Guided Reading and Review Workbook
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<td>Section 4</td>
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</tbody>
</table>
Success in social studies comes from doing three things well—reading, testing, and writing. The following pages present strategies to help you read for meaning, understand test questions, and write well.

**Reading for Meaning**

_Do you have trouble remembering what you read? Here are some tips from experts that will improve your ability to recall and understand what you read:_

**BEFORE YOU READ**

Preview the text to identify important information.
Like watching the coming attractions at a movie theater, previewing the text helps you know what to expect. Study the questions and strategies below to learn how to preview what you read.

---

**Ask yourself these questions:**

- What is the text about?
- What do I already know about the topic?
- What is the purpose of the text?

**Use these strategies to find the answers:**

- Read the headings, subheadings, and captions.
- Study the photos, maps, tables, or graphs.
- Read the questions at the end of the text to see if you can answer any of them.
- Turn the headings into who, what, when, where, why, or how questions. This will help you decide if the text compares things, tells a chain of events, or explains causes and effects.
**AS YOU READ**

Organize information in a way that helps you see meaningful connections or relationships.

Taking notes as you read will improve your understanding. Use graphic organizers like the ones below to record the information you read. Study these descriptions and examples to learn how to create each type of organizer.

### Sequencing

A **flowchart** helps you see how one event led to another. It can also display the steps in a process.

**Use a flowchart if the text—**
- tells about a chain of events.
- explains a method of doing something.

**TIP** List the events or steps in order.

- Farm machinery is developed.
- Fewer farmworkers needed.
- Urban industries need workers.
- Farmworkers move to cities for work.
- Cities grow and prosper.

### Comparing and Contrasting

A **Venn diagram** displays similarities and differences.

**Use a Venn diagram if the text—**
- compares and contrasts two individuals, groups, places, things, or events.

**TIP** Label the outside section of each circle and list differences.
- Label the shared section and list similarities.

- **HUTU**
  - from West Africa
  - servants
- **SHARED CULTURE**
  - many
  - customs
  - Catholic
- **TUTSI**
  - from Ethiopia
  - aristocrats

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Categorizing Information

A chart organizes information into categories.

Use a chart if the text—
- Lists similar facts about several places or things.
- Presents characteristics of different groups.

TIP: Write an appropriate heading for each column in the chart to identify its category.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>FORM OF GOVERNMENT</th>
<th>ECONOMY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cuba</td>
<td>communist dictatorship</td>
<td>command economy</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>democracy</td>
<td>free enterprise system</td>
</tr>
</tbody>
</table>

Identifying Main Ideas and Details

A concept web helps you understand relationships among ideas.

Use a concept web if the text—
- Provides examples to support a main idea.
- Links several ideas to a main topic.

TIP: Write the main idea in the largest circle. Write details in smaller circles and draw lines to show relationships.
A. Views on slavery
1. Northern abolitionists
2. Southern slave owners

B. Economies
1. Northern manufacturing
2. Southern agriculture

Organizing Information
An outline provides an overview, or a kind of blueprint for reading.

**Use an outline to organize ideas—**
- According to their importance.
- According to the order in which they are presented.

**TIP:** Use Roman numerals for main ideas, capital letters for secondary ideas, and Arabic numerals for supporting details.

Identifying Cause and Effect
A cause-and-effect diagram shows the relationship between what happened (effect) and the reason why it happened (cause).

**Use a cause-and-effect chart if the text—**
- Lists one or more causes for an event.
- Lists one or more results of an event.

**TIP:** Label causes and effects. Draw arrows to indicate how ideas are related.

AFTER YOU READ
Test yourself to find out what you learned from reading the text. Go back to the questions you asked yourself before you read the text. You should be able to give more complete answers to these questions:
- What is the text about?
- What is the purpose of the text?

You should also be able to make connections between the new information you learned from the text and what you already knew about the topic.

Study your graphic organizer. Use this information as the answers. Make up a meaningful question about each piece of information.
Taking Tests

Do you panic at the thought of taking a standardized test? Here are some tips that most test developers recommend to help you achieve good scores.

**MULTIPLE-CHOICE QUESTIONS**

Read each part of a multiple-choice question to make sure you understand what is being asked.

Many tests are made up of multiple-choice questions. Some multiple-choice items are direct questions. They are complete sentences followed by possible answers, called distractors.

**Direct Question**: What is a narrow strip of land that has water on both sides and joins two larger bodies of land called?

**The distractors list the possible answers.**

- A. a bay
- B. an isthmus
- C. a lake
- D. an island

**TIP**: Try each distractor as an answer to your question. Rule out the ones that don’t work.

You can rule out A and C because they are bodies of water, not land. You can rule out D because an island is completely surrounded by water.

Other multiple-choice questions are incomplete sentences that you are to finish. They are followed by possible answers.

**The stem tells you what the question is looking for**

A narrow strip of land that has water on both sides and joins two larger bodies of land is called

**Distractors**

- A. a bay
- B. an isthmus
- C. a lake
- D. an island

**TIP**: Turn the stem into a direct question, using who, what, when, where, or why.

What is a narrow strip of land that has water on both sides and joins two larger bodies of land called?
Analyze the questions. Do they ask you to recall facts?

- Unlike Why were most kingdoms in Southeast Asia small?
  - A disease killed many people
  - B lack of food
  - C climate was too hot
  - D mountains kept people apart

The key word because tells why the kingdoms were small.
(The correct answer is D.)
WHAT’S BEING TESTED?

Map Questions

How to do it:

1. Determine what kind of information is presented on the map.

2. Read the question. Determine which component on the map will help you find the answer.

3. Look at the map and answer the question in your own words.

4. Choose the best answer.

Eastern Europe: Language Groups

In which of these countries are Thraco-Illyrian languages spoken?

A. Romania  
B. Albania  
C. Hungary  
D. Lithuania

TIP: Read the labels and the key to understand the map.
(The correct answer is B.)
Graph Questions

What to do:
1. Determine the purpose of the graph.
2. Determine what information on the graph will help you find the answer.
3. Choose the best answer.

How to do it:
Read the graph title. It indicates what the graph represents.

Read the labels on the graph or on the key. They tell the units of measurement used by the graph.

Decide which distractor agrees with the answer you determined from the graph.

Example

A Circle graph shows the relationship of parts to the whole in terms of percentages.

After Roman Catholics, the next largest religious population in France is
A Buddhist C Jewish
B Protestant D Muslim

TIP: Compare the percentages listed in the labels. (The correct answer is D.)

A line graph shows a pattern or change over time by the direction of the line.

Between 1980 and 1990, immigration to the U.S. from the Americas
A decreased a little C stayed about the same
B increased greatly D increased a little

TIP: Compare the vertical distance between the two correct points on the line graph. (The correct answer is B.)

A bar graph compares differences in quantity by showing bars of different lengths.

Saudi Arabia produces about how many more billion of barrels of oil a year than Iran?
A 5 million C 15 million
B 10 million D 20 million

TIP: Compare the heights of the bars to find the difference. (The correct answer is B.)
Writing for Social Studies

When you face a writing assignment, do you think, "How will I ever get through this?" Here are some tips to guide you through any writing project from start to finish.

**THE WRITING PROCESS**

Follow each step of the writing process to communicate effectively.

**Step 1. Prewrite**
- Establish the purpose.
- Define the topic.
- Determine the audience.
- Gather details.

**Step 2. Draft**
- Organize information logically in an outline or graphic organizer.
- Write an introduction, body, and conclusion.
- State main ideas clearly.
- Include relevant details to support your ideas.

**Step 3. Revise**
- Edit for clarity of ideas and elaboration.

**Step 4. Proofread**
- Correct any errors in spelling, grammar, and punctuation.
- Illustrate as needed.
- Create a cover, if appropriate.

**Step 5. Publish and Present**
- Copy text neatly by hand, or use a typewriter or word processor.
TYPES OF WRITING FOR SOCIAL STUDIES

Identify the purpose for your writing.
Each type of writing assignment has a specific purpose, and each purpose needs a different plan for development. The following descriptions and examples will help you identify the three purposes for social studies writing. The lists of steps will help you plan your writing.

Writing to Inform

Purpose: to present facts or ideas

Example
During the 1960s, research indicated the dangers of the insecticide DDT. It killed insects but also had long-term effects. When birds and fish ate poisoned insects, DDT build up in their fatty tissue. The poison also showed up in human beings who ate birds and fish contaminated by DDT.

TIP: look for these key terms in the assignment: explain, describe, report, narrate

How to get started:
• Determine the topic you will write about.
• Write a topic sentence that tells the main idea.
• List all the ideas you can think of that are related to the topic.
• Arrange the ideas in logical order.

Writing to Persuade

Purpose: to influence someone

Example
Teaching computer skills in the classroom uses time that could be spent teaching students how to think for themselves or how to interact with others. Students who can reason well, express themselves clearly, and get along with other people will be better prepared for life than those who can use a computer.

TIP: look for these key terms in the assignment: convince, argue, request

How to get started:
• Make sure you understand the problem or issue clearly.
• Determine your position.
• List evidence to support your arguments.
• Predict opposing views.
• List evidence you can use to overcome the opposing arguments.

Writing to Provide Historical Interpretations

Purpose: to present the perspective of someone in a different era

Example
The crossing took a week, but the steamship voyage was hard. We were cramped in steerage with hundreds of others. At last we saw the huge statue of the lady with the torch. In the reception center, my mother held my hand while the doctor examined me. Then, my father showed our papers to the official, and we collected our bags. I was scared as we headed off to find a home in our new country.

TIP: look for these key terms in the assignment: go back in time, create, suppose that, if you were

How to get started:
• Study the events or issues of the time period you will write about.
• Consider how those events or issues might have affected different people at the time.
• Choose a person whose views you would like to present.
• Identify the thoughts and feelings this person might have experienced.
**RESEARCH FOR WRITING**

Follow each step of the writing process to communicate effectively.

