors in your business.

Chapter 3

Basic Answers

KEY CONCEPTS AND TERMS

Black markets: markets where goods are exchanged in violation of legal price controls or rationing; sometimes called “second economy” or “underground economy.”

Bureaucracy: a large administrative organization staffed with non-elected officials.

Capitalism: an economic system in which the means of production and distribution are privately owned.

Castes: rigid Hindu class system that ranks people by the occupation of their parents.

Cold War: intense political, economic and military rivalry between hostile nations short of a shooting war. (American financier Bernard Baruch coined the expression in 1947.)

Colonization: the occupation of one country by another for economic gain.

Command: a system of government in which all power is in the hands of one person or a small elite group.

Communism: a political and economic system in which property and the means of production are owned and managed by the government.

Custom: a system of government in which power goes to those who have held it in the past.

Democratic socialism: a socialist economic system in which the people make basic economic and political decisions.

Depression: severely reduced business activity with respect to sales, production and investments, accompanied by a very high level of unemployment.

Factors of production: basic categories of economic resources used to create goods and services.

Free-enterprise system: an economy in which there is little government intervention in citizens’ economic activities.

Guilds: medieval organizations of merchants, traders and craftspeople that set standards for the quality of merchandise and for the training and hiring of new members.

Industrial Revolution: social and economic changes that occurred in the eighteenth and nineteenth centuries when Western European and North American countries converted from agricultural economies based on human and animal power to industrial economies based on machine power.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Innovation: an invention or improvement that changes methods of production.

Laissez-faire: a policy of non-interference in business by government.

Market system: an economic system in which individual producers and consumers, guided by self-interest, make basic economic decisions.

Marxist socialism: a version of socialism in nations guided by the economic theories of Karl Marx.

Money supply: the total value of currency (bills and coins) in the economy at a specific time, as well as the value of other money instruments, such as deposits in savings, money-market and checking accounts.

Monopoly(ies): the control of a total industry or the major part of any industry by one company.

Nationalization: conversion of private property to state ownership.

Proletariat: the working class, those who must rely on wages to survive in the economy.

Purchasing power: consumer’s capacity to buy goods and services.

Recession: a general economic decline in sales, production, investments, employment and earned incomes.

Socialism: a political and economic system in which the means of production and distribution of goods are owned and managed by the government, but which allows private ownership of property.

Third World socialism: an economic system guided generally by socialist principles adapted to the needs of developing countries.

GENERALIZATIONS

1. Societies solve basic economic questions of who will get what by either competing for scarce resources or cooperating and sharing scarce resources.
2. Capitalism is based on competition; socialism is based on cooperation.
3. Most economic systems in the world, despite their preference for either the capitalist or socialist economic philosophy, tend to be a mixture of both systems—mixed economies.
4. Most Third World, or developing, nations pattern their economic systems on socialist principles, or lean toward socialism.

ANALYTICAL QUESTIONS

1. List major differences in the ways that Custom, Command and Market economies address the four basic economic questions.
2. Describe the meaning of Adam Smith’s “invisible hand” and the effect he thought it had on the economy.

3. Review the descriptions of pure capitalism and pure socialism and list three advantages and three disadvantages of each system.
4. Explain what a “mixed economy” is and give three examples of how the U.S. economy is mixed.

KEY PROBLEM

When a society makes a transition from one economic system to another, it is often a very painful and costly experience for the people involved.

ACTIVITIES

1. Select one country from each of the following regions of the World: Asia, Africa, Latin America and Europe. Using SIRS Knowledge Source or another comparable database, examine the economies of each country and pinpoint socialist and capitalist characteristics in each. Create a one-page profile of each economy to summarize your findings.
2. Using SIRS Knowledge Source or another online database, research an economist mentioned in this chapter and write a three-page biography of the economist. How does the region and time period when the economist lived reflect his or her theories?
3. Although most countries use mixed economic systems, most can be categorized by their economic ideology. Using SIRS Knowledge Source or with the help of a research librarian, find an outline map of the world. Create a color key and identify countries that are predominantly capitalist economies, socialist economies or communist economies.

PART II: DYNAMICS OF ECONOMICS

Chapter 4

Consumers

KEY CONCEPTS AND TERMS

Caveat emptor: Latin term that translates as “let the buyer beware.”

Conspicuous consumption: excessive consumption of luxury goods to display one’s wealth and status in society.

Consumerism: consumer interest in quality and cost of goods and services and in monitoring or shaping exchanges between producers and consumers.

Discretionary income: money that a household has left to spend after paying for basic necessities.

Law of diminishing utility: the principle that, as a person obtains more and more units of a product, the satisfaction, or utility, gained from each succeeding purchase decreases.

Microeconomics: the study of forces that operate in various parts of an economic system, including business firms, consumers, labor unions and the banking system.

Revised sequence: when the direction of power in the marketplace is reversed, originating with producers rather than consumers.

Utility: the usefulness of a good or service.

GENERALIZATIONS

1. Consumers vote with their dollars on what should be produced in the marketplace.
2. Since consumers are unable to determine product safety, they need advice and protection.
3. Consumers are taking a growing and active interest in protecting their rights as buyers in the marketplace.
4. The more of a particular product a person has, the less satisfaction he or she derives from each additional item.

ANALYTICAL QUESTIONS

1. Describe the traditional relationship between consumers and producers in creating demand for goods and services. Discuss the impact of “revised sequence” on that relationship in modern times.
2. Define consumerism in your own words and explain why it has become a growing issue in recent years.
3. Describe the role the government and the manufacturer should play in consumer protection and discuss whether or not consumers should play a greater role than the government and manufacturer in protecting themselves from unsafe products?
4. Discuss the following consumer issues: should the government allow manufacturers to distribute products that can be hazardous to peoples’ health? Do consumers, who have become ill from their use, have a right to sue manufacturers of cigarettes and alcohol? Does a victim have the right to sue the manufacturer of a handgun that was used by a criminal in a violent crime?

KEY PROBLEM

Given the low level of craftsmanship evident in many goods and services today, it is extremely difficult for consumers to get fair value without meticulous comparative shopping.

ACTIVITIES

1. List the major calculations that intelligent consumers should make before buying a product. Then select a product you might wish to buy and make the calculations you have listed, using resources from newspapers and the Internet. Write a one-page essay describing your research and indicating the best value you found.
2. Conduct an Internet search for consumer protection Web sites. Research some of the products in your home and determine whether they are deemed safe by these organizations. Present your findings to the class.
3. Create a list of items in your household that you consider to be necessities and another list of items you feel are not essential for survival in this society. Compare your list to those of your classmates.

Chapter 5

The Cost of Living

KEY CONCEPTS AND TERMS

Consumer price index: the average price of a “market basket” of a large variety of consumer goods and services that reflects the general cost of living at a particular time.

Cost of living: the average price of food, clothing and other family needs in a particular location.

Deflation: a general decline in the price of goods and services.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Standard of living: the amount of goods and services a nation has to meet the needs and wants of its people.

GENERALIZATIONS

1. As the cost of living increases, the standard of living decreases.
2. Many things, including the weather and foreign trade, influence the cost of living.
3. Biases in the consumer price index tend to overstate the economy’s inflation rate.
4. Economists, today and in the past, disagree on interpretations of inflation rates.

ANALYTICAL QUESTIONS

1. Define consumer price index and explain how it is determined. What was the CPI’s general direction in the twentieth century? What accounts for changes that occurred in the past decade?
2. Distinguish between “standard of living” and “cost of living” and discuss ways in which they are measured.
3. Distinguish between “inflation” and “deflation” and describe the specific impact each has on consumer spending.
4. Illustrate four ways in which the consumer price index exaggerates the inflation rate and suggest four ways to modify the exaggeration.

KEY PROBLEM

Consumers are attracted to deflationary periods in the economy because prices go down, and yet they often fail to realize deflation’s ultimate consequences: declining business profits, job layoffs and high unemployment rates.

ACTIVITIES

1. Select five items you have bought recently or plan to buy and list the price for each. Go to the Federal Reserve Bank of Minneapolis Web site “What’s a Dollar Worth? CPI Calculation Machine” (<http://woodrow.mpls.frb.fed.us/research/data/us/calc>) or a similar Web site and calculate the value of the price you paid in comparison to the price your parent or teacher would have paid in the year they were your age. Illustrate your findings on a graph and present it to the class.
2. Using SIRS Knowledge Source or with the help of a research librarian, search for statistics on the cost of living average for cities around the country. Compare the average cost of living for a family of four in your city and the average for another city you may wish to move to one day. Calculate how much more or less it would cost to live in the new location. Prepare a PowerPoint presentation depicting your findings.
3. Using SIRS Knowledge Source or another research database, find articles related to the consumer price index and examine the debate over its reliability as an economic indicator. Write a 3-page argumentative essay presenting your opinion based on your research.

Chapter 6

Consumer Credit

KEY CONCEPTS AND TERMS

Bankruptcy: the legal state of insolvency—having far more debts than income or assets to pay them.

Credit: purchases made without cash, subject to later payment.

Credit union(s): employer-sponsored cooperative savings and loan organization providing payroll deductions for savings and mortgage and consumer loans to member employees.

Debt: an obligation to pay for something bought or borrowed on credit.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Interest: fee charged by a lender in return for the use of the lender's money and calculated as a percentage of the amount borrowed.

GENERALIZATIONS

1. Credit has enabled a huge expansion of the economy.
2. While credit can improve one's standard of living, it must be used cautiously or disaster can occur.
3. Because it is good for business, producers, retailers and banks encourage consumer credit and its counterpart—consumer debt.
4. Economists disagree about how much government debt is healthy for the economy and how much could destroy the economy.

