

Section 1: Guided Reading and Review

Answering the Three Economic Questions

A. As You Read

As you read Section 1, supply the missing information about economic systems in the spaces provided.

1. Three economic questions answered:

- (a) _____
- (b) _____
- (c) _____

2. Economic concept necessitating choices and priorities in any society:

3. Economic question answered by basic social values and goals:

4. Five basic economic goals guiding society's choice of systems:

- (a) _____
- (b) _____
- (c) _____
- (d) _____
- (e) _____

5. Four main kinds of economies:

- (a) _____ (c) _____
- (b) _____ (d) _____

B. Reviewing Key Terms

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

- 6. An economic system that relies on habit, custom, or ritual to decide questions of production and consumption of goods and services is a _____.
- 7. An encyclopedia entry illustrating how a hunter-gatherer group collects and shares food resources is describing that society's _____.
- 8. When voluntary exchanges in the markets determine decisions on production and consumption, the society's economic system is a _____.
- 9. When people earn income for supplying land, labor, capital, or entrepreneurship, they receive _____.
- 10. An economic system in which the central government makes all decisions on production and consumption of goods and services is a _____.
- 11. People who receive disaster relief from the government after a flood are benefiting from an economic system that provides a _____.

Section 2: Guided Reading and Review

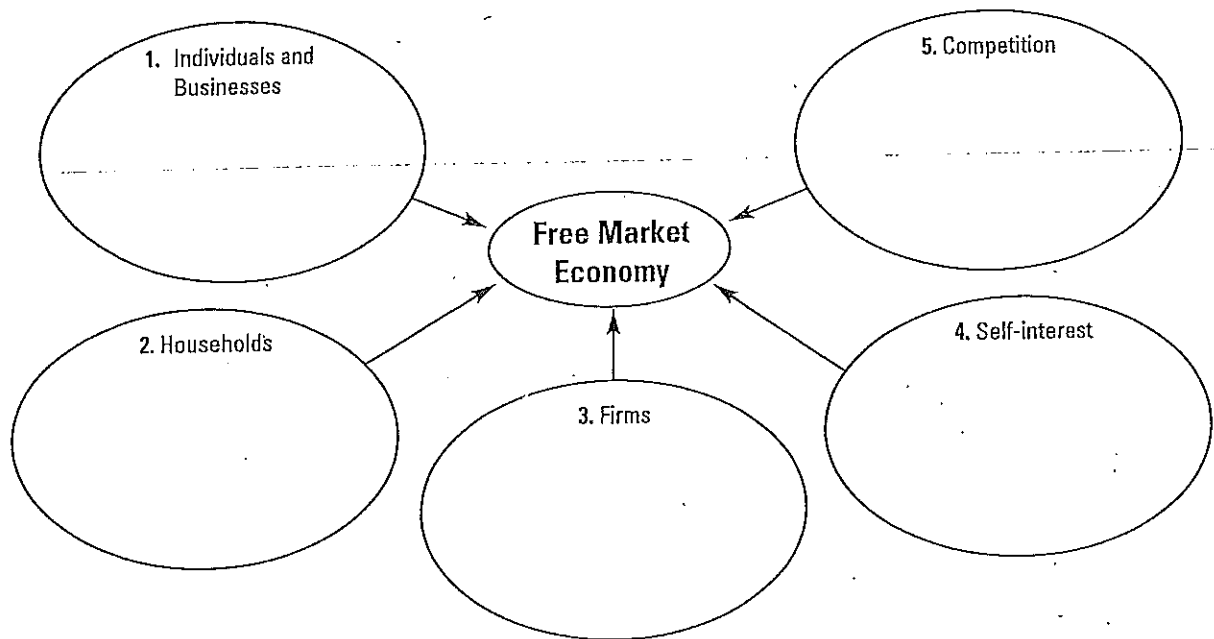
The Free Market



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



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.

Column I

- ___ 6. market in which households purchase the goods and services that firms produce
- ___ 7. an expectation that encourages people to behave in a certain way
- ___ 8. power of consumers to decide what gets produced
- ___ 9. market in which firms purchase the factors of production from households
- ___ 10. financial gain made in a transaction
- ___ 11. concentration of productive efforts of individuals and firms on a limited number of activities
- ___ 12. an arrangement that allows for exchange among buyers and sellers

Column II

- a. profit
- b. competition
- c. product market
- d. market
- e. incentive
- f. self-interest
- g. specialization
- h. factor market
- i. consumer sovereignty

B. Main Ideas

Write the letter of the correct answer in the blank provided.

- ___ 5. Why do people need to buy and sell products or services?
- People need to buy and sell products to make a profit.
 - We need to maintain a competitive society.
 - No one is self-sufficient.
 - People need to provide the market with goods and services.
- ___ 6. Who owns the factors of production? - 2 answers - Circle 2
- individuals
 - households
 - firms
 - the market
- ___ 7. How will consumers react to the incentive of a higher price on a good or service?
- The negative incentive will cause consumers to purchase less of the good or service if it is of lower quality.
 - The positive incentive will cause consumers to purchase less of the good or service if it is of lower quality.
 - The negative incentive will cause consumers to purchase less of the good or service if it is of higher quality.
 - The positive incentive will cause consumers to purchase less of the good or service if it is of higher quality.
- ___ 8. What "invisible hand" regulates the free market economy?
- incentives and efficiency
 - specialization
 - competition between firms
 - competition and self-interest
- ___ 9. Why are free market economies able to attain economic growth? Circle 2
- Consumers can purchase all the goods they need, which causes firms to produce more.
 - Competition encourages innovation, which causes growth.
 - Everyone is acting in their own self-interest, which motivates market growth.
 - Firms keep producing more incentives to encourage households to purchase more goods.
- ___ 10. Which of the following is NOT an advantage of a free market economy?
- economic efficiency
 - economic freedom
 - economic equity
 - economic growth