After you have identified the purpose for your writing, you may need to do research. The following steps will help you plan, gather, organize, and present information.

### Step 1. Ask Questions

| Ask yourself questions to help guide your research. | What do I already know about the topic? What do I want to find out about the topic? |

### Step 2. Acquire Information

| Locate and use appropriate sources of information about the topic. | Library Internet search Interviews |
| Take notes. | Follow accepted format for listing sources. |

### Step 3. Analyze Information

| Evaluate the information you find. | Is it relevant to the topic? Is it up-to-date? Is it accurate? Is the writer an authority on the topic? Is there any bias? |

### Step 4. Use Information

| Answer your research questions with the information you have found. (You may find that you need to do more research.) | Do I have all the information I need? |
| Organize your information into the main points you want to make. Identify supporting details. | Arrange ideas in outline form or in a graphic organizer. |

### Step 5. Communicate What You’ve Learned

| Review the purpose for your writing and choose an appropriate way to present the information. | Purpose | Presentation |
| Draft and revise your writing, and then evaluate it. | inform | formal paper, documentary, multimedia |
| persuade | essay, letter to the editor, speech |
| interpret | journal, newspaper account, drama |
| Use a rubric for self-evaluation. |
# EVALUATING YOUR WRITING

Use the following rubric to help you evaluate your writing.

<table>
<thead>
<tr>
<th></th>
<th>Excellent</th>
<th>Good</th>
<th>Acceptable</th>
<th>Unacceptable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>Achieves purpose—to inform, persuade, or provide historical interpretation—very well</td>
<td>Informs, persuades, or provides historical interpretation reasonably well</td>
<td>Reader cannot easily tell if the purpose is to inform, persuade, or provide historical interpretation</td>
<td>Lacks purpose</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td>Develops ideas in a very clear and logical way</td>
<td>Presents ideas in a reasonably well-organized way</td>
<td>Reader has difficulty following the organization</td>
<td>Lacks organization</td>
</tr>
<tr>
<td><strong>Elaboration</strong></td>
<td>Explains all ideas with facts and details</td>
<td>Explains most ideas with facts and details</td>
<td>Includes some supporting facts and details</td>
<td>Lacks supporting details</td>
</tr>
<tr>
<td><strong>Use of Language</strong></td>
<td>Uses excellent vocabulary and sentence structure with no errors in spelling, grammar, or punctuation</td>
<td>Uses good vocabulary and sentence structure with very few errors in spelling, grammar, or punctuation</td>
<td>Includes some errors in grammar, punctuation, and spelling</td>
<td>Includes many errors in grammar, punctuation, and spelling</td>
</tr>
</tbody>
</table>
Section 1: Guided Reading and Review

Scarcity and the Factors of Production

A. As You Read

As you read Section 1, supply in the space provided an explanation an economist might give showing why each statement is true.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>1. People must make choices to satisfy their needs and wants.</td>
<td>1. ____________________________________</td>
</tr>
<tr>
<td>2. Scarcity always exists.</td>
<td>2. ____________________________________</td>
</tr>
<tr>
<td>3. Physical capital is an important factor of production.</td>
<td>3. ____________________________________</td>
</tr>
<tr>
<td>4. All goods and services are scarce.</td>
<td>4. ____________________________________</td>
</tr>
<tr>
<td>5. Entrepreneurs are important to the production of goods and services.</td>
<td>5. ____________________________________</td>
</tr>
</tbody>
</table>

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

6. A CD player is a _______________ rather than a need because it is not necessary to survival.

7. The study of how people seek to meet their needs and wants by making choices is _______________.

8. Persons who perform such actions as cutting hair or teaching school are providing _______________.

9. When producers will not or cannot offer goods and services at current prices, a _______________ occurs.

10. Land, labor, and capital make up the _______________.

11. When people make resources for producing other goods and services they are creating _______________.

12. The term _______________ refers to water, forests, and all other natural resources used to produce goods and services.

13. The two categories of capital are physical and _______________.

14. Factories, machinery, and pencils are all examples of _______________ capital.

15. Leaders who take risks to develop original ideas and start new industries are called _______________.

Guided Reading and Review
Section 2: Guided Reading and Review

Opportunity Cost

A. As You Read
As you read Section 2, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: Trade-offs are alternatives that people give up when they choose one course of action over another.
1. Who makes trade-offs?
2. Why do decisions involve trade-offs?

Main Idea: Opportunity cost is the most desirable alternative given up as the result of a decision.
3. How does opportunity cost vary?
4. Why does opportunity cost vary?

Main Idea: Deciding whether to do or use one more or one less unit of some resource is thinking at the margin.
5. What does thinking at the margin help with?
6. What does thinking at the margin help compare?

B. Reviewing Key Terms
Answer each of the following questions.

7. In what way are trade-offs and opportunity costs alike?

8. How does an opportunity cost differ from a trade-off?

9. What are “guns or butter” decisions?

10. How does thinking at the margin change the decision-making process?
Section 3: Guided Reading and Review

Production Possibilities Curves

A. As You Read
As you read Section 3, complete the chart by indicating where on a production possibilities curve the following information is shown.

Reading a Production Possibilities Curve

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Categories or specific goods or services to be compared</td>
<td></td>
</tr>
<tr>
<td>2. Range of choices in the combination of goods or services produced</td>
<td></td>
</tr>
<tr>
<td>3. Production possibilities frontier</td>
<td></td>
</tr>
<tr>
<td>4. An economy working at its most efficient production levels</td>
<td></td>
</tr>
<tr>
<td>5. An economy working below its most efficient production levels</td>
<td></td>
</tr>
<tr>
<td>6. Future production possibilities frontier if more land, labor, or capital-resources become available</td>
<td></td>
</tr>
</tbody>
</table>

B. Reviewing Key Terms
Define the following terms.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>7. production possibilities curve</td>
<td></td>
</tr>
<tr>
<td>8. production possibilities frontier</td>
<td></td>
</tr>
<tr>
<td>9. efficiency</td>
<td></td>
</tr>
<tr>
<td>10. underutilization</td>
<td></td>
</tr>
<tr>
<td>11. cost</td>
<td></td>
</tr>
<tr>
<td>12. law of increasing costs</td>
<td></td>
</tr>
</tbody>
</table>
A. As You Read
As you read Section 2, list the role or roles played in a free market economy by each factor in the diagram below.

Roles and Functions in a Free Market Economy

- 1. Individuals and Businesses
- 2. Households
- 3. Firms
- 4. Self-interest
- 5. Competition

B. Reviewing Key Terms
Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided. You will not use all of the terms.

<table>
<thead>
<tr>
<th>Column I</th>
<th>Column II</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. market in which households purchase the goods and services that</td>
<td>a. profit</td>
</tr>
<tr>
<td>firms produce</td>
<td>b. competition</td>
</tr>
<tr>
<td>7. an expectation that encourages people to behave in a certain way</td>
<td>c. product market</td>
</tr>
<tr>
<td>8. power of consumers to decide what gets produced</td>
<td>d. market</td>
</tr>
<tr>
<td>9. market in which firms purchase the factors of production from</td>
<td>e. incentive</td>
</tr>
<tr>
<td>households</td>
<td>f. self-interest</td>
</tr>
<tr>
<td>10. financial gain made in a transaction</td>
<td>g. specialization</td>
</tr>
<tr>
<td>11. concentration of productive efforts of individuals and firms on a</td>
<td>h. factor market</td>
</tr>
<tr>
<td>limited number of activities</td>
<td>i. consumer sovereignty</td>
</tr>
<tr>
<td>12. an arrangement that allows for exchange among buyers and sellers</td>
<td></td>
</tr>
</tbody>
</table>
**Section 3: Guided Reading and Review**

**Centrally Planned Economies**

### A. As You Read

As you read Section 3, supply the missing information in the chart below.

**Central Economic Planning in the Former Soviet Union**

1. Main goal: ___________________________ ____________________________________

2. Role of central government:
   (a) ______________________________________________
   (b) ______________________________________________

3. Effects on agriculture:
   (a) Positive _____________________________
   (b) Negative _____________________________

4. Effects on industry:
   (a) Positive _____________________________
   (b) Negative _____________________________

5. Effects on consumers:
   (a) Positive _____________________________
   (b) Negative _____________________________

### B. Reviewing Key Terms

Define the following terms.

6. socialism _____________________________

7. communism _____________________________

8. authoritarian _____________________________

9. collective _____________________________

10. heavy industry _____________________________
Section 4: Guided Reading and Review

Modern Economies

A. As You Read

As you read Section 4, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: Government intervenes in market economies because some needs and wants of modern societies are hard to answer in the marketplace or may be answered more fairly for all members of society with government involvement.

1. What needs and wants are hard to answer? ____________________________________________

2. What needs and wants are answered more fairly with government involvement? ____________________________

Main Idea: Government intervention dominates in some mixed economies.

3. How does government intervene in North Korea’s economy? ____________________________

4. How is government intervention less extreme in China’s economy? ____________________________

Main Idea: The market system dominates in some mixed economies.

5. Where is the world’s freest market located? ____________________________________________

6. Why is it one of the freest? ____________________________________________

B. Reviewing Key Terms

Answer each of the following questions.

7. How does free enterprise differ from laissez faire? ____________________________________________

8. Why is China said to have a transition economy? ____________________________________________

9. What does it mean to privatize an industry? ____________________________________________

10. Why do the world’s national economies fall inside a continuum? ____________________________
Section 1: Guided Reading and Review

Benefits of Free Enterprise

A. As You Read
As you read Section 1, supply the missing information about the American market system in the spaces provided.