ANALYTICAL QUESTIONS

1. In your own words, explain why it takes so much longer to build a house in a developing country than it does in the United States.
2. Define credit and list three consumer advantages and three disadvantages of buying goods on credit rather than paying for them in cash.
3. Describe the origins and types of government bankruptcy policies and evaluate their effectiveness.
4. Discuss three ways in which the federal government protects consumers from exploitation by credit card companies.

KEY PROBLEM

Most consumers are unaware of the effect their increasing debt has on the nation's economy.

ACTIVITIES

1. Examine the small print of credit card disclosure statements you or your family may have and list the charges these companies exact. Determine which credit card company offers the best deal to the consumer. Compare your findings to the findings of your classmates.
2. Using SIRS Knowledge Source or a similar database, research issues related to the national debt. Create a list of budget items that warrant borrowing and those that do not. Write a short essay justifying your choices.
3. Speculate on the expenses you may have as you enter the workforce, for example, housing, food, transportation, clothing and entertainment. Assuming an income of \$24,000 a year, create a budget that will both allow you to save money and cover expenses, while incurring a minimum of debt.

Chapter 7

Business

KEY CONCEPTS AND TERMS

Annual reports: yearly publications that tell how a business is performing by showing assets, liabilities, earnings and prospects for the coming year.

Assets: total value of everything a company owns or is owed, including plant and equipment, accounts receivable, cash and other investments.

Bond(s): certificates promising to repay loans to corporations or government units, usually with interest, within a specified period of time.

Commodity exchange: organization of traders who buy and sell contracts for future delivery of raw materials, such as grain, cotton, hogs, sugar, coffee, gold and mortgages.

Contagion effect: global impact of sharp fluctuations in a single stock market or as a result of a currency devaluation.

Cooperatives: jointly owned businesses overseen by an elected board of directors and run for the benefit of its members.

Corporation: a business that is a legal entity or “person” and is owned by investors, overseen by a board of directors and chartered to operate by a state.

Dividends: periodic payments of interest or stock that a company distributes to its stockholders as their share of profits.

Entrepreneur(s): the owner or manager who organizes the factors of production in a business enterprise.

Equity capital: the value of stock an individual or group owns in a corporation.

Factors of production: basic categories of economic resources used to create goods and services.

Franchise(s): sale of a nationally recognized and advertised business to a local entrepreneur.

Law of diminishing returns: as more and more resource units are added to production, productivity per unit begins to decrease.

Liabilities: the amount of money, including mortgages, supplies, wages, salaries, accrued taxes and other debts, that a business, government or individual owes to others.

Marginal benefit: the benefit gained from increasing production by one unit.

Marginal cost: the cost of increasing production by one unit.

Market: any place where goods are bought and sold.

Mutual funds: investment firms that pool their assets and buy a variety of stocks or bonds in a particular segment of the market.

Nonprofit organizations: a tax-exempt corporation that serves public interests.

Partnerships: businesses owned jointly by two or more persons.

Productivity: the relationship between the output of goods and services and the inputs of labor, material and capital required to produce the outputs.

Profit: money remaining after a business pays all its operating expenses.

Return on investment: the amount of pretax profit from an investment stated as a percentage of the original outlay or purchase price.

Sole proprietorship(s): a business owned by one person.

Stock market: a place where shares of ownership in companies are bought and sold.

Tycoons: important business leaders, a term that nineteenth-century Americans borrowed from the Japanese word “taikun” that means “great lord.”

GENERALIZATIONS

1. The U.S. economy is characterized by millions of small businesses, but a few large corporations make the greatest share of the profits.
2. After reaching a certain optimal size, a company becomes inefficient.
3. As companies grow, they forestall the point at which diminishing returns set in by building additional plants in new locations.
4. Trends in the stock market both shape and reflect directions in the overall economy.

ANALYTICAL QUESTIONS

1. Describe the kinds of businesses that form sole proprietorships and explain why they constitute the vast majority of all businesses in the United States.
2. What is a corporation and how is it formed? Describe the kinds of businesses that form corporations and list two major advantages of incorporation.
3. Explain the law of diminishing returns and identify the point at which it sets in during the production process.
4. What do shares of stock in a corporation represent, and why are they important to a corporation’s existence? List two main risks and two main benefits of investing in the stock market.
5. How do corporate bonds differ from stocks? Why, in uncertain business times, are people more likely to invest in bonds than in stocks?

KEY PROBLEM

Because of increased competition from efficient large corporations, it has become more difficult for many small businesses to survive.

ACTIVITIES

1. Select a sole proprietorship in your community and interview the owner about the origin and history of his or her business. Ask the owner to discuss the major problems and rewards he or she experienced in operating the business. Be sure to prepare your questions in advance and share your findings with the class.
2. Invest an imaginary \$1,000 in the stock market. Purchase as many stocks in as many companies as you wish, within the \$1,000 limit. Track the stocks for a month and create a line graph to chart your earnings or losses. Compare your results with those of your classmates.

3. Go to SIRS Knowledge Source or another database and research articles on business failures. Explore the reasons for some of the failures and note commonalities among them. Write an argumentative essay explaining why those businesses failed.

Chapter 8

Supply and Demand

KEY CONCEPTS AND TERMS

Complementary goods: goods that consumers tend to buy together because they complement each other, such as lettuce and tomatoes or shoes and stockings.

Elasticity (of demand): the amount of change in consumer demand caused by a change in the price of a good or service.

Equilibrium price: the price of a good at which the amount demanded matches the amount supplied.

Factors of production: basic categories of economic resources used to create goods and services.

Income effect: impact of price reductions that increase consumer demand without increasing consumer income.

Law of demand: as the price of a good rises, people buy less; as the price declines, people buy more.

Law of supply: as the price of a good rises, suppliers produce more; as the price declines, suppliers produce less.

New buyer effect: impact of price reductions that increase consumer demand by introducing new buyers to the market.

Purchasing power: consumer's capacity to buy goods and services.

Subsidies: government payments to a business or an individual to encourage or protect a particular economic activity, or to provide financial aid.

Substitute goods: consumer items that are different from one another but serve the same function, such as lettuce and cabbage to make salads or sugar and honey to sweeten desserts.

Substitution effect: increased consumer demand for low-priced goods over high-priced goods of comparable utility.

GENERALIZATIONS

1. Price determines how much of a product will be produced.
2. Some products are “inelastic”—people must buy them even at a high price; others are “elastic”—people buy them only if the price is right.
3. In a market economy, consumers want to buy as cheaply as possible and sellers want to sell at as high a price as possible.
4. In a free-market system, conflict between the self-interests of buyers and sellers operates to bring about fair and efficient prices.

ANALYTICAL QUESTIONS

1. How do the laws of supply and demand interact to lead toward an equilibrium price? How can producers and consumers tell when the equilibrium price has been reached?
2. Explain why the demand curve slopes downward, and discuss the impact on it of new buyer, income and substitution effects. How does the law of diminishing utility relate to the downward slope?
3. What factors determine the slope of the supply curve, and why does it slope upward?
4. In your own words define elasticity of demand and discuss the differences between elastic and inelastic products, citing three examples of each.

KEY PROBLEM

The prices of many local farm products, such as fruits, vegetables and milk, fluctuate depending on the season of the year, and consumers are unable to do much about it.

ACTIVITIES

1. Create a graph illustrating an increase in demand of your favorite product, such as a television set, computer or book, being sure to label the graph completely and properly. Pinpoint and explain the equilibrium price and describe at least three factors that influence price changes using a PowerPoint presentation.
2. Select three sets of substitute goods. Go to the stores that sell them and compare their prices. Then write a one-page argumentative essay explaining why you would or would not buy the lower-priced good in each case. Include in your arguments the factors of taste, fashion, product origin, income and price.
3. Conduct an interview with a local restaurant owner or the head of your school cafeteria. Ask him/her questions about how he/she decides on the amount of food to prepare and what price to charge. Write a three-page essay explaining how the cafeteria or restaurant conforms to the laws of supply and demand. Use charts and graphs to illustrate your findings.

Chapter 9

Oligopoly

KEY CONCEPTS AND TERMS

Conglomeration: the merger of two or more relatively unrelated businesses.

Differentiated products: products, such as televisions or computers, that differ in small ways but that producers market or portray as significantly different in order to gain a share of sales.

Diversification: expansion of a corporation through acquisition of a related, but non-supporting, company.

Holding companies: corporations formed to control others in related fields.

Infrastructure: the array of public structures that foster a nation's economic growth, including roads, bridges, railroad tracks, airports, dams, telephone wires, power lines, hospitals, schools, sewer and water facilities, fire stations and courthouses.

Integration: the combining of manufacturing activities to form a larger production system.

Leveraged buyout: employee or large shareholder purchase of a company with borrowed funds.

Monopoly(ies): the control of a total industry or the major part of any industry by one company.

Multinational corporations (MNCs): businesses with branches and factories in nations outside the home-base nation.

Oligopoly: control of prices in the marketplace by a few large sellers who dominate an industry.

Pooling agreements: illegal arrangements by companies in the same industry to divide the market and share the profits.

Pure competition: market conditions in which the existence of so many buyers and sellers of a product guarantees that no one seller or buyer can affect the product's price.

Recession: a general economic decline in sales, production, investments, employment and earned incomes.

Trusts: concentrations of wealth in the hands of the few.

GENERALIZATIONS

1. While competition is considered the cornerstone of capitalism, a few large corporations control most industries in the United States.
2. Some industries can operate efficiently only if they are large.
3. Monopolies in American industry were effectively broken up by antitrust legislation: the only monopolies in the American economy today are public monopolies operated by the government or private monopolies closely regulated by the government.
4. Pure, or perfect, competition never truly existed in the U.S. economy except in agriculture; but in the modern economy, dominated by big businesses, including agribusiness, competition has become more imperfect.

