

#### Section 1: Guided Reading and Review

## Gross Domestic Product

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As You Read		
you read Section 1, answer the following questions ab	out gross domestic product.	
What is the gross domestic product?		•
How is the expenditure approach used to calculate it	<u>}</u>	
How is the income approach used to calculate it?		
What is the difference between nominal GDP and rea	al GDP?	
scribe four limitations of using GDP to measure econo	mic growth:	1. 3.1
		·····
How is the gross national product derived from the g		
How is GDP related to aggregate supply and aggrega		
Reviewing Key Terms		
atch the descriptions in Column I with the terms in Co swer in the blank provided. You will not use all the term		he correc
turan I	Colt	mm II
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- 11. a system that collects macroeconomic statistics on production, income, investment, and savings
  - \_ 12. goods used in the production of final goods
- \_\_ 13. GDP measured in current prices
- \_\_\_ 14. goods that last a short period of time
- \_ 15. GDP expressed in constant, or unchanging, prices
- \_\_ 16. goods that last for a relatively long time
- \_ 17. loss of the value of capital equipment that results from normal
- 18. the total amount of goods and services in the economy available at all possible price levels
- \_\_\_\_\_ 19. the average of all prices in the economy
- 20. the annual income earned by U.S.-owned firms and U.S. residents
- 21. the dollar value of all final goods and services produced within a country's borders in a given year

- a. real GDP
- b. nominal GDP
- c. aggregate supply
- d. nondurable goods
- e. price level
- f. intermediate goods
- g. depreciation
- h. national income accounting
- i. gross domestic product
- i. durable goods
- k. gross national product
- 1. aggregate demand

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Section 1: Quiz

## Gross Domestic Product



#### A. 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.

Colun	nn I	Column II
<del>_</del>	1. a system that collects macroeconomic statistics on production, income, investment, and savings	a. gross domestic product (GDP)
	2. the dollar value of all final goods and services produced within a country's borders in a given year	<ul><li>b. depreciation</li><li>c. price level</li><li>d. durable goods</li></ul>
	3. consumer goods that last for a long time	e. national income
	4. loss of the value of capital equipment that results from normal wear and tear	accounting
	5. the average of all prices in the economy	
	in Ideas the letter of the correct answer in the blank provided.	
	<ul> <li>6. What are intermediate goods?</li> <li>a. goods that are not sold or exchanged in an economy</li> <li>b. goods used in the production of other goods</li> <li>c. goods that were sold in earlier years</li> <li>d. goods that are produced outside the country</li> </ul>	
<del></del>	<ul> <li>7. How does an economist calculate GDP for one year using the expenditure approach?</li> <li>a. add together all the amounts spent on final goods and services</li> <li>b. add up all the incomes received</li> <li>c. add the amounts spent on goods and services to the incomes received</li> <li>d. subtract the amounts received as income from the goods and services</li> </ul>	
	<ul> <li>8. What is the underground economy?</li> <li>a. the amount spent for environmental cleanup and similar products</li> <li>b. the goods and services people make or do themselves</li> <li>c. the products and income that are not reported as income to the governmental documents.</li> <li>d. costs of such things as personal safety, vacations, and sick pay</li> </ul>	ent
	<ul> <li>9. Which of the following is a nondurable good?</li> <li>a. washing machine</li> <li>b. air conditioner</li> <li>c. bicycle</li> <li>d. gasoline</li> </ul>	
1	<ul> <li>0. What is the difference between real GDP and nominal GDP?</li> <li>a. Real GDP is accurate to hundreds of dollars; nominal GDP is accurate to sands of dollars.</li> <li>b. Real GDP includes nonmarket activities; nominal GDP has no nonmarket activities.</li> <li>c. Real GDP is based on constant prices; nominal GDP is based on the currences.</li> </ul>	

d. Real GDP allows for depreciation; nominal GDP allows for no depreciation.



### Section 2: Guided Reading and Review

## Business Cycles

#### A. As You Read

As you read Section 2, fill in each item in the following diagram.