**Free Enterprise**

*Basic principles:*
1. 
2. 
3. 
4. 
5. 
6. 
7. 

**Consumer**

*Basic Roles:*
8. 
9. 

**Government**

*Basic Roles:*
10. 
11. 
12. 
13. 

B. Reviewing Key Terms
Complete each sentence by writing the correct key term in the blank.

14. When individuals decide to put their house up for sale, they are exercising their ________.

15. Farmers who feel they need a private organization to influence public policy in their behalf might form a/an ________.

16. Nutritional values printed on candy wrappers or milk cartons are required under ________.

17. The concerns of the public as a whole make up the ________.
Section 2: Guided Reading and Review
Promoting Growth and Stability

A. As You Read
As you read Section 2, supply the requested information in the spaces provided.

1. Usual length of the business cycle: 

2. Three main outcomes of public policy aimed at economic stability: 

3. Requirement for raising living standards for new generations: 

4. Two indicators of economic stability: 

5. Government-provided incentives for innovation: 

B. Reviewing Key Terms
Define the following terms.

6. macroeconomics 

7. microeconomics 

8. business cycle 

9. gross domestic product 

10. technology
Section 3: Guided Reading and Review

Providing Public Goods

A. As You Read
As you read Section 3, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: In some situations, the free market does not efficiently distribute resources.
1. What is an example of something that self-interest would not motivate consumers to provide?

2. Why might this public good be unreasonable to expect from private providers?

Main Idea: Cost is an important factor in determining whether a good or service is produced as a public good.
3. How does this factor relate to the individual?

4. How does this factor relate to society?

Main Idea: A good or service can generate positive or negative side effects for people who do not pay for or produce them.
5. What is an example of a positive side effect?

6. What is an example of a negative side effect?

B. Reviewing Key Terms
Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

<table>
<thead>
<tr>
<th>Column I</th>
<th>Column II</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. shared good consumers pay individually and to exclude nonpayers</td>
<td>a. externality</td>
</tr>
<tr>
<td>8. situation in which the free market does not distribute resources efficiently</td>
<td>b. public sector</td>
</tr>
<tr>
<td>9. part of the economy that involves the transactions of the government</td>
<td>c. market failure</td>
</tr>
<tr>
<td>10. part of the economy involving transactions of individuals and businesses</td>
<td>d. public good</td>
</tr>
<tr>
<td>11. economic side effect of a good or service that generates unintended benefits or costs to someone other than the person deciding how much to produce or consume</td>
<td>e. free rider</td>
</tr>
<tr>
<td>12. someone who would not choose to pay for a certain good or service, but who can still reap the benefits of it anyway if it is a public good</td>
<td>f. private sector</td>
</tr>
</tbody>
</table>
### A. As You Read

As you read Section 4, supply the missing information in the chart below.

<table>
<thead>
<tr>
<th>Program or Program Area</th>
<th>Form of Aid</th>
<th>Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. TANF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Social Security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td>Workers who are laid off or lose their jobs</td>
</tr>
<tr>
<td>4. Worker’s Compensation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Health insurance</td>
<td></td>
</tr>
<tr>
<td>6. Education</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### B. Reviewing Key Terms

Rewrite each statement below to make it agree with the italicized key term.

7. The most common *in-kind benefits* include food giveaways, food stamps, subsidized housing, and farm aid.

8. The government institutes *welfare* programs to improve transportation routes.

9. A nation’s *standard of living* indicates its level of income distribution.

10. The *poverty threshold* is the income level below that which is needed to provide the needs and wants of families or households.
Section 1: Guided Reading and Review

Understanding Demand

A. As You Read
As you read Section 1, for each boxed example, fill in the key term the example illustrates in the space provided.

1. the higher the price of pizza, the fewer slices people will buy
   __________

2. eating salad or tacos instead of pizza when the price of pizza goes up
   __________

3. buying fewer slices of pizza when rising prices reduce real income
   __________

4. Price | Quantity
   ---------|---------
   1 | 5
   2 | 4
   3 | 3
   4 | 2

5. Price | Quantity
   ---------|---------
   1 | 300
   2 | 250
   3 | 200
   4 | 150

B. Reviewing Key Terms
Complete each sentence by writing the correct term in the blank.

6. A ___________ is a table that lists the quantities of a good a person will buy at each price that may be offered in the market.

7. A ___________ is a table that lists the quantities of a good demanded by all consumers at each price that may be offered in the market.

8. A ___________ is a graphical representation of a demand schedule.

9. The ___________ is the change in consumption resulting from a change in real income.

10. The ___________ says that when a good's price is lower, consumers will buy more of it.
A. As You Read

As you read Section 2, answer the following questions in the space provided.

1. What condition must exist to make a demand curve accurate?

2. What happens to a demand curve when there is a change in factors (other than price) that can affect consumers’ decisions about purchasing the good?

3. How does consumer income affect the demand for normal and inferior goods?

4. How does consumer expectation affect demand for certain goods?

5. Explain how the baby boom generation affected demand for certain goods.

6. How are consumer tastes and advertising related?

7. Explain how demand for a good can affect demand for a related good.

8. Give an example of a substitute good.

B. Reviewing Key Terms

Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

<table>
<thead>
<tr>
<th>Column I</th>
<th>Column II</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. all other things held constant</td>
<td>a. normal goods</td>
</tr>
<tr>
<td>10. goods whose demand increases as consumer income increases</td>
<td>b. substitutes</td>
</tr>
<tr>
<td>11. goods whose demand falls as consumer income increases</td>
<td>c. ceteris paribus</td>
</tr>
<tr>
<td>12. goods that are bought and used together</td>
<td>d. inferior goods</td>
</tr>
<tr>
<td>13. goods that are used in place of one another</td>
<td>e. complements</td>
</tr>
</tbody>
</table>
Section 3: Guided Reading and Review

Elasticity of Demand

A. As You Read
As you read Section 3, supply the missing information in the spaces provided.

Calculating Elasticity (Provide a formula or numerical value.)
1. Computation of elasticity of demand: __________________________________________
2. Elastic demand: ____________________________________________________________
3. Inelastic demand: ___________________________________________________________
4. Unitary elastic demand: _____________________________________________________

Factors Affecting Elasticity (How does each affect elasticity?)
5. Substitutes: ________________________________________________________________
6. Necessities vs. luxuries: _____________________________________________________
7. Changes over time: __________________________________________________________

Elasticity and Revenue (Define and explain.)
8. Total revenue: ______________________________________________________________
9. How elasticity affects a company’s pricing: ______________________________________

B. Reviewing Key Terms
Briefly define or identify each of the following.
10. elasticity of demand _________________________________________________________
11. inelastic __________________________________________________________________
12. elastic ___________________________________________________________________
13. unitary elastic _____________________________________________________________________
A. As You Read
As you read Section 1, supply the missing causes or effects on the lines provided in the chart.

### Cause

1. The price of pizza increases.
2. The cost of tomato sauce increases along with the price of pizza.
3. ______________________________
4. ______________________________
5. The supply of a good is not very responsive to price changes.
6. A supplier, such as an orange grower, has a long time to respond to a price change.

### Effect

1. On pizzerias:
   ______________________________
   ______________________________
2. On pizza supply schedule:
   ______________________________
3. On market supply curve: Prices will remain the same as on a single pizzeria's supply curve.
4. On supply curve: The curve always rises from left to right.
5. On the value of elasticity of supply:
   ______________________________
   ______________________________
6. On supply:
   ______________________________
   ______________________________

B. Reviewing Key Terms
Read the statements below. In the space provided, write T if the statement is true or F if it is false.

7. Price and quantity supplied are variables on a supply schedule.
   ___
8. A supply curve shows price and quantity in a table.
   ___
9. Elasticity of supply states that the output of a good increases as the price of the good increases.
   ___
10. To create a market supply schedule, an economist needs to know the total output of all suppliers in a given market.
   ___
A. As You Read

As you read Section 2, supply the requested information in the spaces provided.

1. A basic question a producer must answer:

2. Marginal product of labor benefits gained from worker specialization:

3. Negative effect of a firm’s limited capital:

4. Curve pattern for marginal product of labor when capital is limited:

5. Examples of typical fixed costs:

6. Why labor is a variable cost:

7. How the marginal costs of production for the beanbag producer changed after the rate of three bags per hour was surpassed:

8. How total revenue and total cost can help set the most profitable output level:

9. How marginal revenue and marginal cost can help set the most profitable output level:

10. Why a producer would continue to increase output even though the marginal cost of production may be rising:

B. Reviewing Key Terms

Define the following terms.

11. marginal product of labor

12. diminishing marginal returns

13. total cost

14. marginal cost
A. As You Read
As you read Section 3, supply information to complete each statement in the spaces provided.

1. Unable to control price, a profitable producer faced with rising labor and/or materials costs will

2. New technology affects supply by

3. European governments' reasons for subsidizing food producers include

4. In the past, Western European governments subsidized banks and airlines by

5. The United States government subsidizes such industries as

6. An excise tax increases production costs by

7. Consumers may be unaware of excise taxes because

8. Government regulations often reduce supply because

9. During periods of inflation, suppliers may temporarily withhold goods that can be stored for long periods because

B. Reviewing Key Terms
Complete each sentence by writing the correct key term in the blank provided.

10. Government can increase supply by granting producers a(n) ____________________.

11. To reduce supply, a government might levy a(n) ____________________.

12. Requiring pollution control on automobiles exemplifies government ____________________.
Section 1: Guided Reading and Review
Combining Supply and Demand

A. As You Read
As you read Section 1, supply the requested information in the spaces provided.

In the Case of the Pizzerias
1. The market equilibrium price: ____________________________
2. The market supply level: ____________________________
3. The market demand level: ____________________________

In Any Market Environment
4. How equilibrium is shown on a supply and demand graph: ____________________________
5. Two possible outcomes of disequilibrium: ____________________________
6. Supplier price response to excess demand: ____________________________
7. Condition under which market forces will push market toward the equilibrium: ____________________________

In the Case of Government Intervention
8. Purpose(s) of rent control: ____________________________
9. Negative results of ending rent control: ____________________________
10. Effect on labor when minimum wage exceeds equilibrium: ____________________________
11. Purpose of Northeast Dairy Compact: ____________________________

B. Reviewing Key Terms
Complete each sentence by writing the correct term in the blank provided.

12. When government wants to ensure that “essential” goods or services are within the reach of all consumers, it may impose a(n) ____________________________.
13. If prices rise too high, a market may face the problem of ____________________________.
14. The one and only price at which quantities supplied equal quantities demanded indicates the market ____________________________.
15. Minimum wage is an example of a government-imposed ____________________________.
16. If car manufacturers produce more or fewer cars than customers will buy, the car market will be in ____________________________.
A. As You Read
As you read Section 2, complete the chart by supplying an effect for each cause.

