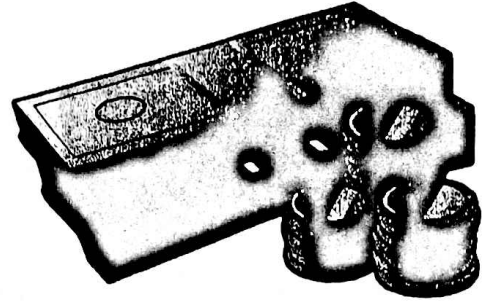


Civics and Economics Unit 8: Economic Principles



The Study of Economics

1. What is economics?
2. What is the difference between macroeconomics and microeconomics?
3. What are resources?
4. What is scarcity?
5. What is an opportunity cost?

The Basic Economic Questions

What to produce?

How much will be produced?

How will it be produced?

Who gets what and how much?

Who answers the basic economic questions?

Factors of Production

6. What does "factors of production" mean?
7. What are the four factors of production?
8. How are labor and entrepreneurship different?
9. What is the difference between capital goods and consumer goods?

Costs and Revenues

| Cost | Definition | Cost to Produce Widgets |
|----------|------------|--|
| Fixed | | \$120 |
| Variable | | \$8 (per widget up to 20) |
| Total | | What is the total cost to make one widget? |
| Marginal | | \$5 (for 21-50 widgets) |

\$120
 \$8 (per up to 20)
 What is the total cost to make one widget?
 \$5 (for 21-50 widgets)



10. Using the cost chart for widgets, what would be the cost to make 10 widgets?

11. What would be the cost to produce 30 widgets?

12. What is profit?

Types of Economies

| Type of Economy | Definition | Characteristics | Example |
|-----------------|------------|-----------------|---------|
| Traditional | | | |
| Command | | | |
| Free Market | | | |

Capitalism

13. What is the motivating force in a capitalist economy?

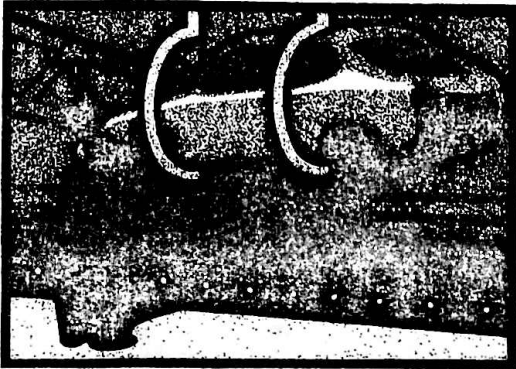
14. Who wrote the *Wealth of Nations*?

15. What does laissez-faire mean?

Communism

16. In a communist society, who answers the basic economic questions?

17. What belief did Karl Marx discuss in his book, *The Communist Manifesto*?



Production

18. What are advantages of specialization and the division of labor within a company?

19. What is downsizing?

20. What trend is occurring in the United States in relation to manufacturing jobs?

21. How does increasing investment in a company affect its ability to produce goods?

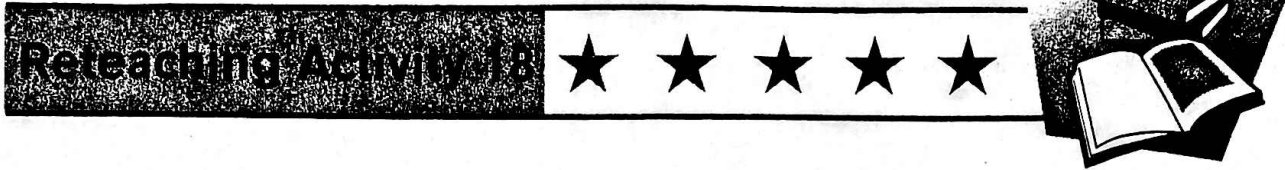
22. What does the circular flow model show?

Labor Force

23. What is the purpose of a union?

24. What is collective bargaining? What are the benefits of using collective bargaining to resolve a labor dispute?

25. What is a strike?



What Is Economics?

Economics is the study of how people make decisions in a world where resources are scarce. The United States economy is a market economy based on capitalism in which private citizens own most of the means of production. It is essential for people to be informed and understand economic issues to be good economic citizens.

DIRECTIONS: Filling in the Blanks Knowledge of the following terms and concepts is necessary to understand economics. On the line before each statement below, write the term that the statement best describes.