ANALYTICAL QUESTIONS

1. What is an oligopoly? What are some examples of an oligopoly and how does it affect consumer prices? Why is it said that the United States is an oligopolistic economy?
2. How does "administered" pricing differ from free market pricing? What types of businesses are likely to administer prices, and why can they do this?
3. How can this apparent contradiction be explained: "Government antitrust laws are meant to prevent monopolistic practices and promote competition, yet the government creates and protects some monopolies?" What monopolies does the government support and why?
4. Distinguish among mergers, acquisitions and conglomerations. Account for their rise in the last decades of the twentieth century and discuss their positive and negative effects on the consumer.
5. Cite three recent examples of corporate fraud and discuss the ways in which these violations of business ethics harm the American public and the economy.

KEY PROBLEM

The oligopolistic type of corporate structure, which tends to nullify price competition in the market, has become more and more dominant in the American economy.

ACTIVITIES

1. Using SIRS Knowledge Source or a similar database, research nineteenth-century business practices that led the American government to adopt antitrust laws. In a PowerPoint presentation, outline your findings to the class.
2. Using SIRS Knowledge Source or a similar database, research the merits of the Justice Department's charge of "restraint of trade" against Microsoft in the 1990s (Internet sites such as Microsoft's corporate site and the Justice Department's Web site may be helpful in researching this topic). In a three-page argumentative essay, evaluate the case.

3. Research a conglomerate corporation like Tyco International or General Electric Co. Explore the company's history and the diverse array of companies under its control. Prepare a presentation outlining the company's history and how it acquired its subsidiaries. List its subsidiaries and explain which ones are examples of integration and diversification. Present your findings to the class.

Chapter 10

Labor and Unions

KEY CONCEPTS AND TERMS

Agency shop: a workplace in which nonunion members may be employed as long as they pay dues to the union.

Anarchists: people who seek to overthrow all forms of government and create a society without laws.

Arbitration: mediation by a third party to help reach a binding decision in a labor dispute.

Automation: replacement of human labor by machine labor.

Blacklisting: illegal business practice of listing and circulating the names of undesirable job applicants.

Blue-collar workers: people who work in trades or factories.

Closed shop: a company that denies employment to anyone who is not a union member.

Collective bargaining: a process by which workers and management negotiate working conditions, salaries, benefits and other job factors and agree to abide by their compromises in a binding legal contract covering a period of years.

Compulsory education: legal requirement that young people attend school until reaching a specified age, usually 16.

Craft union: an organization of workers who practice a specific trade or craft.

Displaced workers: people who have lost their jobs because their skills are no longer in demand.

Guilds: medieval organizations of merchants, traders and craftspeople that set standards for the quality of merchandise and for the training and hiring of new members.

Industrial Revolution: social and economic changes that occurred in the eighteenth and nineteenth centuries when Western European and North American countries converted from agricultural economies based on human and animal power to industrial economies based on machine power.

Industrial union: an organization of workers in a particular industry.

Labor force: able-bodied workers who either have a job or are actively seeking one.

Labor market: the intangible place where workers seek jobs while employers seek workers, and where wages of labor are determined.

Labor unions: associations of workers to protect and promote their interests in dealing collectively with employers.

Mediation: the use of a third party during a labor-management dispute to help find an acceptable solution, but whose suggestions are not binding.

Muckrakers: investigative reporters who seek to uncover corruption by government or business.

Multinational corporations (MNCs): businesses with branches and factories in nations outside the home-base nation.

Open shop: a workplace in which union membership is not a condition of employment.

Pink-collar workers: women who work in low-paid occupations.

Purchasing power: consumer's capacity to buy goods and services.

Standard of living: the amount of goods and services a nation has to meet the needs and wants of its people.

Strike: work stoppage—employees' refusal to work until their demands are met by employers.

Sweatshop: place where workers receive low pay for long hours in bad conditions.

Union shop: a workplace in which nonunion members may be hired, but they must join the union within a stated period.

Welfare: public programs designed to provide financial assistance to needy families and individuals.

White-collar workers: people who work in offices.

Yellow-dog contracts: the illegal business practice of requiring all job applicants to sign a pledge that they will not join a union or participate in a strike.

GENERALIZATIONS

1. Until the twentieth century, child labor performed much of the work in the U.S. economy.
2. Labor union struggles in the early twentieth century gradually succeeded in decreasing the workweek, raising wages and improving working conditions.
3. Unemployment has been a persistent problem in the American economy, and keeping it at a low rate has been a serious economic challenge.
4. The rights and benefits that American workers gained during the twentieth century are still not available to many workers in the developing world.

ANALYTICAL QUESTIONS

1. What was the average American workweek in 1900, in 1950 and today? List three reasons why the workweek has grown shorter.
2. To what extent do supply and demand conditions in the labor market for particular workers affect their wages or salaries? What are important factors in determining workers' wages?
3. What abuses prompted workers to form unions in the early days of the Industrial Revolution? How did companies resist their complaints? What strategies did unions use to improve working conditions? How did the following laws address these issues: Clayton Antitrust Act of 1914, Norris-LaGuardia Act of 1932 and the National Labor Relations Act of 1935?
4. What are right-to-work laws? Why did the Taft-Hartley Act of 1947 protect them? What effect do they have on the power of unions?
5. Define the post-industrial "information age" and describe its impact on the changing nature of work in twenty-first century America.

KEY PROBLEM

The post-industrial economy with its commitment to free trade has displaced many workers, and a growing number of young people entering the work force need jobs. The United States faces a major economic challenge in trying to match both types of workers to available jobs.

ACTIVITIES

1. Using SIRS Knowledge Source or a similar database, conduct a subject heading search for "child labor." Compare and contrast child labor in the United States during the nineteenth century and present day child labor in the developing world.
2. Go to the Web page of the Occupational Outlook Handbook maintained by the Bureau of Labor Statistics (<http://www.bls.gov/oco/>) and research a career that you may wish to pursue. Prepare an oral presentation describing issues that will need to be considered when pursuing this career. Be sure to list job requirements, working conditions, average salary and the current state of the job market for that career. Also describe a plan of action for acquiring a position in that field.
3. Using SIRS Knowledge Source or a similar database, research the history of one of the major unions in the United States such as the AFL-CIO or Teamsters or research a famous union leader such as Samuel Gompers or Jimmy Hoffa. Write a five-page report on the history of the organization or individual.

Chapter 11

Money and Banking

KEY CONCEPTS AND TERMS

Credit union(s): employer-sponsored cooperative savings and loan organization providing payroll deductions for savings and mortgage and consumer loans to member employees.

Currency: coins and paper money produced by the government.

Demand deposits: checking accounts or bank deposits that may be withdrawn at any time.

Discount rate: the interest rate that the Federal Reserve charges on loans to member banks.

Federal funds: the reserves that the Fed requires banks to deposit in their district Reserve Bank as protection against withdrawals.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Interest: fee charged by a lender in return for the use of the lender's money and calculated as a percentage of the amount borrowed.

Legal tender: any form of money designated by law as legal. It must be accepted in payment for goods, services or debts.

Money: anything used as a medium of exchange, in which value is stored, and as a unit for measuring value.

Money supply: the total value of currency (bills and coins) in the economy at a specific time, as well as the value of other money instruments, such as deposits in savings, money-market and checking accounts.

Moral hazard: a government incentive to engage in undesirable behavior.

Purchasing power: consumer's capacity to buy goods and services.

Recession: a general economic decline in sales, production, investments, employment and earned incomes.

Redlining: the practice of denying mortgage loans for property located in deteriorating urban neighborhoods.

Reserve requirement: percentage of total deposits a bank must keep on deposit at a Federal Reserve Bank.

Scarcity: an inadequate supply of goods in relation to the population's needs or desires.

GENERALIZATIONS

1. Money is of value only if you can exchange it for something else.
2. Money has value because it is scarce.
3. Financial institutions, particularly banks, transfer purchasing power from people who have more money than they need (lenders) to those who have less money than they need (borrowers).
4. A growing economy requires a stock of money that is capable of expanding with the monetary needs of that economy.

ANALYTICAL QUESTIONS

1. What is money and why is it needed in the U.S. economy? What is the money supply and what kinds of money are used to calculate it?
2. What role do financial institutions play in the national economy? List the types of financial institutions and their functions.
3. What are “bank panics” and what effect did they have in past years on the banking system and the total money supply? How did the creation of the Federal Reserve System help to prevent panics?
4. What is the Federal Reserve System and what major functions does it have in the economy?
5. Describe the differences between the Federal Reserve’s power to regulate the money supply and to regulate the interest rate. What influences do these powers have on the money supply?

KEY PROBLEM

Banks and other financial institutions are in business to lend money, but, without regulation, their activities can expand the money supply too much and create inflationary pressure on the economy.

ACTIVITIES

1. Go to the main Web site of the Federal Reserve or one of its branches. Examine the structure of the Federal Reserve System and create a PowerPoint presentation for the class delineating the Fed’s structure and functions.
2. Using SIRS Knowledge Source or a comparable database, conduct a keyword search for information about “moral hazard.” Share the information with a small group of students and organize a formal debate on the question of whether government regulation fosters or inhibits moral hazard.
3. Trace congressional efforts to deregulate the banking industry between 1980 and 2000. Use SIRS Knowledge Source or a similar database to find information about past banking regulation decisions. List the laws that were passed, summarize their intent and forecast their long-term effects.

PART III: GOVERNMENT AND ECONOMICS

Chapter 12

Government

KEY CONCEPTS AND TERMS

Bond(s): certificates promising to repay loans to corporations or government units, usually with interest, within a specified period of time.

Categorical grants: federal funds granted to state and local governments for specific purposes.

Cost/benefit ratio: a comparison of a program’s cost to the benefits it will produce.

Deficit financing: a deliberate government policy of spending more money than the government receives in revenue.