<table>
<thead>
<tr>
<th>Cause</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Entire supply curve shifts.</td>
<td>1.</td>
</tr>
<tr>
<td>2. Technology for making compact disc (CD) players improved.</td>
<td>2.</td>
</tr>
<tr>
<td>3. After a drop in production cost, CD player suppliers become willing to offer 1,200,000 units at the original price, but demand remains at 1,000,000.</td>
<td>3.</td>
</tr>
<tr>
<td>4. Price of CD players continues to fall.</td>
<td>4.</td>
</tr>
<tr>
<td>5. Production cost of CD players continues to fall.</td>
<td>5.</td>
</tr>
<tr>
<td>6. Market's supply curve shifts to the left.</td>
<td>6. In the market: On the equilibrium point:</td>
</tr>
<tr>
<td>7. Demand curve of a good suddenly shifts right.</td>
<td>7.</td>
</tr>
<tr>
<td>8. Signs of excess demand for the good continue over time.</td>
<td>8. On suppliers:</td>
</tr>
<tr>
<td>9. Demand for a good falls.</td>
<td>9. On the demand curve:</td>
</tr>
</tbody>
</table>

B. Reviewing Key Terms
Rewrite each sentence so that the italicized term is used correctly.

10. **Shortage** occurs when the quantity demanded falls below the quantity supplied.

11. Excess demand for a good indicates a market **surplus** of that good.

12. Suppliers pay **search costs** in the form of financial and opportunity costs as they search for a good.
Section 3: Guided Reading and Review
The Role of Prices

A. As You Read
As you read Section 3, answer the questions on the lines provided.

1. What overall, vital role do prices play in the free market?

2. What standard do prices set?

3. What signals do high prices send to producers and consumers?

4. Why do suppliers use price rather than production to resolve the problem of excess demand?

5. What drives the distribution system in the free market?

6. How does a price-driven economy allow for a wide diversity of goods?

7. What was the goal of the Soviet planned economy?

8. How did the Soviet economic system affect consumer goods?

9. How does the free market ensure an efficient allocation of resources?

10. What motivates suppliers to increase production in the face of high demand and high prices?

11. What three problems in the free market work against the efficient allocation of resources?

B. Reviewing Key Terms
Define the following terms.

12. supply shock

13. rationing

14. spillover costs
Section 1: Guided Reading and Review

Perfect Competition

A. As You Read
As you read Section 1, supply the missing cause or effect in the spaces provided.

<table>
<thead>
<tr>
<th>The Perfect Market Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cause: __________________</td>
</tr>
<tr>
<td>2. Cause: __________________</td>
</tr>
<tr>
<td>3. Cause: Entrepreneurs are less likely to enter a market with high start-up costs.</td>
</tr>
<tr>
<td>5. Cause: __________________</td>
</tr>
<tr>
<td>6. Cause: __________________</td>
</tr>
<tr>
<td>1. Effect: The market determines price without influence from suppliers or consumers.</td>
</tr>
<tr>
<td>2. Effect: Identical products are key to perfect competition.</td>
</tr>
<tr>
<td>3. Effect: __________________</td>
</tr>
<tr>
<td>4. Effect: __________________</td>
</tr>
<tr>
<td>5. Effect: Prices are forced down to the point where they just cover the seller's costs of doing business.</td>
</tr>
<tr>
<td>6. Effect: Producers adjust their output decisions based on their most efficient use of available land, labor, and capital.</td>
</tr>
</tbody>
</table>

B. Reviewing Key Terms
Briefly define or identify each of the following.

7. perfect competition __________________
8. commodity __________________
9. barrier to entry __________________
10. start-up costs __________________
Section 2: Guided Reading and Review

Monopoly

A. As You Read
As you read Section 2, supply the missing information in the spaces provided.

In the Monopolist Market

Natural Monopolies
1. Why they exist

2. Two examples

3. Advantage of

4. Government role in

Government Monopolies
5. Type set up by patents

6. Why government grants patented monopolies

7. Example of an industrial monopoly

8. Two examples of government monopolies by license

Production and Pricing

9. Effect of a monopolist’s price increase

10. Relationship between price and marginal revenue when a monopolist cuts the price to sell more

11. How a monopolist maximizes profits

B. Reviewing Key Terms
Complete each sentence by writing the correct key term in the blank.

12. In a market with only one seller, that seller has a

13. Characteristics that cause a producer’s average cost to drop as production rises are

14. A contract issued by a local authority that gives a single firm the right to sell its goods within an exclusive market is a

15. A monopoly offering targeted discounts is practicing
Section 3: Guided Reading and Review

Monopolistic Competition and Oligopoly

A. As You Read
As you read Section 3, fill in the information requested on the charts.

<table>
<thead>
<tr>
<th>Monopolistic Competition Market Structures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defining Conditions</td>
</tr>
<tr>
<td>1.</td>
</tr>
<tr>
<td>2.</td>
</tr>
<tr>
<td>3.</td>
</tr>
<tr>
<td>4.</td>
</tr>
<tr>
<td>Forms of Nonprice Competition</td>
</tr>
<tr>
<td>5.</td>
</tr>
<tr>
<td>6.</td>
</tr>
<tr>
<td>7.</td>
</tr>
<tr>
<td>8.</td>
</tr>
<tr>
<td>Price-Output Relationship</td>
</tr>
<tr>
<td>9.</td>
</tr>
<tr>
<td>Curbs on High Profits</td>
</tr>
<tr>
<td>10.</td>
</tr>
<tr>
<td>11.</td>
</tr>
<tr>
<td>Consumer Advantages</td>
</tr>
<tr>
<td>12.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Oligopoly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conditions Encouraging Formation</td>
</tr>
<tr>
<td>13.</td>
</tr>
<tr>
<td>14.</td>
</tr>
<tr>
<td>15.</td>
</tr>
<tr>
<td>Practices that Concern Government</td>
</tr>
<tr>
<td>16.</td>
</tr>
<tr>
<td>17.</td>
</tr>
<tr>
<td>18.</td>
</tr>
</tbody>
</table>

B. Reviewing Key Terms
Read the statements below. In the space provided, write T if the statement is true or F if it is false.

___ 19. Firms selling identical products create monopolistic competition.

___ 20. Providing better customer service, introducing a new lipstick color, and sophisticated advertising are examples of nonprice competition.

___ 21. Price fixing is an outcome of collusion.

___ 22. A cartel is most successful when each member produces as much product as possible.
Section 4: Guided Reading and Review

Regulation and Deregulation

A. As You Read
As you read Section 4, supply the missing information about government market intervention in the numbered web boxes.

1. Goal

6. Recently Deregulated Industries

2. Antitrust Powers

5. Guidelines for Mergers

3. Complaints Against Microsoft

4. Complaints Against AT&T

B. Reviewing Key Terms
Use a key term to rewrite each sentence correctly.

7. Price fixing is the practice of setting the market price below cost for the short term to drive competitors out of business.

8. A monopoly occurs when a company joins with another company to form a single firm.

9. Perfect competition means that the government no longer decides a company’s market role and pricing.
Section 1: Guided Reading and Review

Sole Proprietorships

A. As You Read
As you read Section 1, supply the missing information in the spaces provided.

Sole Proprietorships

1. Owned and managed by: ____________________________________________________

2. Percentage of U.S. businesses: ____________________________________________

3. Percentages of U.S. sales generated: _______________________________________

List and explain the advantages of sole proprietorships.

4. _________________________________________________________

5. _________________________________________________________

6. _________________________________________________________

7. _________________________________________________________

8. _________________________________________________________

List and explain the disadvantages of sole proprietorships.

9. _________________________________________________________

10. _________________________________________________________

11. _________________________________________________________

B. Reviewing Key Terms
Find the term that does not belong in each set and explain how it does not relate to the other three.

12. (business license, certificate of occupancy, business organization, registration of business name) ________________________________________________________________

13. (liability, health codes, zoning laws, dangerous chemical codes) ________________________________________________________________

14. (human capital, fringe benefits, physical capital, financial resources) ________________________________________________________________
## A. As You Read

As you read Section 2, supply the requested information in the spaces provided.

1. Typical examples of a general partnership
   1. ____________________________________
   ____________________________________

2. What limited partners do and do not do
   2. ____________________________________
   ____________________________________

3. How limited liability partnerships compare with general partnerships
   3. ____________________________________
   ____________________________________

4. Items often covered under articles of partnership
   4. ____________________________________
   ____________________________________

5. Capital and taxation advantages of partnerships
   5. ____________________________________
   ____________________________________

6. Liability disadvantages of partnerships
   6. ____________________________________
   ____________________________________

## B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

7. Only one partner is required to be a general partner in a _____________.

8. Money and other valuables make up a person’s or firm’s ________________.

9. Ownership interests and management responsibilities are legislated under the ____________.
A. As You Read
As you read Section 3, supply the missing information in the graphic organizer.