- | | | |
|-------------------------|-----------------|--------------------|
| • economics | • trade-off | • economic models |
| • market economy | • marginal cost | • sticks |
| • cost-benefit analysis | • incentives | • marginal benefit |
| • free enterprise | • carrots | |

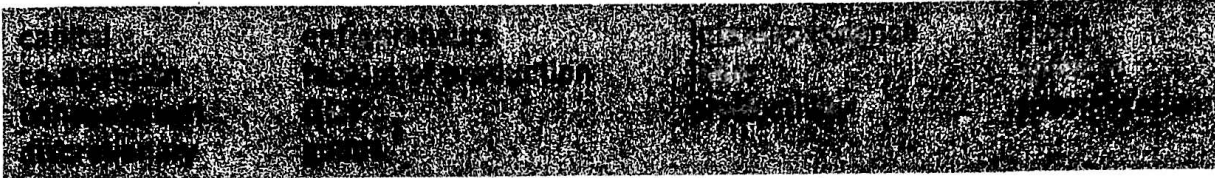
1. _____ This term describes the alternative you face when you choose one thing rather than another.
2. _____ In this system, most economic decisions are made by individuals, not the government.
3. _____ This term describes the science of decision making.
4. _____ This additional opportunity cost is associated with an economic decision.
5. _____ Government offers these incentives to influence the decisions of people and businesses.
6. _____ This additional benefit of an action is associated with an economic decision.
7. _____ These economic theories are based on assumptions.
8. _____ Bonuses to salespeople and low interest rates on credit cards are examples of these factors in the economy.
9. _____ An economy in which businesses can compete for profit with little government interference is known as this type of system.
10. _____ This model compares marginal costs and marginal benefits.
11. _____ The government offers these to discourage actions by people and businesses.

Vocabulary Activity 19



The American Economy

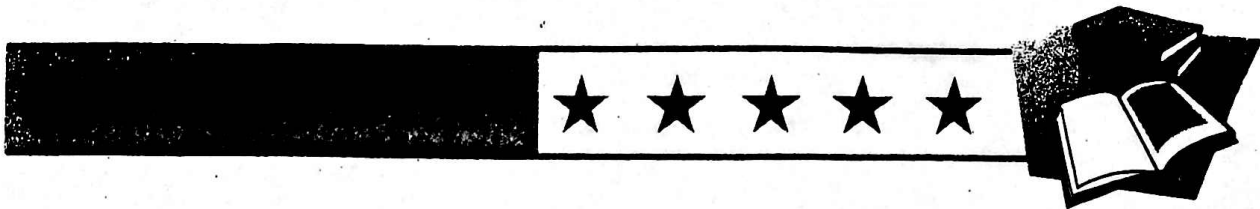
DIRECTIONS: Write the term from the box that matches each definition on the blanks below.



1. _____ physical and mental talents people bring to the production of goods and services
2. _____ struggle between buyers and sellers for the best products at the lowest price
3. _____ work performed for someone else
4. _____ type of income left over after purchasing necessities that can be used to satisfy wants
5. _____ innovative people who start new businesses, introduce products, and improve management techniques
6. _____ concentration on producing a particular type of goods and services
7. _____ tangible products like CDs and cars that we use to satisfy our wants and needs
8. _____ amount of money left after the costs of production have been paid
9. _____ measure of goods produced by the labor and resources needed to produce them
10. _____ four types of resources (natural resources, labor, capital, and entrepreneurs) needed to produce goods and services
11. _____ a movement to educate buyers and teach them how to demand better and safer products
12. _____ reliance on others, and others' reliance on us for the goods and services we consume
13. _____ the tools, machinery, and buildings used to make other products
14. _____ total value, in dollars, of all the final goods and services produced

Terms in box:

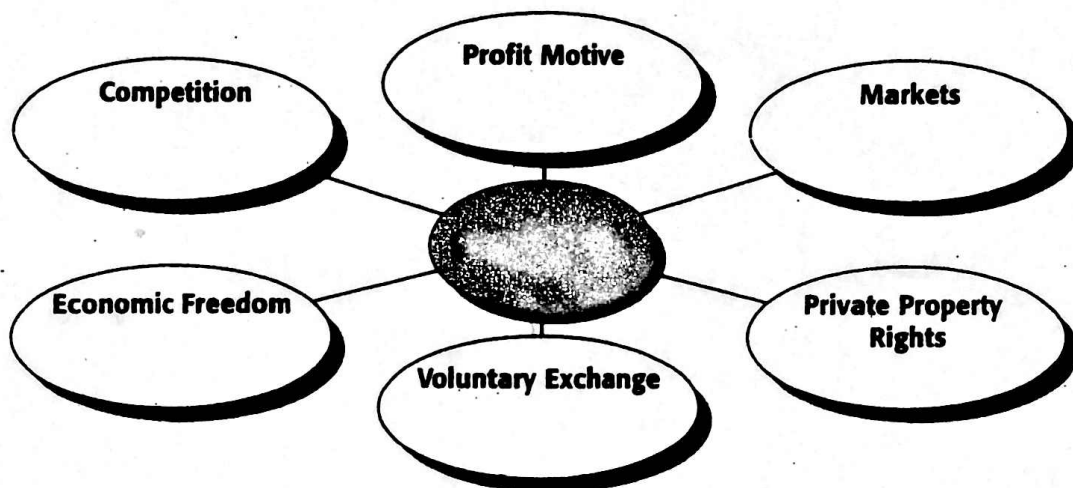
- Capital
- Competition
- Consumerism
- Discretionary
- Entrepreneurs
- Factors of Production
- GDP
- Goods
- Interdependence
- Labor
- Productivity
- Profit
- Services
- Specialization



The American Economy

The economic system of the United States is based on capitalism and free enterprise. Americans want a minimum of government interference in their day-to-day consumer decisions. Four factors of production—natural resources, labor, capital, and entrepreneurs—give society the means to produce both goods and services. According to Nobel Prize-winning economist Milton Friedman: "Competition, and the ability of consumers, workers, and businesspeople to decide their own best interests determine prices, wages, and profits."

DIRECTIONS: Creating a Web Diagram There are six categories of characteristics of capitalism. Use this web diagram to organize these characteristics. Write the letter of each description in the appropriate circle below.



- | | |
|--|--|
| <p>A. Act of buyers and sellers freely venturing into market transactions</p> <p>B. Individuals accepting the consequences of their economic decisions</p> <p>C. The freedom to risk wealth in a business venture</p> <p>D. Going to work and selling an individual's labor</p> <p>E. Creating an incentive to work, save, and invest</p> <p>F. Causing efficient production, higher quality products, and more satisfied customers</p> <p>G. Purchasing goods and services</p> | <p>H. Having the choice to make your own economic decisions</p> <p>I. Encouraging people and businesses to improve their own material wealth</p> <p>J. The struggle between sellers to keep production costs low and the quality of goods high</p> <p>K. The right to own and use property as a person chooses</p> <p>L. Both parties believe that they will be better off afterward than before</p> <p>M. Places where the price of goods and services are determined and exchanges occur</p> |
|--|--|

Guided Reading Activity 19-3

Capitalism and Free Enterprise

Reading Tip

As you read, keep yourself on task. Stop now and again and quickly review what you have just read. Then continue reading.

DIRECTIONS: Write an answer to each question below in the space provided.

1. **Defining** The American economy is based on both capitalism and free enterprise. What does this mean?

2. **Evaluating** If an entrepreneur's business fails, will the government help him or her recover the financial losses? Why or why not?

3. **Summarizing** What incentives does private property give people?

4. **Identifying** What is the result of competition between sellers?

5. **Summarizing** Who benefits when you buy something—you or the seller?

6. **Analyzing** Why is Adam Smith an important figure in the study of economics?

7. **Explaining** What is laissez-faire economics?

Guided Reading Activity 18-3

Being an Economically Smart Citizen



Reading Tip

Preview this section and try to write a summary after reading only the section heads and subheads. Then read the section. How correct is your summary? Rewrite your summary as necessary to improve it.

DIRECTIONS: Write an answer to each question below in the space provided.

1. **Explaining** Why is a market economy called a participatory economy?

2. **Identifying** What kind of economy does the United States have?

3. **Describing** What are incentives?

4. **Summarizing** How does the government reward and punish certain consumer behaviors?

5. **Recalling** What is the ultimate goal of being an economically literate citizen?

6. **Explaining** It is said that wise decision making not only benefits the individual, but society as a whole. Why is this so?

7. **Explaining** Do all rational consumers think alike? Why or why not?