Discretionary spending: federal budget expenditures for defense and other agency operations and programs that Congress and the President negotiate each year.

Entitlement program(s): transfer of federal funds, such as Social Security, to individuals who legally qualify for them.

Externalities: costs or benefits of economic activities that impact third parties or society as a whole.

Federal budget: a spending plan for the federal government’s expenditures and revenue for the period of one fiscal year.

Fiscal year: a 12-month period that governments and businesses use for financial accounting.

Income tax(es): percentage of earnings collected by government on the basis of income level.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Infrastructure: the array of public structures that foster a nation’s economic growth, including roads, bridges, railroad tracks, airports, dams, telephone wires, power lines, hospitals, schools, sewer and water facilities, fire stations and courthouses.

Mandatory spending: federal budget expenditures mainly for entitlements that are authorized by permanent laws.

Opportunity cost(s): the value of a good or service that one gives up when choosing an alternative good or service.

Pork barreling: conferring federal or state benefits on a local area for political reasons.

Property tax(es): percentage of money collected by government based on its assessment of land or real estate values.

Revenue sharing: federal aid to state and local governments based on population size.

Sales tax(es): percentage charged by government on the value of goods or services bought by consumers.

GENERALIZATIONS

1. The federal government buys more goods and services than any other entity in America.
2. Millions of people benefit from government programs.
3. Growth in government activities has expanded rapidly over the past century.
4. While the president is constitutionally responsible for setting the federal budget's annual priorities and expenditures, Congress shares the power since it is responsible for appropriating funds to implement the budget.

ANALYTICAL QUESTIONS

1. Compare and contrast spending priorities and income sources at the federal, state and local levels.
2. Describe at least four roles that the federal government plays in the national economy.
3. Why is it often difficult for governments to raise enough taxes to pay for services the public demands?
4. Read the preamble to the U.S. Constitution and identify examples of specific government activities that meet each of its requirements.
5. Compare and contrast the powers that the president and Congress exercise in preparing the nation's annual budget.

KEY PROBLEM

People generally want an increase in government services, but they are reluctant to provide enough tax dollars to pay for these services.

ACTIVITIES

1. Go to the U.S. Census Bureau's Web site on state government finance data (www.census.gov/govs/www/state00.html) and research the expenditures and taxes collected in your state. Create two pie charts to illustrate the information. In a one-page essay, compare your state's budget with the total for all states and account for the differences.
2. Review the glossary definition for "opportunity costs" and then select an occasion in your life when you had to choose between two "goods," such as taking a part-time job after school or staying after school for extracurricular activities. In a two-page essay, discuss the options you faced and calculate the opportunity costs you gave up when you chose one of the options.
3. In a small group, reenact the federal budget-making process. Using the Preamble to the U.S. Constitution and the description of the process in section 12.8 "The budget-making process" as a guideline, debate and establish budget priorities and discuss revenue sources that would achieve the budget's goals. Be sure to refer to current articles and government publications found in a general reference database such as SIRS Knowledge Source to justify your proposals.

Chapter 13

Taxes

KEY CONCEPTS AND TERMS

Ability to pay: principle of taxation based on the idea that the higher a person's income the more taxes should be paid.

Audit: examination of a taxpayer's return by the Internal Revenue Service to verify its accuracy.

Benefits received: principle of taxation based on the idea that an individual's taxes should bear a close relationship to the benefits, or services, received.

Bond(s): certificates promising to repay loans to corporations or government units, usually with interest, within a specified period of time.

Burden of proof: obligation to prove something that is said to be true.

Categorical grants: federal funds granted to state and local governments for specific purposes.

Deductions: subtractions of qualified amounts from income before calculating taxes.

Depreciation allowances: tax deductions for exhaustion, wear, tear and obsolescence of property used for business or investment purposes.

Effective tax rate: percentage of total income spent on taxes.

Excise tax: a tax on the manufacture, sale or use of certain articles made, sold or used within the country.

Exemptions: reduction of specified amounts from taxable income for self, dependents, blindness or age.

Flat tax: plan that would apply a uniform tax rate on all income and eliminate all credits, exemptions, deductions and exclusions.

Garnishment(s): legal authority to claim property or wages to pay off a debt, usually to the government.

Income tax(es): percentages of earnings collected by government on the basis of income level.

Individual retirement account (IRA): a way to set aside retirement savings that are not taxable until withdrawn and may be tax deductible depending on income.

Marginal tax rate: percentage of tax to be paid on income in excess of that specified for a tax bracket.

Nominal tax rate: the percentage of taxable income spent on taxes.

Personal property: the value of cars, boats and other possessions that some state and local governments tax on an annual basis.

Progressive taxation: a tax that imposes a higher tax rate on people with high incomes than on those with low incomes.

Property tax(es): percentage of money collected by government based on its assessment of land or real estate values.

Proportional taxation: a tax based on the same proportion of everyone's income, used to pay for government services from which most people benefit.

Regressive taxation: a tax that imposes a higher tax rate on people with low incomes than those with high incomes.

Revenue sharing: federal aid to state and local governments based on population size.

Sales tax(es): percentage charged by government on the value of goods or services bought by consumers.

Tax credits: a direct reduction of income-tax liability on such expenses as childcare, college expenses, energy conservation, foreign taxes and investments.

Tax shelter(s): a corporate investment usually involving high risk and large amounts of money that government favors with large tax deductions for investors.

Taxable income: the amount remaining on an individual's Form 1040 after subtracting from adjusted gross income such items as deductions and personal exemptions.

Unemployment compensation: program enacted under the Social Security Act of 1937 whereby states collect taxes from employers and distribute them to laid off workers who are unable to find another job for a period of up to 15 weeks.

GENERALIZATIONS

1. Taxes pay for government services.
2. It is difficult to tax all people fairly.
3. Because of the number of tax deductions and credits available to high-income earners, the actual federal income tax is less progressive than indicated by tax schedules.
4. Despite revenue sharing by the federal government to states and by states to local areas, sizable differences remain in the financial capabilities of various states and cities.

ANALYTICAL QUESTIONS

1. Briefly describe the main criteria of a good tax. To what extent does the federal income tax meet these criteria?
2. Distinguish between the "benefits-received" principle of taxation and the "ability-to-pay" principle. Cite an example of each type of taxation and describe a government service that is appropriate for each type.
3. Distinguish among progressive, regressive and proportional taxes. Cite an example of each type of tax.
4. What is the justification for a progressive tax? How are the major progressive taxes made less progressive?
5. Summarize major tax reforms that Congress enacted during the last two decades of the twentieth century.
6. Describe the benefits and liabilities of a flat tax and measure its ability to meet the main criteria for a "good" tax.

KEY PROBLEM

Citizens do not equally bear the burden of taxes to support government programs and services.

ACTIVITIES

1. Investigate the types and rates of local, state and federal taxes that you and your family pay. Either examine household bills and tax returns or contact local, state and federal taxing authorities to come up with a comprehensive list to share with classmates.
2. With a small group using SIRS Knowledge Source or comparable database, research information about the pros and cons of the flat tax. Using PowerPoint presentations organize a formal debate on the issue.
3. Political parties generally differ in their taxation philosophies and priorities. As a group project and with the help of a librarian, contact the national headquarters of the Democratic Party, the Republican Party, the Green Party, the Libertarian Party and any other party active in your area to gather information about their tax policies. Compare and contrast the various party philosophies and identify the one with which you feel most comfortable. Explain your choice in a one-page essay.

4. Assume you are married with two children. You and your spouse both work. You earn \$25,000 a year and your spouse earns \$20,000 a year. Fill out a 1040EZ tax form, available at most local libraries or from the Internal Revenue Service Web site, for the current year. Fill out a form representing a joint filing with your spouse and fill out two forms as if you were filing separately. Determine the “marriage penalty tax” you would pay if you filed jointly.

Chapter 14

GDP—Our Economic Yardstick

KEY CONCEPTS AND TERMS

Depreciation: 1. a fall in the price of a currency in relation to other currencies on a floating exchange market; 2. the exhaustion or wearing out of plant and equipment.

Disposable income: income available to households and individuals after taxes are paid.

Export(s): goods sold from one country to another.

Factors of production: basic categories of economic resources used to create goods and services.

Flow: the rate of economic activity—production and spending—over a certain period of time.

Import(s): goods bought from one country by another.

Investment: capital formation, or the production of equipment, new tools, industrial buildings, houses and goods added to inventories.

Macroeconomics: the study of the economic system as a whole, including total income and production, employment and price levels and economic growth.

National income: the total of all income earned by individuals and businesses in producing the GDP.

National income accounting: measurements of levels of production, income and purchasing power in the total economy.

Stock: the wealth of a nation, consisting of the value of all land, buildings, equipment and consumer goods existing at some point in time.

Transfer payment(s): government payments to individuals for which no goods or services were exchanged.

Unemployment compensation: program enacted under the Social Security Act of 1937 whereby states collect taxes from employers and distribute them to laid off workers who are unable to find another job for a period of up to 15 weeks.

Wealth: a nation’s stock of physical capital, human capital and net financial capital owned overseas.

Welfare: public programs designed to provide financial assistance to needy families and individuals.

GENERALIZATIONS

1. The GDP is the best indicator of the nation’s economic health.
2. A rise or decline in GDP makes headline news.
3. GDP is the most comprehensive measure of a nation’s economic production, although many important activities, such as housework, rearing children and volunteer work, are left out of the accounting.
4. A nation’s GDP is only a partial indicator of its quality of life, since many important human amenities elude economic measurement.