1. Corporate Structure
2. Advantages for Stockholders
3. Advantages for Businesses
4. Start-up Procedure
5. Taxation
6. Regulatory Requirements
7. Possible Combinations

B. Reviewing Key Terms
Read the statements below. In the space provided, write T if the statement is true, or F if it is false.

8. Companies in the same business might form vertical mergers.
9. Multinational corporations usually headquarter in several countries.
10. If you buy stocks, you own part of a corporation.
11. Corporate bonds pay dividends.
12. Corporations have a legal identity.
13. Dividends represent a portion of corporate profits.
14. Privately held corporations are also closely held corporations.
15. The federal government issues a company’s certificate of incorporation.
16. A conglomerate merges more than three companies making unrelated products.
17. Publicly held corporations sell stocks to the Securities and Exchange Commission.
18. Stockholders must pay a capital gains tax whenever they sell their shares.
Section 4: Guided Reading and Review

Other Organizations

A. As You Read
As you read Section 4, supply the missing information under the headings on the chart.

<table>
<thead>
<tr>
<th>Business Franchises</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cooperative Organizations</th>
<th>Membership and/or Purpose</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.</td>
<td>4.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nonprofit Organizations</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.</td>
<td>6.</td>
</tr>
</tbody>
</table>

B. Reviewing Key Terms
Briefly define or identify each of the following.

7. royalties ________________________________

8. trade association ________________________

9. cooperative ______________________________
A. As You Read
As you read Section 1, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: The Bureau of Labor Statistics (BLS) tracks changes in the labor force.
1. How do economists define labor force? ________________________________

2. What criteria define unemployment? _________________________________

Main Idea: The changing economy has brought along a changing job market.
3. How did the electronics boom of the mid-twentieth century impact the job market? ____________________________

4. What new jobs were created beginning in the 1970s? ____________________________

Main Idea: Changes in the labor force can be traced to a number of causes.
5. How has higher education contributed? ________________________________

6. Why are there more women in the labor force? ______________________________

Main Idea: For about the past 20 years, the trend in average wage earnings can be described as slightly downward.
7. Have all workers received lower wages? ________________________________

8. How has competition affected wage earnings? ________________________________

B. Reviewing Key Terms
Answer each of the following questions in a complete sentence.
9. How might the learning effect influence wage trends? ________________________________

10. According to the screening effect, how may employers view job applicants who have a college education? ________________________________

11. To what kinds of jobs does contingent employment refer? ________________________________
A. As You Read
As you read Section 2, complete each of the following sentences.

1. Employment in a labor market depends on how closely the demand for workers meets _________________.

2. The price of labor (earnings) depends on _________________.

3. Professional labor requires _________________.

4. In a competitive market, workers are usually paid according to _________________.

5. Higher labor prices decrease the _________________.

6. Firms can respond to higher wages by replacing _________________.

7. Higher wages increase the _________________.

8. Jobs in the skilled labor category require _________________.

9. A high equilibrium wage is the result of _________________.

10. The Equal Pay Act of 1963 provided that _________________.

11. Title VII of the 1964 Civil Rights Act forbids job discrimination on the basis of _________________.

12. Lack of human capital and possible discrimination contribute to low wages for _________________.

13. Negative effects on nonunion wages can be reduced when unions _________________.

B. Reviewing Key Terms
Define the following terms.

14. labor force _________________.

15. equilibrium wage _________________.

16. glass ceiling _________________.

17. featherbedding _________________.
A. As You Read
As you read Section 3, supply the information requested by the heading in each box.

Major U.S. labor organizations formed between 1869 and 1955:

1. (1869) _______________
2. (1886) _______________
3. (1938) _______________
4. (1955) _______________

Anti-union strategies used by U.S. employers before the 1930s:

5. _______________
6. _______________
7. _______________
8. _______________

Economic changes that have affected unions:

9. _____________________
10. _____________________
11. _____________________

Ways in which unions have declined in traditional strongholds:

12. _____________________
13. _____________________
14. _____________________
15. _____________________

Major issues covered under a union contract:

16. _____________________
17. _____________________
18. _____________________

B. Reviewing Key Terms
Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided. You will not use all of the terms.

<table>
<thead>
<tr>
<th>Column I</th>
<th>Column II</th>
</tr>
</thead>
<tbody>
<tr>
<td>19. union and company representatives meeting to negotiate a contract</td>
<td>a. arbitration</td>
</tr>
<tr>
<td>20. worker in a professional job receiving a salary</td>
<td>b. strike</td>
</tr>
<tr>
<td>21. measure banning mandatory union membership</td>
<td>c. blue-collar worker</td>
</tr>
<tr>
<td>22. worker in an industrial job</td>
<td>d. collective bargaining</td>
</tr>
<tr>
<td>23. settlement technique using third party reviews</td>
<td>e. white-collar worker</td>
</tr>
<tr>
<td>24. organized work stoppage</td>
<td>f. mediation</td>
</tr>
<tr>
<td></td>
<td>g. right-to-work law</td>
</tr>
</tbody>
</table>
Section 1: Guided Reading and Review

Money

A. As You Read
As you read Section 1, supply the requested information in the spaces provided.

Describe the three uses of money.
1. ______________________________________________________
2. ______________________________________________________
3. ______________________________________________________

Define the six characteristics of money.
4. ______________________________________________________
5. ______________________________________________________
6. ______________________________________________________
7. ______________________________________________________
8. ______________________________________________________
9. ______________________________________________________

B. Reviewing Key Terms
Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

10. something that keeps its value if held
11. objects that have value because the holder can exchange them for something else of value
12. money that has value because the government says it is acceptable for paying debts
13. anything that is used to determine value during the exchange of goods and services
14. exchange of one set of goods or services for another
15. coins and paper bills used as money
16. way to compare the value of goods and services relative to each other
17. anything used as a medium of exchange, a unit of account, and a store of value
18. objects that have value in themselves as well as for their use as money

Column II

a. barter
b. store of value
c. fiat money
d. currency
e. money
f. medium of exchange
g. commodity money
h. unit of account
i. representative money
Section 2: Guided Reading and Review
The History of American Banking

A. As You Read
As you read Section 2, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: Before the Civil War, banking in the United States shifted between a centralized system and independent state and local banks.
1. What were the first two attempts to centralize U.S. banking, and when were they in operation? ____________________________
2. What problems were associated with the Free Banking Era (1837–1863), dominated by state-chartered banks? ____________________________

Main Idea: Reforms of the late 1800s stabilized the banking system.
4. How did the gold standard promote stability? ____________________________

Main Idea: Banking reforms early in the twentieth century helped strengthen and centralize American banking.
5. How did the Federal Reserve System, established in 1913, begin to manage the money supply? ____________________________
6. What guarantee was made available to bank customers in 1933? ____________________________

B. Reviewing Key Terms
Complete each sentence by writing the correct term in the blank provided.
7. One advantage of the ___________________ was that the government could only issue currency if it had gold in the treasury to back it.
8. The ___________________ was a paper currency printed with green ink that was issued by the U.S. Treasury during the Civil War but not backed by gold or silver.
9. A(n) ___________________ receives, keeps, and lends money.
10. The nation's central banking system is the ___________________.
Section 3: Guided Reading and Review

Banking Today

A. As You Read
As you read Section 3, supply the requested information on the lines provided.

Define M1.
1. _____________________________________________________________________

Define M2.
2. _____________________________________________________________________

List five services that banks offer.
3. _____________________________________________________________________
4. _____________________________________________________________________
5. _____________________________________________________________________
6. _____________________________________________________________________
7. _____________________________________________________________________

Describe four types of financial institutions.
8. _____________________________________________________________________
9. _____________________________________________________________________
10. _____________________________________________________________________
11. _____________________________________________________________________

B. Reviewing Key Terms
Define the following terms.
12. money supply ________________________________________________________
13. liquidity _____________________________________________________________
14. demand deposit _______________________________________________________ 
15. money market mutual fund ____________________________________________
16. fractional reserve banking _____________________________________________
17. default __________________________________________________________________
18. mortgage __________________________________________________________________
19. credit card __________________________________________________________________
20. interest __________________________________________________________________
21. debit card __________________________________________________________________
22. creditor __________________________________________________________________
### A. As You Read

As you read Section 1, supply the missing information about the functions of the financial intermediaries in the chart below.

<table>
<thead>
<tr>
<th>Financial Intermediaries</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Banks, Savings and Loan Associations, Credit Unions</td>
<td>1.</td>
</tr>
<tr>
<td>2. Finance Companies</td>
<td>2.</td>
</tr>
<tr>
<td>5. Pension Funds</td>
<td>5.</td>
</tr>
</tbody>
</table>

### B. Reviewing Key Terms

Complete each sentence by writing the correct key term in the blank provided.

6. Before putting money into mutual funds, a potential investor can review the fund’s performance in its ____________.

7. The use of assets to earn income or profit constitutes a(n) ____________.

8. To transfer money between savers and borrowers, allowing investment to take place, an economy needs a(n) ____________.

9. Securities is another name for ____________.

10. The lower the risk in an investment, the lower its ____________.

11. The collection of all one’s financial assets makes up one’s ____________.
Section 2: Guided Reading and Review

Bonds and Other Financial Assets

A. As You Read
As you read Section 2, answer the questions on the lines provided.

1. How does an investor earn money by buying bonds at a discount?

   ____________________________________________________________

2. What are Standard & Poor’s and Moody’s ratings based on?

   ____________________________________________________________

3. What advantages do bonds offer to firms that issue them?

   ____________________________________________________________

4. What disadvantage do bonds present for the issuer?

   ____________________________________________________________

5. (a) What types of government bonds are available to investors?