ANALYTICAL QUESTIONS

1. What is gross domestic product and how is it distinguished from net national product and from national income? How can it be argued that each measurement is the best indicator of a nation’s economic performance?
2. What is “double counting,” and why should it be avoided in calculating GDP? What items are left out of GDP that are worthy of inclusion for a more accurate measurement? Why are they not included?
3. Distinguish between stock and flow; between income and wealth. Which of the two—income or wealth—is the larger and why?
4. Which measure of economic activity is the larger and why: disposable income, national income or personal income? Which one represents the “personal consumption” component of GDP?
5. How are the actual production of goods and services, total expenditures and income generated in the economy interrelated? Why is the flow most likely to be interrupted in the savings and investment sector of the economy?

KEY PROBLEM

Judging the quality of life in a society by its gross domestic product ignores many other important factors.

ACTIVITIES

1. To gain a better understanding of the role that the Bureau of Economic Analysis (BEA) plays in calculating the gross domestic product, access its Web site. (A link is available in the chapter or you can ask a reference librarian to help you

- find the BEA Web site.) In outline form, list the Bureau's major responsibilities and procedures in calculating the GDP every three months.
- Using SIRS Knowledge Source or a similar database, find current gross domestic product (GDP) and human development index (HDI) figures for 10 countries. HDI statistics can be accessed through the United Nations Development Programme Web site and current international GDP figures can be accessed through the World Factbook Web site. Compare these statistics and create a chart that shows the disparity between the two indexes. Write a 3-page argumentative essay describing which index is a better gauge of prosperity.
 - Using the Bureau of Economic Analysis Web page, access information on your state's gross state product (GSP) for the last ten years. Also find information on the gross domestic product (GDP) for the same time period. Convert the information into a line graph and compare the rise and fall of the GDP to the GSP. Write a one-page essay explaining how your state fared in comparison to the national average.

Chapter 15

A Growing Economy

KEY CONCEPTS AND TERMS

Accelerator effect: an increase in consumption brought about by additional capital investment.

Aggregate demand: the total demand for goods and services by consumers, businesses, governments and foreign buyers.

Aggregate supply: the total quantity of output that producers are willing and able to supply at a given period of time.

Cost/benefit analysis: the process of weighing the benefits of a public policy against its costs to the private sector.

Economic growth: an increase in total output.

Factors of production: basic categories of economic resources used to create goods and services.

Forced obsolescence: designing goods so that they become unfashionable or wear out faster than is technologically necessary.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Infrastructure: the array of public structures that foster a nation's economic growth, including roads, bridges, railroad tracks, airports, dams, telephone wires, power lines, hospitals, schools, sewer and water facilities, fire stations and courthouses.

Innovation: an invention or improvement that changes methods of production.

Labor force: able-bodied workers who either have a job or are actively seeking one.

Multiplier effect: an expansion of the total income generated in an economy due to the effects of new capital investment in production facilities.

Real GDP: current GDP minus the change in the price of goods between their current prices and those in a base year.

Real interest rate: the actual interest rate applied to a loan, taking into account the anticipated inflation rate for the course of the loan.

Recession: a general economic decline in sales, production, investments, employment and earned incomes.

Standard of living: the amount of goods and services a nation has to meet the needs and wants of its people.

Work ethic: a belief in the value of working hard and avoiding laziness.

GENERALIZATIONS

- Economic growth is a desirable goal.
- Too much growth leads to high prices and inflation.
- Effective decision making requires a comparison of the costs and benefits of each alternative.
- U.S. economic growth slowed during the last three decades of the twentieth century, challenging policymakers to reassess the nation's goals and priorities.

ANALYTICAL QUESTIONS

- What is economic growth and why is it important? What is meant by per capita real GDP, and why is it an important consideration in measuring economic growth?
- In what respect does economic growth fail to guarantee that the quality of life in a society is improving? What are other important indicators to consider in assessing the quality of life?
- What does it mean to say that an economy is in a state of equilibrium? What is aggregate demand and how does it affect the expansion or contraction of production?
- How is it that an economy can have a steady rate of economic growth yet not achieve full employment?
- How would the multiplier affect both the local economy and the national economy if a Japanese automobile company built a major production and assembly plant in Racine, Wisconsin?
- How does the accelerator principle operate, and how does it interrelate with the multiplier effect?

KEY PROBLEM

Economic growth is a major goal in modern societies, but various social and environmental problems are associated with growth.

ACTIVITIES

1. Assume you want to buy a car. Using cost/benefit analysis write a 3-page essay explaining why the benefits of owning a car would outweigh the cost of the automobile and the related expenses (insurance, fuel and repairs). Be sure to research the costs and benefits thoroughly and use related magazine, newspaper and Internet articles to defend your position.
2. Brainstorm a list of five negative consequences of economic growth. Using SIRS Knowledge Source or a comparable database, research the causes and effects of each problem and suggest economic activities or government policies that could solve the problems.
3. Using SIRS Knowledge Source or a similar database, compare the U.S. economy in 1950 and the U.S. economy today. Create a PowerPoint presentation listing the ways the economy has changed. Create a line graph showing when the U.S. economy maintained its equilibrium, grew or stagnated.

Chapter 16

Inflation and Recession

KEY CONCEPTS AND TERMS

Business cycle: a series of changes in business activity from a period of prosperity to decline and recession or depression, then to recovery and prosperity again.

Contagion effect: global impact of sharp fluctuations in a single stock market or as a result of a currency devaluation.

Cost of living: the average price of food, clothing and other family needs in a particular location.

Cost-push inflation: inflation caused by an increase in production costs.

Credit: purchases made without cash, subject to later payment.

Demand-pull inflation: inflation caused by too much demand for goods and services by households, businesses and government during times of prosperity.

Depression: severely reduced business activity with respect to sales, production and investments, accompanied by a very high level of unemployment.

Discount rate: the interest rate that the Federal Reserve charges on loans to member banks.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Labor force: able-bodied workers who either have a job or are actively seeking one.

Multiplier effect: an expansion of the total income generated in an economy due to the effects of new capital investment in production facilities.

Prosperity: a period when business thrives, plants operate at near capacity, unemployment is low, wages are high and consumers have money to buy goods and services.

Recession: a general economic decline in sales, production, investments, employment and earned incomes.

Recovery: a period of increased economic activity following a recession or depression.

Standard of living: the amount of goods and services a nation has to meet the needs and wants of its people.

GENERALIZATIONS

1. The business cycle seems to follow a pattern that is difficult to control.
2. Experience shows that recession usually follows inflation.
3. Although modern economic cycles have had less exaggerated periods of recession and inflation than in the past, fluctuations still exist, causing hardships for many families.
4. The apparent prosperity of many families in the expanding economy is offset by inflation and masked by a growing use of consumer credit.

ANALYTICAL QUESTIONS

1. Why is a recession likely to follow a period of business expansion, unless effective economic policies are pursued?
2. Starting with 1900, identify the periods or years of major inflation. What appears to have been the basic cause of inflation in each case?
3. What effect does inflation have on the economy? What measures can the Federal Reserve System take to reduce inflation?
4. After reading eyewitness accounts of the Great Depression's impact on the economy, summarize its effect on bankers, farmers, workers and their families. Under what circumstances did some people escape the depression's devastation?

KEY PROBLEM

Preventing recession and reducing inflation are major challenges for government policymakers because choosing the right policy and the moment to impose it can make a huge difference in the outcome.

ACTIVITIES

1. Using SIRS Knowledge Source or a comparable database, research the causes of the Great Depression and compare the remedies used by Presidents Herbert Hoover and Franklin D. Roosevelt to combat it.
2. After reviewing weekly business news in newspapers, on television and the Internet, identify the current economy's location on the business cycle. Prepare a detailed defense of your choice and use charts and graphs to illustrate your findings.
3. Conduct an interview with someone who lived during the Great Depression or research oral history projects on the depression. (The Library of Congress and several universities have oral histories from the Great Depression available online.) Write a 3-page essay describing daily life during the depression and compare the experiences of the people interviewed to those of a recent recession, such as the one that followed the September 11, 2001 terrorist attacks.

Chapter 17

Stabilizing the Economy

KEY CONCEPTS AND TERMS

Accelerator effect: an increase in consumption brought about by additional capital investment.

Aggregate demand: the total demand for goods and services by consumers, businesses, governments and foreign buyers.

Built-in stabilizers: government programs and provisions that automatically take effect or have the effect of reducing swings in an economic cycle.

Deficit financing: a deliberate government policy of spending more money than the government receives in revenue.

Depression: severely reduced business activity with respect to sales, production and investments, accompanied by a very high level of unemployment.

Discount rate: the interest rate that the Federal Reserve charges on loans to member banks.

Fiscal policy: government decisions on spending and taxation.

Inflation: rise in prices caused by expansion of the money supply or bank credit.

Monetary policy: Federal Reserve Bank decisions that affect the supply of money in circulation.

Money supply: the total value of currency (bills and coins) in the economy at a specific time, as well as the value of other money instruments, such as deposits in savings, money-market and checking accounts.

Multiplier effect: an expansion of the total income generated in an economy due to the effects of new capital investment in production facilities.

Open market operations: the selling and buying of government bonds and other U.S. Treasury issues by the Federal Reserve System to the public—largely insurance companies, commercial banks and big firms.

Prime rate: rate of interest charged by commercial banks to large corporate borrowers.

Progressive taxation: a tax that imposes a higher tax rate on people with high incomes than on those with low incomes.

Proportional taxation: a tax based on the same proportion of everyone's income, used to pay for government services from which most people benefit.

Regressive taxation: a tax that imposes a higher tax rate on people with low incomes than those with high incomes.

Reserve requirement: percentage of total deposits a bank must keep on deposit at a Federal Reserve Bank.

Welfare: public programs designed to provide financial assistance to needy families and individuals.