   ____________________________________________________________

   (b) Which type offers the greatest tax advantage?

   ____________________________________________________________

6. What three organizations help ensure value and prevent dishonesty in the bond market?

   ____________________________________________________________

7. (a) What is the investment advantage of money market mutual funds over CDs and savings accounts?

   ____________________________________________________________

   (b) What is the disadvantage?

   ____________________________________________________________

8. (a) In financial asset markets, how do capital markets differ from money markets?

   ____________________________________________________________

   (b) How do primary markets differ from secondary markets?

   ____________________________________________________________

B. Reviewing Key Terms
Define the following terms.

9. maturity __________________________________________________

10. corporate bond _____________________________________________

11. junk bond __________________________________________________

12. coupon rate ________________________________________________
Section 3: Guided Reading and Review

The Stock Market

A. As You Read
As you read Section 3, supply the missing information to complete each sentence in the spaces provided.

1. Income stocks pay ____________

2. Growth stocks can be profitable because they ____________

3. Investors experience capital gains when they ____________

4. Investors suffer capital losses when they ____________

5. Stocks are riskier than bonds because ____________

6. Blue chip stocks are traded on the ____________

7. A put option is the option to ____________

8. During a bear market, investors sell because ____________

B. Reviewing Key Terms
Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided. You will not use all the terms.

Column I

<table>
<thead>
<tr>
<th></th>
<th>9. steady, extended rise in stock market</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
<td>10. electronic marketplace for stock not listed on an organized exchange</td>
</tr>
<tr>
<td>---</td>
<td>11. claims of ownership in a corporation</td>
</tr>
<tr>
<td>---</td>
<td>12. making high-risk investments with borrowed money in the hope of getting a big return</td>
</tr>
<tr>
<td>---</td>
<td>13. market for buying and selling stock</td>
</tr>
<tr>
<td>---</td>
<td>14. person who links buyers and sellers of stocks</td>
</tr>
<tr>
<td>---</td>
<td>15. 1929 collapse of the stock market</td>
</tr>
<tr>
<td>---</td>
<td>16. business specializing in trading stocks</td>
</tr>
<tr>
<td>---</td>
<td>17. contracts to trade stock at a specific price and time in the future</td>
</tr>
</tbody>
</table>

Column II

<table>
<thead>
<tr>
<th></th>
<th>a. stockbroker</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
<td>b. options</td>
</tr>
<tr>
<td>---</td>
<td>c. bear market</td>
</tr>
<tr>
<td>---</td>
<td>d. Great Crash</td>
</tr>
<tr>
<td>---</td>
<td>e. brokerage firm</td>
</tr>
<tr>
<td>---</td>
<td>f. bull market</td>
</tr>
<tr>
<td>---</td>
<td>g. equities</td>
</tr>
<tr>
<td>---</td>
<td>h. OTC market</td>
</tr>
<tr>
<td>---</td>
<td>i. speculation</td>
</tr>
<tr>
<td>---</td>
<td>j. stock exchange</td>
</tr>
</tbody>
</table>
Section 1: Guided Reading and Review

Gross Domestic Product

A. As You Read

As you read Section 1, answer the following questions about gross domestic product.

1. What is the gross domestic product? __________________________________________________

2. How is the expenditure approach used to calculate it? _________________________________

3. How is the income approach used to calculate it? _________________________________

4. What is the difference between nominal GDP and real GDP? _________________________

Describe four limitations of using GDP to measure economic growth:

5. _____________________________________________

6. _____________________________________________

7. _____________________________________________

8. _____________________________________________

9. How is the gross national product derived from the gross domestic product? __________

10. How is GDP related to aggregate supply and aggregate demand? _________________

B. Reviewing Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided. You will not use all the terms.

<table>
<thead>
<tr>
<th>Column I</th>
<th>Column II</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.</td>
<td>a. real GDP</td>
</tr>
<tr>
<td>12.</td>
<td>b. nominal GDP</td>
</tr>
<tr>
<td>13.</td>
<td>c. aggregate supply</td>
</tr>
<tr>
<td>14.</td>
<td>d. nondurable goods</td>
</tr>
<tr>
<td>15.</td>
<td>e. price level</td>
</tr>
<tr>
<td>16.</td>
<td>f. intermediate goods</td>
</tr>
<tr>
<td>17.</td>
<td>g. depreciation</td>
</tr>
<tr>
<td>18.</td>
<td>h. national income accounting</td>
</tr>
<tr>
<td>19.</td>
<td>i. gross domestic product</td>
</tr>
<tr>
<td>20.</td>
<td>j. durable goods</td>
</tr>
<tr>
<td>21.</td>
<td>k. gross national product</td>
</tr>
<tr>
<td></td>
<td>l. aggregate demand</td>
</tr>
</tbody>
</table>
A. As You Read
As you read Section 2, fill in each item in the following diagram.

B. Reviewing Key Terms
Define the following terms.
12. business cycle ____________________________
13. expansion ____________________________
14. economic growth ____________________________
15. peak ____________________________
16. contraction ____________________________
17. trough ____________________________
18. recession ____________________________
19. depression ____________________________
20. stagflation ____________________________
21. leading indicators ____________________________
Section 3: Guided Reading and Review

Economic Growth

A. As You Read
As you read Section 3, fill in supporting facts or details under each main idea by answering each question.

Main Idea: Capital deepening is an important source of growth in modern economies.
1. How does capital deepening increase output per worker? ________________
2. How is human capital deepened? ________________

Main Idea: The rate of saving and investment affects the economy.
3. What happens when saving rises? ________________
4. How does increased investment help the economy? ________________

Main Idea: Population, government, and trade all directly affect the economy.
5. What happens when population grows and capital remains constant? ________________
6. How do government taxation for consumption spending and importing goods for short-term consumption affect economic growth? ________________

Main Idea: Technological progress is a key source of economic growth.
7. How do economists measure the impact of technological progress on economic growth? ________________
8. How does the government aid technological innovation? ________________

B. Reviewing Key Terms
Complete each sentence by writing the correct term in the blank.
9. _____________ is the proportion of disposable income spent to income saved.
10. The real GDP divided by the total population is called ________________.
11. Increasing the amount of capital per worker is ________________.
12. Income not used for consumption is considered ________________.
13. An increase in efficiency gained by producing more output without using more inputs is called ________________. 
A. As You Read
As you read Section 1, supply the missing reason for or type of unemployment on the lines provided in the chart.

<table>
<thead>
<tr>
<th>Reason for Unemployment</th>
<th>Type of Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. people taking time looking for work after finishing school</td>
<td>1. __________________</td>
</tr>
<tr>
<td>2.</td>
<td>2. structural unemployment</td>
</tr>
<tr>
<td>3. lack of education or training for skills in demand</td>
<td>3. __________________</td>
</tr>
<tr>
<td>4.</td>
<td>4. frictional unemployment</td>
</tr>
<tr>
<td>5. a healthy economy that is working properly</td>
<td>5. __________________</td>
</tr>
<tr>
<td>6.</td>
<td>6. seasonal unemployment</td>
</tr>
<tr>
<td>7.</td>
<td>7. very low unemployment</td>
</tr>
<tr>
<td>8.</td>
<td>8. structural unemployment</td>
</tr>
<tr>
<td>9. development of new technologies</td>
<td>9. __________________</td>
</tr>
<tr>
<td>10.</td>
<td>10. cyclical unemployment</td>
</tr>
<tr>
<td>11.</td>
<td>11. structural unemployment</td>
</tr>
</tbody>
</table>

B. Reviewing Key Terms
Complete each sentence by writing the correct term in the blank provided.

12. My cousin Harold is used to ______________________, since he works for a landscaping company and is laid off every winter.
13. It is easy to find a job these days, since the _______________ is so low.
14. People who do not finish high school often suffer from ______________________.
15. With ______________________, nearly everyone who wants a job has a job.
16. The excellent mechanic who has been working as a clerk at a convenience store since the local garage closed is considered _________________.
17. My aunt who left her job to care for her sick mother and is now looking for work is an example of ________________.
Section 2: Guided Reading and Review

Inflation

A. As You Read
As you read Section 2, answer the following questions.

1. What would you use to see how prices have changed over time? ________________

2. What does the example of the Barrow’s house increasing from $12,000 to $150,000 over 50 years show? __________________________

3. How is the Consumer Price Index (CPI) used? _________________________________


5. What data must you have to calculate the inflation rate for a specific year? ______

6. What happens when hyperinflation occurs over an extended period of time? ______

Describe three theories of the causes of inflation.

7. ________________________________

8. ________________________________

9. ________________________________

How does inflation affect each of the following?

10. purchasing power ____________________________

11. fixed income ____________________________

12. savings ________________________________

B. Reviewing Key Terms
Define the following terms.

13. inflation rate ____________________________

14. deflation ________________________________

15. Consumer Price Index ____________________

16. inflation ________________________________

17. wage-price spiral __________________________

18. price index ______________________________
A. As You Read
As you read Section 3, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: The U.S. Census Bureau has developed measurements to calculate the number of poor.
1. What condition must exist for everyone in a household to be counted as poor? __________
__________________________________________________________
2. What does the poverty rate help us understand? __________
__________________________________________________________

Main Idea: Poverty has a number of root causes.
3. What do statistics show about a lack of education contributing to poverty? __________
__________________________________________________________
4. What has the divorce rate shown about poverty? __________
__________________________________________________________

Main Idea: Knowing how the nation’s total income is distributed helps people understand poverty.
5. What percentage of the nation’s total income does the lowest 40 percent of the population receive? __________
__________________________________________________________
6. What two key factors contribute to the differences in income distribution? __________
__________________________________________________________

Main Idea: The government has various programs and policies to combat poverty.
7. What programs and laws help working people achieve an adequate income? __________
__________________________________________________________
8. How might the welfare reform program help reduce poverty? __________
__________________________________________________________

B. Reviewing Key Terms
Complete each sentence by writing the correct term in the blank.
9. The __________ is the graphed curve that illustrates income distribution in the economy.
10. The program that requires work in exchange for assistance is called __________.
11. The __________ is the percentage of people in a particular group who are officially considered living in poverty.
12. The level of income below which income is insufficient to support a family or household is called the __________.
Section 1: Guided Reading and Review
What Are Taxes?