GENERALIZATIONS

1. Attempts to stabilize the economy often become political issues.
2. In order to stimulate a sluggish economy, the major question is whether to promote "supply side" or "demand side" incentives.
3. During a period of recession, prudent government policy would be to increase spending and reduce taxes, even if it leads to deficit spending.
4. Federal Reserve policymakers manipulate monetary measures to insure a sufficient supply of money for full employment, but not so much as to help create inflationary pressures.

ANALYTICAL QUESTIONS

1. Why were John Maynard Keynes' theories on economic cycles and their remedies so unconventional in the 1930s? What, essentially, was the Keynesian solution for combating the depression and why was it necessary?
2. What is fiscal policy and what are the major ways or measures for implementing it?

3. What are three built-in stabilizers for the economy? How are they related to fiscal policy?
4. What are the Federal Reserve System's three major monetary tools? Briefly explain how one of them operates to curb recessionary pressures.
5. What is one monetary policy measure that the Fed could use to decrease the money supply? Explain how it would work.
6. If the economy had clearly entered a recession, what fiscal and monetary policies could be used to counter the recession?

KEY PROBLEM

It is difficult for the average citizen to evaluate competing policy proposals for stabilizing the economy until after they have gone into effect.

ACTIVITIES

1. Perform a subject-heading search for the terms "fiscal policy" and "monetary policy" on SIRS Knowledge Source or a comparable database. Review government policy statements about the economy for the past 10 years. On a timeline, identify and classify fiscal and monetary policies that the president and the Federal Reserve have implemented to stabilize the economy.
2. Using SIRS Knowledge Source or a comparable database, perform a keyword search for the terms "Keynesianism" and "Monetarism." Explain their differences and evaluate their relative effectiveness in stabilizing the economy.
3. Go to the Federal Reserve Board Web site or a Web site for one of the regional Federal Reserve Banks. (Links are available in the chapter). Research the role and policy decisions of the board and the Federal Open Market Committee. Assume you are the Fed Chairperson, create a PowerPoint presentation describing what measures you would use to stabilize the current economic situation. Be sure to cite past Fed policy decisions and their effects to defend your actions.

Chapter 18

Economic Class

KEY CONCEPTS AND TERMS

Aggregate income: the total of earned incomes in the nation.

Cost of living: the average price of food, clothing and other family needs in a particular location.

Median income: the income amount above which as many people earn more as the number of people who earn less.

Middle class: individuals or families with an annual income high enough to enable them to enjoy a modest to comfortable life style.

Poverty: an income level that does not provide the resources for reasonably comfortable living.

Productivity: the relationship between the output of goods and services and the inputs of labor, material and capital required to produce the outputs.

Progressive taxation: a tax that imposes a higher tax rate on people with high incomes than on those with low incomes.

Recession: a general economic decline in sales, production, investments, employment and earned incomes.

Unearned income: inherited wealth or profits from savings and investments.

Welfare: public programs designed to provide financial assistance to needy families and individuals.

GENERALIZATIONS

1. Even a democratic society like the United States has an economic class system.
2. Inflation, unemployment, job discrimination and family break-ups shrink the size of the middle class and place more families in poverty.
3. A large and strong middle class is necessary to maintain political stability in a capitalist economy.
4. Despite some government efforts to reduce income inequality, the distribution of income has widened since the 1950s.

ANALYTICAL QUESTIONS

1. Describe a "middle-class" family in the United States, considering such characteristics as income, age, education, lifestyle and plans for the future?
2. Who are the poor in American society? How would you describe their standard of living? How can there be poor people in America's affluent economic society?
3. Describe the distribution of incomes in the U.S. economy and account for their disparity.
4. What are the major factors that go into determining incomes in the U.S. economy? Which factors appear to be sound and relevant and which do not? Explain.

5. Defend or oppose the following statement on both economic and ethical grounds: "It would be at least as fair as the present system in American society to distribute incomes equally, or nearly equally, with the difference based on general need and family size."

KEY PROBLEM

The rising cost of living has made it increasingly difficult for middle-class families to realize the American dream of having a better life than their parents had in the past and a still better life for their children in the future.

ACTIVITIES

1. Examine the pie chart in the chapter "Where the Money Goes" and compare it to where the money goes in your family budget. Using Microsoft Excel or a similar computer program, create a pie chart for your family budget allocations and compare it to those created by other students in the class. Discuss differences and similarities among the charts and then draw several inferences about how American families allocate their resources and prioritize their needs.
2. Using SIRS Knowledge Source or another comparable database, conduct a subject-heading or keyword search on the "American dream." In a two-page essay, summarize the major ideas and describe your own definition of the American dream. As an alternative form of research, you may conduct a survey of adults in your family, your school or your neighborhood, asking them to describe their definition of the American dream.
3. Using SIRS Knowledge Source or a comparable database, research statistics on economic classes in America. A few online resources worth researching are the Web pages for the U.S. Census Bureau, the Bureau of Economic Analysis and the Bureau of Labor Statistics (links are available on SIRS Knowledge Source or in the chapter). Create a PowerPoint presentation that breaks down the U.S. population by economic class. Be sure to research differences in age, gender, race and region. Use charts, graphs and maps to illustrate your findings.
4. Identify jobs that you believe have a generally positive impact on society as a whole and jobs you believe have a generally negative impact on society as a whole. With the help of a research librarian or using a research database find the median income for each of these jobs. In a one-page essay, present your findings and interpret what they reveal about the relationship between a job's contribution to society and its typical compensation.

Chapter 19

Unemployment

KEY CONCEPTS AND TERMS

Comparative advantage: the ability of a company or a nation to produce a certain product more efficiently or cheaply in comparison to another company or nation.

Disadvantaged workers: people in poor neighborhoods who lack education and skills to fill available jobs.

Discouraged workers: people who have been unemployed for a long time and have given up looking for a job but would take one if it became available.

Displaced workers: people who have lost their jobs because their skills are no longer in demand.

Downsizing: eliminating jobs in a company in order to reduce expenses.

Enterprise zones: economically depressed urban and rural areas targeted by the federal government for receipt of tax breaks and employment credits to attract business revitalization of the areas.

Illegal aliens: non-citizens who enter a country without receiving immigration or visitor documents, thus an undocumented alien.

Infrastructure: the array of public structures that foster a nation's economic growth, including roads, bridges, railroad tracks, airports, dams, telephone wires, power lines, hospitals, schools, sewer and water facilities, fire stations and courthouses.

Labor force: able-bodied workers who either have a job or are actively seeking one.

Smokestack industries: producers of heavy equipment or machinery.

Structural unemployment: a mismatch between job seekers' skills or location and the requirements or location of available jobs.

Underemployed workers: people who are unable to find full-time jobs who accept part-time jobs or jobs for which they are overqualified.

Unemployed workers: people who are out of work but actively seeking a job.

Unemployment compensation: program enacted under the Social Security Act of 1937 whereby states collect taxes from employers and distribute them to laid off workers who are unable to find another job for a period of up to 15 weeks.

Unemployment rate: the percentage of people in the labor force who are unable to obtain a job.

Welfare: public programs designed to provide financial assistance to needy families and individuals.

GENERALIZATIONS

1. Unemployment has been a persistent problem for the U.S. economy, and only during the war years has it fallen much below four percent.
2. The U.S. is changing from a predominantly industrial society to a predominantly information society, which means changing from a goods-producing to a service-producing economy.
3. The unemployment rate of different groups in the population is highest for teenagers and high school dropouts and considerably above average for minorities and women.
4. The availability of unemployment compensation, food stamps and other forms of public assistance cushions the problem of unemployment for many workers who lose their jobs.

ANALYTICAL QUESTIONS

1. Describe unemployment trends during the twentieth century. What are the main reasons for unemployment in today's economy? Why is it so difficult to reduce the rate below five percent?
2. In what ways do seasonal events and worker or employer behaviors distort actual government reports of unemployment?
3. Who are the unemployed? Describe the types of workers who have trouble finding jobs and the kinds of workers who tend to lose their jobs.
4. What strategies has the government traditionally used to reduce unemployment? What suggestions have been made that the government might consider using to reduce unemployment?

KEY PROBLEM

While most economists believe that a five-percent unemployment rate is the best that can be achieved, it still affects millions of people and imposes hardships on unemployed individuals and their families.

ACTIVITIES

1. Using SIRS Knowledge Source or another comparable database, research the origin and history of the Civilian Conservation Corps (CCC). In a three-page research paper summarize your findings and suggest how the CCC experiment in the 1930s could be applied to the problem of high unemployment among youths in the twenty-first century.
2. With the help of a teacher or librarian, make an appointment to visit your local state employment office to find out the major causes of unemployment in your area. What services does the office offer to help the unemployed? Describe your findings to the class in an oral presentation and discuss ways in which local unemployment might be reduced. Be sure to ask for current unemployment statistics in your community and cite those statistics in your presentation.
3. Using SIRS Knowledge Source or a comparable database, research current information about the baby-boom generation to find out how it got its name and why it has had, and continues to have, such an enormous impact on the economy. Create a chart or PowerPoint presentation tracing the boomers' impact on the economy in various stages of their lives from infancy and childhood to old age and retirement.
4. Using SIRS Knowledge Source or a comparable database, research the arguments for and against the belief that illegal aliens increase unemployment by taking jobs away from Americans. Write a three-page opinion paper on how the government should respond to illegal aliens working in America. Be sure to document your research findings properly.

Chapter 20

Federal Subsidies

KEY CONCEPTS AND TERMS

Block grants: consolidation of federal aid to states and localities to be allocated according to local need.

Consumer price index: the average price of a "market basket" of a large variety of consumer goods and services that reflects the general cost of living at a particular time.

Entitlement program(s): transfer of federal funds, such as Social Security, to individuals who legally qualify for them.

Multiplier effect: an expansion of the total income generated in an economy due to the effects of new capital investment in production facilities.

Philanthropy: charitable giving aimed at improving the well being of individuals and society.

Poverty: an income level that does not provide the resources for reasonably comfortable living.

Poverty threshold: government estimate of the amount of income families need to sustain their existence, usually calculated at three times the amount of money needed to buy the cheapest "nutritionally adequate" diet as defined by the U.S. Department of Agriculture.

Privatization: the contracting out of traditional government services to private industry.

Standard of living: the amount of goods and services a nation has to meet the needs and wants of its people.

Subsidies: government payments to a business or an individual to encourage or protect a particular economic activity, or to provide financial aid.

Transfer payment(s): government payments to individuals for which no goods or services were exchanged.

Welfare: public programs designed to provide financial assistance to needy families and individuals.

GENERALIZATIONS

1. At some point, nearly everyone—the unemployed worker, military veteran, farmer, student, homeowner, corporate executive—benefits from a government subsidy.
2. Major political decisions are involved in determining who gets federal subsidies.
3. Public assistance to the poor tends to swell in times of high unemployment and to contract in times of economic prosperity.
4. Americans have always been divided about whether poverty is self-inflicted or the result of social change.

ANALYTICAL QUESTIONS

1. What is a subsidy? How do virtually all Americans benefit from a subsidy of one kind or another?
2. Distinguish between “event-based” and “means-tested” entitlements and briefly describe some of the major programs in each category.
3. What is Social Security and how does it work?
4. Describe changes in the American economy during the twentieth century that necessitated the development of social insurance and welfare programs.

KEY PROBLEM

The aging of the population in many industrialized nations, including the United States, places an increasing burden on young workers to contribute funds to pension programs for the elderly.

ACTIVITIES

1. Develop and conduct an interview with young workers and retired people in your community about Social Security: its social and economic value and its current cost. Identify each group’s key issues. Compare and contrast the beliefs retired and young workers have about Social Security reform. Prepare a comparative analysis chart summarizing your findings and report them to the class.
2. Using SIRS Knowledge Source or a comparable database, research current eligibility qualifications for major social insurance programs. In a PowerPoint presentation, share your findings with the class and lead a discussion to assess the effectiveness of each program.
3. Using SIRS Knowledge Source or a comparable database, conduct a subject heading search for Social Security. Write a three-page research paper describing the increasing problem of funding Social Security and forecast the program’s future directions.

Chapter 21

American Farm

KEY CONCEPTS AND TERMS

Deficiency payments: transfer payments from government to farmers for the difference between market prices for crops and government guaranteed prices.

Deregulation: the loosening of government control over private industry to foster competition.

Economies of scale: unit cost reductions that can be obtained when producing large numbers of units.

Elasticity (of demand): the amount of change in consumer demand caused by a change in the price of a good or service.

Embargo: government order forbidding a ship from entering or leaving a port or forbidding exports of products to specific countries.

Entrepreneur(s): the owner or manager who organizes the factors of production in a business enterprise.

Export(s): goods sold from one country to another.

Green Revolution: scientific development in the 1960s of fast-growing, high-yield strains of rice and grain.

Market: any place where goods are bought and sold.

Moral hazard: a government incentive to engage in undesirable behavior.

Opportunity cost(s): the value of a good or service that one gives up when choosing an alternative good or service.

Parity: government support to maintain minimum prices for farm products.

Price floors and ceilings: the maximum and minimum allowable prices for a good or service.

Price supports: prices set and supported by the government to ensure farmers enough revenue from sales to cover their costs of production.

Subsidies: government payments to a business or an individual to encourage or protect a particular economic activity, or to provide financial aid.

Tariff duties: taxes on imports either to raise money or to protect domestic producers of the imported item.

Vertical integration: expansion by a large corporation through acquiring a company whose activities directly support the production of the original company.

GENERALIZATIONS

1. The paradox in American farming is that the more successful farmers are at growing crops, the lower their prices and income.
2. Corporate farms are replacing small independent farms.
3. The demand for most farm products is “inelastic:” changes in either people’s incomes or in food prices will have little effect on how much food people consume.
4. While food prices have risen, the farmers’ share of added food dollars has decreased due to more intermediaries involved in transporting, processing and marketing food products.

ANALYTICAL QUESTIONS

1. Why has productivity in farming been so high over the years? Why has this growth been largely detrimental to the farmer?
2. Define parity and explain how it works? Explain the two major ways in which the government attempts to maintain a desired parity level for farmers.
3. Identify the basic farm problem? Describe solutions that have been offered to solve the problem.
4. What attempts have been made to deregulate farming in recent years? List some of the arguments for and against deregulation.

KEY PROBLEM

Despite an increase in farm productivity, American farmers’ economic position has steadily declined.

ACTIVITIES

1. Although most Americans do not earn a living as farmers, many are descendents of family farmers either in the United States or their country of origin. Interview the oldest members of your family or community to find out what life used to be like on the farm. In an essay, poem, song or drawing depict this lifestyle.
2. With help from your teacher or librarian, arrange to interview the produce manager of your local grocery store or supermarket. Ask him or her to point out fruit and vegetable products that come from other countries and those that are locally grown. Calculate what percentage of the produce is imported and ask the manager to assess how much “country of origin” influences consumer choices. Share your findings with the class.
3. Using SIRS Knowledge Source or a similar database, review the details of farm policies enacted between 1985 and the present. Create a chart listing their major deregulation features. Lead a class discussion or hold a formal debate on the pros and cons of deregulation.
4. Using SIRS Knowledge Source or similar database, conduct a keyword search for the phrase “Public Law 480” or “Agricultural Trade Development and Assistance Act,” passed by Congress in 1954, empowering the federal government to give or withhold gifts of surplus foods to foreign countries. On a timeline, trace incidents when the government used this power as a foreign-policy tool. You may wish to contact the State Department or your congressional representatives to find more information about this topic.
5. Using an outline map of the United States (available in the “Learning Tools” section of Interactive Citizenship) locate the major agricultural regions for the following products: cattle, corn, cotton, grapes, oranges, potatoes, soy beans, sugar cane or sugar beets, tobacco and wheat. Present your findings to the class and identify reasons why each product is farmed predominantly in those specific regions (i.e. climate, soil condition). The U.S. Department of Agriculture Web site is a good place to begin researching this activity.

PART IV: GLOBAL ECONOMICS

Chapter 22

Foreign Trade

KEY CONCEPTS AND TERMS

Balance of trade: the value of all goods sold to foreign nations compared with the value of all goods bought from them. If the price of exported items does not increase as fast as the price of imported goods, the country suffers a balance-of-trade deficit.

Bilateral: describing negotiations between two countries.

Cartel(s): formal agreement among nations that export the same product to regulate the production, sale and price of this product on international markets.

Comparative advantage: the ability of a company or a nation to produce a certain product more efficiently or cheaply in comparison to another company or nation.

Embargo: government order forbidding a ship from entering or leaving a port or forbidding exports of products to specific countries.

Export(s): goods sold from one country to another.

Foreign investment(s): when businesses or governments seek economic gain by committing capital or resources to business opportunities in other countries.

Import quota(s): laws restricting the quantity of products that may be imported into a country.

Import(s): goods bought from one country by another.

Macroeconomics: the study of the economic system as a whole, including total income and production, employment and price levels and economic growth.

Market: any place where goods are bought and sold.

Microeconomics: the study of forces that operate in various parts of an economic system, including business firms, consumers, labor unions and the banking system.

Most favored nation (MFN) trade status: a bilateral trade agreement that grants favorable trade relations to the countries involved in the agreement. This is also known as normal trade relations.

Multinational corporations (MNCs): businesses with branches and factories in nations outside the home-base nation.

Protectionism: the policy of imposing trade restrictions—tariffs or import quotas—to protect domestic industry.

Research and development: the application of scientific inquiry and experimentation to the development of new technology.

Specialization: concentration on the production of one or just a few goods.

Standard of living: the amount of goods and services a nation has to meet the needs and wants of its people.

Supranational organization: a cooperative venture among three or more nations to promote common political, economic or cultural goals.

Tariff duties: taxes on imports either to raise money or to protect domestic producers of the imported item.

GENERALIZATIONS

1. The United States leads the world in international trade, and its economy is directly dependent on imports and exports.
2. The U.S. is losing “comparative advantage” in some areas, but gaining it in others.
3. Protective tariffs have been gradually lowered in recent years, to the overall benefit of the U.S. economy and that of other trading nations.
4. The United States has been running an increasing trade deficit with other nations, which is the essential reason more dollars are flowing from the United States to other nations than the reverse.

ANALYTICAL QUESTIONS

1. What is a country’s balance of trade? Describe the components of the U.S. balance of trade and recent trends in its size.
2. How does the law of comparative advantage illustrate what products a nation is likely to trade? With what products does the United States have a favorable balance of trade and what products tend to be unfavorable?
3. What is OPEC and why is it called a cartel? How does this cartel affect America’s trading position in the world? How does it affect the U.S. economy?
4. How does free trade promote specialization of production among nations? What are the advantages of free trade to a nation?
5. Why have trade barriers (tariffs and import quotas) been such a controversial issue among U.S. policy makers over the years? What are the reasons for lowering trade barriers? What are sound reasons for establishing certain tariffs or import quotas?

6. Define the multinational corporation and cite a few examples of it. Why do some American business firms become multinational? Why do foreign firms want to locate in the United States?

KEY PROBLEM

As more nations industrialize or expand their industrialization, demands on the world's limited supply of strategic raw materials will intensify.