A. As You Read
As you read Section 1, supply the requested information in the spaces provided.

Explain what gives the government the power to collect taxes.
1. ____________________________________________

List four ways in which the government's power to tax is limited.
2. ____________________________________________
3. ____________________________________________
4. ____________________________________________
5. ____________________________________________

List and define the three types of tax structures.
6. ____________________________________________
7. ____________________________________________
8. ____________________________________________

List and define the characteristics of a good tax.
9. ____________________________________________
10. ____________________________________________
11. ____________________________________________
12. ____________________________________________

B. Reviewing Key Terms
Complete each sentence by writing the correct term in the blank provided.

13. The income, property, good, or service that is subject to tax is considered a
    _________________________.

14. The ________________________ is the final burden of a tax.

15. Sales tax is a type of ______________________ tax.

16. With a ______________________ the percentage of income paid in taxes remains the same for
    all income levels.

17. Income tax is a type of ______________________ tax.

18. The income that government receives is called ______________________.
A. As You Read
As you read Section 2, fill in supporting facts or details under each main idea by answering each question.

Main Idea: Individual income taxes are imposed on the income of all individuals living in the country.
1. Why do employers withhold a set amount of your income? ____________________________

2. What is taxable income? __________________________________________________________

Main Idea: Federal Insurance Contributions Act (FICA) taxes fund two large government programs.
3. What does Social Security provide? ________________________________________________

4. What is Medicare? ________________________________________________________________

Main Idea: Taxes are sometimes used to affect behavior.
5. What items are taxed for the purpose of changing behavior? ____________________________

B. Reviewing Key Terms
Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

<table>
<thead>
<tr>
<th>Column I</th>
<th>Column II</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a. taxable income</td>
</tr>
<tr>
<td></td>
<td>b. tariff</td>
</tr>
<tr>
<td></td>
<td>c. tax return</td>
</tr>
<tr>
<td></td>
<td>d. withholding</td>
</tr>
<tr>
<td>6.</td>
<td>e. deductions</td>
</tr>
<tr>
<td>7.</td>
<td>f. gift tax</td>
</tr>
<tr>
<td>8.</td>
<td>g. estate tax</td>
</tr>
<tr>
<td>9.</td>
<td>amounts that you can subtract from your income when filing taxes</td>
</tr>
<tr>
<td>10.</td>
<td>form used to file one's income taxes</td>
</tr>
<tr>
<td>11.</td>
<td>income on which tax must be paid</td>
</tr>
<tr>
<td>12.</td>
<td>tax on a monetary gift from a living person valued above a certain amount</td>
</tr>
<tr>
<td></td>
<td>tax on the total value of the money and property of a person who has died</td>
</tr>
<tr>
<td></td>
<td>tax payments taken out of an employee's pay before he or she receives a paycheck</td>
</tr>
<tr>
<td></td>
<td>tax levied on foreign goods brought into the United States</td>
</tr>
</tbody>
</table>
A. As You Read
As you read Section 3, provide examples of the categories of federal spending in the diagram below.

Categories of Federal Spending

1. Entitlements
2. Discretionary Spending
3. Aid to States

B. Reviewing Key Terms
Define the following terms.
4. discretionary spending
5. mandatory spending
6. entitlement
Section 4: Guided Reading and Review
State and Local Taxes and Spending

A. As You Read
As you read Section 4, fill in examples of each item in the space provided.

Spending
(State Governments)
Provide examples of goods or services on which state taxes are spent for each category.
1. Education:
2. Public Safety:
3. Highways and Transportation:
4. General Welfare:
5. Arts and Recreation:
6. Administration:
(State Governments)
Provide examples of each type of tax from which states earn revenue.
7. Sales Tax:
8. Excise Tax:
9. Income Tax:
10. Corporate Income Tax:
11. Business Taxes:

(Local Governments)
Provide examples of goods or services on which local taxes are spent for each category.
12. Law enforcement:
13. Public facilities:
14. Public health:
(Local Governments)
Provide examples of each type of tax from which local governments earn revenue.
15. Property Taxes:
16. Other Taxes:

B. Reviewing Key Terms
Answer each of the following questions.
17. What is the difference between real property and personal property?
18. What is the difference between an operating budget and a capital budget?
19. What is a sales tax?
20. What is the relationship between revenues and spending in a balanced budget?
Section 1: Guided Reading and Review

Understanding Fiscal Policy

A. As You Read
As you read Section 1, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: The president and Congress work through a budget process to draw up a spending plan for the following fiscal year.

1. Which part of the executive branch is responsible for preparing the president’s budget proposal?

2. Which congressional committees submit the final bills that authorize specific spending?

Main Idea: The federal government may use fiscal policy to try to make the economy run more smoothly.

3. Under what conditions might the government use expansionary fiscal policies?

4. Under what conditions might the government use contractionary fiscal policies?

Main Idea: The federal government has specific policies that it uses to influence the economy.

5. What are its two main expansionary policies?

6. What are its two main contractionary policies?

Main Idea: Although fiscal policies may appear to be powerful economic tools, they can be difficult to put into practice.

7. What kinds of entitlement programs make it difficult to change spending levels?

8. Why does it take so long to put fiscal changes into effect?

B. Reviewing Key Terms
Answer each of the following questions.

9. What is the federal budget?

10. What is the main function of the Congressional Budget Office?

11. What is the overall goal of expansionary policies?

12. What is the overall goal of contractionary policies?
Section 2: Guided Reading and Review
Fiscal Policy Options

A. As You Read
As you read Section 2, answer the following questions.

1. What failure of classical economics did the Great Depression highlight?

2. How did John Maynard Keynes explain the continuation of the Great Depression?

3. (a) According to Keynes, how could the Depression-era government make up for the drop in private spending?
   (b) What did Keynes say the result would be?

4. (a) What economic data did Keynes say the federal government should track?
   (b) For what purpose?

5. Why did Keynesian economics lose popularity in the 1960s and 1970s?

6. What is a stable economy?

7. When national income is low, how do taxes and government transfer payments help stabilize the economy?

8. According to supply-side economics and the Laffer curve, how do higher tax rates affect the economy?

9. What argument lies at the heart of supply-side economics?

10. How did President Kennedy propose to increase demand?

B. Reviewing Key Terms
Use a key term to complete each sentence.

11. An economy sustains maximum output for a period of time when it operates at _________________.

12. The idea that in a free market, people act in their own self-interest, causing prices to rise or fall so that supply and demand will always return to equilibrium is the thinking in _________________.

13. Taxes and transfer payments act as _________________.

14. The idea that every dollar change in fiscal policy creates a greater than one dollar change in the economy explains the _________________.

Guided Reading and Review
Chapter 15 65
Section 3: Guided Reading and Review

Budget Deficits and the National Debt

A. As You Read

As you read Section 3, complete the following sentences.

1. When the government increases the amount of money in circulation to cover large deficits, inflation results because _________________________________________________.

2. Wise federal borrowing allows the government to ___________________________________.

3. The national debt will grow each year that _____________________________________.

4. The national debt is owned by _____________________________________________.

5. Historically, national debt as a percentage of GDP rises during ________________. 

6. The two problems of a national debt are that ___________________________________.

7. The opportunity cost of servicing the debt is that ___________________________________.

8. Today, many economists think the role of the federal government in the economy should be ___________________________________.

B. Reviewing Key Terms

Define the following terms.

9. budget surplus _________________________________________________________.

10. hyperinflation __________________________________________________________.

11. national debt __________________________________________________________.

12. Treasury bill ___________________________________________________________.
Section 1: Guided Reading and Review
The Federal Reserve System

A. As You Read
As you read Section 1, supply the requested information.

1. Sources of confusion and problems with American banking between 1836 and 1907:

2. Why the Federal Reserve System was unable to hold off the Great Depression:

3. How the chair of the Federal Reserve’s Board of Governors is appointed:

4. The function of each Federal Reserve Bank:

5. The makeup of each Federal Reserve Bank’s board of directors:

6. Which banks join the Federal Reserve System and why they join:

7. The main function of the Federal Reserve’s Federal Advisory Council:

8. Areas affected by announcements from the Federal Open Market Committee:

B. Reviewing Key Terms
Define the following terms.

9. monetary policy

10. Federal Reserve Districts

11. Federal Advisory Council

12. Federal Open Market Committee
Section 2: Guided Reading and Review

Federal Reserve Functions

A. As You Read
As you read Section 2, complete each numbered item in the chart.

<table>
<thead>
<tr>
<th>The Federal Reserve in Action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service Roles</strong></td>
</tr>
<tr>
<td>1. sells, transfers, and redeems</td>
</tr>
<tr>
<td>2. issues paper</td>
</tr>
<tr>
<td>3. acts as a clearing center for</td>
</tr>
<tr>
<td>4. checks up on activities of member banks by sending out</td>
</tr>
<tr>
<td>5. uses findings and recommendations of Reserve Banks to approve or disapprove</td>
</tr>
<tr>
<td>6. protects consumers by enforcing</td>
</tr>
<tr>
<td>7. in severe recessions, provides commercial banks with</td>
</tr>
</tbody>
</table>

B. Reviewing Key Terms
Complete each sentence by writing the correct term in the blank.

15. When a bank borrows money from another bank, the interest rate it pays is called the _____________________.

16. Ownership of more than one bank constitutes a _____________________.

17. When a bank customer writes a check, the check will go through the process of _____________________.

18. A bank’s total assets minus its total liabilities make up its _____________________.

19. Banks repay loans from the Federal Reserve at a rate of interest called the _____________________.

Guided Reading and Review
Section 3: Guided Reading and Review

Monetary Policy Tools

A. As You Read

As you read Section 3, answer the following questions.