ACTIVITIES

1. Using SIRS Knowledge Source or a comparable database, research the history of the American auto industry and its domestic sales compared to those of foreign car companies. Create a timeline of key events that changed its comparative advantage since 1960. Write a statement describing responses the auto industry and the U.S. government should take to these changes.
2. The U.S. Commerce Department, most state governments and some local governments promote foreign trade. With help from your librarian or teacher, contact one of these agencies to find out what programs they operate to promote foreign trade and investment. In a PowerPoint presentation, outline your findings to the class.
3. Using SIRS Knowledge Source or a comparable database, research members of the major regional trade organizations mentioned in the chapter. Using an outline map of the world (available in the Learning Tools section of Interactive Citizenship), identify the members of each organization. Compare the combined gross domestic products for the members of each trade organization and list the organizations in order from the highest GDP to the lowest. Prepare to discuss your findings with the class as to why certain organizations fared better than others.

Chapter 23

The Global Economy

KEY CONCEPTS AND TERMS

Apartheid: Dutch word meaning “apartness” that described racial segregation in South Africa until the late twentieth century.

Appreciation: a rise in the price of a currency in relation to other currencies on a floating exchange market.

Balance of payments: a comparison between all the money a nation pays, lends or grants to other nations and all the money it receives from other nations.

Bilateral: describing negotiations between two countries.

Bond(s): certificates promising to repay loans to corporations or government units, usually with interest, within a specified period of time.

Capitalism: an economic system in which the means of production and distribution are privately owned.

Command: a system of government in which all power is in the hands of one person or a small elite group.

Communism: a political and economic system in which property and the means of production are owned and managed by the government.

Contagion effect: global impact of sharp fluctuations in a single stock market or as a result of a currency devaluation.

Deforestation: the clearing and destruction of forests to open land areas for settlement or new economic activities.

Depreciation: 1. a fall in the price of a currency in relation to other currencies on a floating exchange market; 2. the exhaustion or wearing out of plant and equipment.

Devaluation: a government-directed decrease in the price of a currency on the international exchange market.

Exchange rate(s): the number of units of a particular currency, such as the dollar or the yen, it takes to purchase another currency—or the value of a currency compared to the currency of another country.

Export(s): goods sold from one country to another.

Fiscal policy: government decisions on spending and taxation.

Fixed exchange rates: the value of any currency in relation to any other currency as set by government policy and subject to change only by government action.

Floating exchange rate: the value of any currency compared to the currencies of other nations, as determined by supply and demand forces in the international money market.

Foreign investment(s): when businesses or governments seek economic gain by committing capital or resources to business opportunities in other countries.

Gold standard: a system for setting the value of any currency against the market value of gold.

Import quota(s): laws restricting the quantity of products that may be imported into a country.

Import(s): goods bought from one country by another.

Industrial Revolution: social and economic changes that occurred in the eighteenth and nineteenth centuries when Western European and North American countries converted from agricultural economies based on human and animal power to industrial economies based on machine power.

Monetary policy: Federal Reserve Bank decisions that affect the supply of money in circulation.

Moral hazard: a government incentive to engage in undesirable behavior.

Multilateral: describing negotiations among more than two nations, often within an international organization.

Multinational corporations (MNCs): businesses with branches and factories in nations outside the home-base nation.

Privatization: the contracting out of traditional government services to private industry.

Special drawing rights (SDRs): a new international currency, sponsored by the International Monetary Fund, that is exchanged only through bookkeeping entries—sometimes referred to as “paper gold.”

Supranational organizations: a cooperative venture among three or more nations to promote common political, economic or cultural goals.

Tariff duties: taxes on imports either to raise money or to protect domestic producers of the imported item.

GENERALIZATIONS

1. In the past 100 years, technological developments have gradually linked the world’s nations and people into a single global economy.
2. When a country’s currency exchange rate changes, the value of its imports and exports also changes.
3. The United States has been a leader in developing the global economy.
4. The International Monetary Fund and World Bank were created in 1947 to stabilize the global monetary system, but are now accused of undermining development and harming the environment.

ANALYTICAL QUESTIONS

1. How does a nation’s balance of payments differ from its balance of trade? Describe the three components of balance of payments.
2. What policies can a nation use to alter its balance of trade from a deficit to a surplus or from a surplus to a deficit?
3. How does the transfer of goods and monies occur when, for example, a German company buys a computer system from an American firm?
4. What is meant by the exchange rate between two currencies? What happens to the value of a nation’s currency when the country experiences a deficit in its payment balance? What does such a deficit mean in terms of exports and imports?
5. What is the difference between devaluation and depreciation of a currency? Why did the United States devalue the dollar in the early 1970s?
6. What is the International Monetary Fund and what are its primary functions?
7. What are special drawing rights (SDRs), and how are they used in trade among nations?

KEY PROBLEM

Although the global economy has vastly increased world trade and raised the standard of living for many countries, international monetary institutions have not been able to prevent the contagion effect of financial instability in individual countries.

ACTIVITIES

1. With the help of family or friends obtain currencies from around the world. In a presentation to the class, identify the country of origin, the people and places on the currency and the current exchange rate compared to the U.S. dollar. Describe the current living conditions of the country of origin and identify the cost of basic products such as bread, milk and gasoline.
2. Using SIRS Knowledge Source or a comparable database, examine the controversy surrounding international organizations such as the World Trade Organization. Identify the issues that led to the 1999 WTO protests in Seattle, Washington, and other protests that followed. Write a persuasive essay from the point of view of a student protester, labor organizer, farmer, environmentalist or WTO member explaining the benefits and drawbacks to globalization. Debate the issues in class. Be sure to defend your statements with the information obtained from your research.
3. The World Trade Organization, the International Monetary Fund and the World Bank are three of the most powerful global institutions. Using SIRS Knowledge Source or a comparable database, locate organizational charts for the IMF and the World Bank. Compare them to the WTO Structure that appears in the chapter in terms of responsibilities, membership and decision-making procedures. Write a three-page essay summarizing your findings.

Chapter 24

Economic Development

KEY CONCEPTS AND TERMS

Bilateral: describing negotiations between two countries.

Brain drain: the migration of highly skilled workers from developing countries where they were born to developed countries where they were trained in search of jobs and high salaries.

Capitalism: an economic system in which the means of production and distribution are privately owned.

Comparative advantage: the ability of a company or a nation to produce a certain product more efficiently or cheaply in comparison to another company or nation.

Development: use of modern technology to increase productivity and improve the standard of living.

Discretionary income: money that a household has left to spend after paying for basic necessities.

Entrepreneur(s): the owner or manager who organizes the factors of production in a business enterprise.

Exchange rate(s): the number of units of a particular currency, such as the dollar or the yen, it takes to purchase another currency—or the value of a currency compared to the currency of another country.

Fiscal year: a 12-month period that governments and businesses use for financial accounting.

Foreign aid: goods, services or funds given or lent under favorable terms to foreign nations.

Foreign investment(s): when businesses or governments seek economic gain by committing capital or resources to business opportunities in other countries.

Genocide: the intentional and systematic annihilation of a national, ethnic, racial or religious group.

Import quota(s): laws restricting the quantity of products that may be imported into a country.

Infrastructure: the array of public structures that foster a nation's economic growth, including roads, bridges, railroad tracks, airports, dams, telephone wires, power lines, hospitals, schools, sewer and water facilities, fire stations and courthouses.

Mercantilism: theory that favors government regulation of a nation's economy in order to maintain a favorable balance of trade.

Middle class: individuals or families with an annual income high enough to enable them to enjoy a modest to comfortable life style.

Monopoly(ies): the control of a total industry or the major part of any industry by one company.

Multilateral: describing negotiations among more than two nations, often within an international organization.

Multinational corporations (MNCs): businesses with branches and factories in nations outside the home-base nation.

Research and development: the application of scientific inquiry and experimentation to the development of new technology.

Standard of living: the amount of goods and services a nation has to meet the needs and wants of its people.

Subsidies: government payments to a business or an individual to encourage or protect a particular economic activity, or to provide financial aid.

Sustainable development: projects and programs that promote economic growth without harming the environment.

Tariff duties: taxes on imports either to raise money or to protect domestic producers of the imported item.

Technology: the practical application of science and knowledge to control nature for human uses.

GENERALIZATIONS

1. Almost half the world's people live on less than two dollars a day.
2. Most economists agree that growth in trade is essential to economic development.
3. Despite the expenditure of billions of dollars in aid, many developing nations are worse off today than they were in 1950.
4. Many international aid programs to developing countries emphasize large public-works projects often without reference to the needs of local recipients.

ANALYTICAL QUESTIONS

1. List and characterize the International Monetary Fund's classification of the world's nations into three categories.
2. Describe at least five common characteristics and experiences that developing nations share.
3. List six government policies that could increase a country's economic growth. Give an example of how each policy has been applied in the United States and another example of how each could be applied in a developing country.
4. Identify five major aid programs or international agencies that provide economic assistance to developing countries. List the purposes of each and describe criticisms of their effectiveness in helping poor countries.
5. Summarize at least five reforms that have been suggested to improve the delivery of economic assistance to developing countries.

KEY PROBLEM

One of the greatest impediments to economic growth in the developing world is that, despite the best of intentions, almost every avenue to growth is controlled by developed countries and structured to meet their own best interests.

ACTIVITIES

1. Using an outline map of the world, available in the Learning Tools section of Interactive Citizenship, identify countries considered to be “developing.” Using SIRS Knowledge Source or a comparable database, research 10 countries identified and list their current gross domestic product along with other statistics, such as life expectancy, that explain why they are considered to be developing countries.
2. Using SIRS Knowledge Source or a comparable database, research five international aid agencies sponsored by the U.S. or the United Nations. Using the agencies’ Web sites and other sources, create a chart identifying their mission and major programs to promote economic development.
3. In a small group, select a developing country from those depicted on the Global Divide map in the first section of the chapter. Using SIRS Knowledge Source or a comparable database, research the country’s colonial experience, independence movement and efforts to promote economic growth. Write a proposal for the country’s leaders recommending steps they should take to promote sustainable economic growth.