1. If you deposit $1,000 of borrowed money in a bank checking account, by how much do you increase the money supply? 

2. Why does the Federal Reserve establish a required reserve ratio? 

3. What three tools could the Federal Reserve use to adjust the money supply? 

4. What two effects, leading to an increased money supply, could a reduced RRR have? 

5. Why does the Fed seldom, if ever, change bank reserve requirements? 

6. How do banks respond to a lowered discount rate? 

7. How does a raised discount rate affect bank loans and the money supply? 

8. What effect does the Fed’s purchase of government bonds have on the money supply? 

9. How does the Fed’s sale of bonds reduce the money supply? 

10. Which of its monetary policy tools does the Federal Reserve use most often? 

B. Reviewing Key Terms

Rewrite each statement below as needed to make it correct.

11. Money creation is the process by which money is manufactured. 

12. The required reserve ratio is the ratio of reserves to loans required of banks by the Federal Reserve. 

13. The size of loans created with each demand deposit is measured by the money multiplier formula. 

14. Open market operations refers to the buying and selling of banks by the Federal Reserve.
Section 4: Guided Reading and Review
Monetary Policy and Macroeconomic Stabilization

A. As You Read
As you read Section 4, complete the following sentences.

1. The cost of borrowing or having money is the __________.
2. If the money supply is high, interest rates will be __________.
3. Lower interest rates give firms more opportunities for __________.
4. The Fed may follow an easy money policy when the macroeconomy is experiencing a __________.
5. The Fed may follow a tight money policy when the macroeconomy is experiencing a __________.
6. The goal of stabilization policy is to smooth out fluctuations in the __________.
7. If expansionary policies take effect while the macroeconomy is already expanding, the result could be higher __________.
8. One reason for inside lags is that it takes time to __________.
9. A second reason for inside lags is that it can take additional time to __________.
10. Monetary policy can be put in place almost immediately by the __________.
11. The outside lag can be relatively short for __________ policy.
12. Outside lags for monetary policy can be lengthy because they primarily affect __________.
13. We rely more on the Fed to combat the business cycle because fiscal policy is often delayed by __________.
14. Economists who usually recommend enacting fiscal and monetary policies believe that economies __________.

B. Reviewing Key Terms
Define the following terms.

15. monetarism _____________________________________________________________________

16. easy money policy __________________________________________________________________

17. tight money policy __________________________________________________________________

18. inside lag ________________________________________________________________________

19. outside lag _______________________________________________________________________

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A. As You Read
As you read Section 1, answer the following questions about international trade in the spaces provided.

1. What resources are major influences on a country’s or region’s economy?

2. Why do countries differ in their capacities to produce different goods and services?

3. Why do specializing nations need world trade?

4. Why does trade benefit both countries with abundance and countries with few resources?

5. How do nations benefit from producing goods and services they have a comparative advantage in supplying?

6. How can international specialization affect some workers?

7. What possibilities do laid-off workers face?

B. Reviewing Key Terms
Briefly define or identify each of the following.

8. absolute advantage

9. export

10. import

11. comparative advantage
Section 2: Guided Reading and Review

Trade Barriers and Agreements

A. As You Read
As you read Section 2, supply the missing information in the spaces provided.

Current World Trade Considerations

1. Effects of Trade Barriers: ___________________________________________

2. Presumed Advantages of U.S. Protectionism: _____________________________

3. Progress Under GATT and WTO: ______________________________________

4. Results of NAFTA in the United States: ________________________________

5. Advantages of Multinational Corporations: ______________________________

B. Reviewing Key Terms
Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided. You will not use all of the terms.

<table>
<thead>
<tr>
<th>Column I</th>
<th>Column II</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. use of trade barriers to shield a nation's industries from foreign competition</td>
<td>a. European Union (EU)</td>
</tr>
<tr>
<td>7. regional trade organization of 15 European nations</td>
<td>b. infant industry</td>
</tr>
<tr>
<td>8. self-imposed limitation on the number of products shipped to a particular country</td>
<td>c. trade barrier</td>
</tr>
<tr>
<td>9. means of preventing a foreign product or service from freely entering a nation's territory</td>
<td>d. NAFTA</td>
</tr>
<tr>
<td>10. limit on the amount of a good that can be brought into a country</td>
<td>e. tariff</td>
</tr>
<tr>
<td>11. region where a group of countries agrees to reduce or eliminate trade barriers</td>
<td>f. World Trade Organization (WTO)</td>
</tr>
<tr>
<td>12. tax on imports</td>
<td>g. import quota</td>
</tr>
</tbody>
</table>
<pre><code>                                                             | h. voluntary export restraint       |
                                                             | i. free-trade zone                   |
                                                             | j. protectionism                     |
</code></pre>
## A. As You Read
As you read Section 3, supply likely consequences or solutions in the chart.

### In Matters of International Trade

<table>
<thead>
<tr>
<th>If</th>
<th>Then</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. a U.S. tourist wants to buy a newspaper in Beijing</td>
<td>1.</td>
</tr>
<tr>
<td>2. you want to learn current exchange rates</td>
<td>2.</td>
</tr>
<tr>
<td>3. a strong dollar makes American products more expensive in Japan</td>
<td>3.</td>
</tr>
<tr>
<td>4. the dollar is devalued</td>
<td>4.</td>
</tr>
<tr>
<td>5. an American firm needs to exchange yen for dollars</td>
<td>5.</td>
</tr>
<tr>
<td>6. low labor costs abroad result in lower prices for U.S. imports</td>
<td>6.</td>
</tr>
</tbody>
</table>

## B. Reviewing Key Terms
Briefly explain the difference between the terms in each pair.

7. fixed exchange-rate system and flexible exchange-rate system  
   ____________________________________________________________

8. trade surplus and trade deficit  
   ____________________________________________________________

9. appreciation and depreciation  
   ____________________________________________________________
Section 1: Guided Reading and Review
Levels of Development

A. As You Read
As you read Section 1, fill in details comparing characteristics of developed nations and less developed countries in the blanks provided.

<table>
<thead>
<tr>
<th>Developed Nations</th>
<th>Less Developed Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>per capita GDP</td>
<td>1.</td>
</tr>
<tr>
<td>energy consumption</td>
<td>3.</td>
</tr>
<tr>
<td>labor force</td>
<td>5.</td>
</tr>
<tr>
<td>literacy</td>
<td>7.</td>
</tr>
<tr>
<td>life expectancy &amp; infant mortality</td>
<td>9.</td>
</tr>
</tbody>
</table>

B. Reviewing Key Terms
Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

**Column I**

11. services and facilities necessary for an economy to function
12. country with low levels of material well-being
13. a nation’s GDP divided by its total population
14. more successful less developed country
15. raising just enough food to feed one’s family
16. average expected life span of an individual
17. process by which a nation improves the economic, political, and social well-being of its people
18. proportion of the population over age 15 that can read and write
19. country with a higher average level of material well-being
20. the number of deaths that occur in the first year of life per 1,000 live births
21. extensive organization of an economy for the purpose of manufacture

**Column II**

a. development
b. subsistence agriculture
c. infant mortality rate
d. industrialization
e. developed nation
f. infrastructure
g. life expectancy
h. newly industrialized country (NIC)
i. literacy rate
j. per capita gross domestic product (per capita GDP)
k. less developed country
### A. As You Read

As you read Section 2, supply the missing effects of problems suffered by less developed countries in the spaces provided.

<table>
<thead>
<tr>
<th>Cause</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapid population growth</td>
<td>1. ____________________________</td>
</tr>
<tr>
<td>Uneven global distribution of resources</td>
<td>2. ____________________________</td>
</tr>
<tr>
<td>Lack of physical capital</td>
<td>3. ____________________________</td>
</tr>
<tr>
<td>Lack of human capital</td>
<td>4. ____________________________</td>
</tr>
<tr>
<td>5. ____________________________</td>
<td></td>
</tr>
<tr>
<td>Colonial dependency</td>
<td>6. ____________________________</td>
</tr>
<tr>
<td>Government corruption</td>
<td>7. ____________________________</td>
</tr>
<tr>
<td>Political instability</td>
<td>8. ____________________________</td>
</tr>
<tr>
<td>1973 OPEC price increase</td>
<td>9. ____________________________</td>
</tr>
</tbody>
</table>

### B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

10. Land suitable for producing crops is considered ____________________.
11. The increase in a country's population in a given year is called the ____________________.
12. The difference between a country's death rate and birth rate is called the ____________________.
13. People who get too little nutritional food suffer from ____________________.
Section 3: Guided Reading and Review
Financing Development

A. As You Read
As you read Section 3, supply the missing information in the spaces provided.

List three advantages economists believe multinational corporations bring to LDCs.

1. ____________________________
2. ____________________________
3. ____________________________

List three disadvantages economists believe multinational corporations bring to LDCs.

4. ____________________________
5. ____________________________
6. ____________________________

Give an example of why nations provide aid to less developed countries.

Humanitarian:
7. ____________________________

Political and Military:
8. ____________________________
9. ____________________________

B. Reviewing Key Terms
Define the following terms.

10. internal financing ____________________________
11. foreign investment ____________________________
12. foreign direct investment (FDI) ____________________________
13. foreign portfolio investment ____________________________
14. United Nations Development Program (UNDP) ____________________________

15. World Bank ____________________________
16. International Monetary Fund (IMF) ____________________________

17. debt rescheduling ____________________________
18. stabilization program ____________________________