		BUSINE	SS CYCLE			
	**				, M <sub>2</sub>	
Phas	es	Contributi	ing Factors		Cycle I	ndicators
1.		5			9	-
2		6	· ·		10	
3		7			11	· · · · · · · · · · · · · · · · · · ·
4		8				

В.	Revie	wina	Kev	Terms
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Define the following terms.

- 12. business cycle \_\_\_\_\_
- 13. expansion
- 14. economic growth
- 15. peak \_\_\_\_\_\_
- 16. contraction
- 17. trough
- 18. recession \_\_\_\_\_
- 21. leading indicators

## Section 2: Quiz

## Business Cycles



#### A. 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 1	Community of the control of the cont
1. a period of macroeconomic expansion followed by a period of contraction	<ul><li>a. peak</li><li>b. economic growth</li></ul>
2. a steady, long-term increase in real GDP	c. recession
3. the lowest point in an economic contraction	d. trough
4. the height of an economic expansion	e. business cycle
5. a prolonged economic contraction	•
B. Main Ideas  Write the letter of the correct answer in the blank provided.	
<ul> <li>6. What happens to consumer and business spending wh</li> <li>a. both types of spending increase</li> <li>b. both types of spending decrease</li> <li>c. consumer spending increases and business spending</li> <li>d. business spending increases and consumer spending</li> </ul>	decreases
<ul> <li>7. What are the leading economic indicators supposed to</li> <li>a. business cycles</li> <li>b. stagflation</li> <li>c. consumer expectations</li> <li>d. nonmarket activities</li> </ul>	predict?
<ul> <li>8. Which of the following finally brought the U.S. econo Depression?</li> <li>a. World War I</li> <li>b. World War II</li> <li>c. the Korean War</li> <li>d. the Vietnam War</li> </ul>	my out of the Great
9. Which of the following was a lasting effect of the OPI the U.S. economy?  a. higher gasoline prices  b. lower interest rates  c. reduced use of petroleum  d. reduced taxes	EC embargo in the 1970s on
<ul> <li>10. What was the major change in the U.S. economy in the a. more bank failures</li> <li>b. more capital equipment manufacturing</li> <li>c. higher impact of international trade</li> <li>d. heavier reliance on services</li> </ul>	e 1990s?



## 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 shortterm 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

## E (

Section 3: Quiz	
conomic Growth	

<b>A. Key Terms</b> Briefly define or identify each of the following.
1. real GDP per capita
2. saving
3. capital deepening
4. technological progress
B. Main Ideas  Write the letter of the correct answer in the blank provided.
<ul> <li>5. How does an economist compare the standard of living in two different countries?</li> <li>a. by comparing real GDP per capita</li> <li>b. by looking at the quality of life</li> <li>c. by seeing how the GDP is distributed</li> <li>d. by measuring physical capital</li> </ul>
<ul> <li>6. What is the savings rate?</li> <li>a. proportion of disposable income spent to income saved</li> <li>b. percentage of people who save a significant amount of their income</li> <li>c. rate of interest paid on bank account savings</li> <li>d. difference between rate charged to borrow and rate paid on savings</li> </ul>
<ul> <li>7. If the government uses tax money to pay for long-term investments such as roads or other infrastructure, what happens to the economy?</li> <li>a. investment decreases</li> <li>b. investment increases</li> <li>c. taxes increase</li> <li>d. taxes decrease</li> </ul>
<ul> <li>8. What is one way to measure technological progress?</li> <li>a. any increases in capital minus increases in labor</li> <li>b. any increases in labor minus increases in capital</li> <li>c. total growth plus increases in capital and labor</li> <li>d. total growth minus increases in capital and labor</li> </ul>
<ul> <li>9. What is labor productivity?</li> <li>a. the total number of workers in an economy</li> <li>b. the amount of output produced per worker</li> <li>c. the total amount of work produced in an economy</li> <li>d. the average training per worker</li> </ul>
<ul> <li>10. How can a trade deficit actually increase the productivity of an economy?</li> <li>a. by causing people to save</li> <li>b. by building up a large amount owed</li> <li>c. by importing funds used for capital deepening</li> <li>d. by importing goods for short-term use</li> </ul>

# Critical Thinking Predicting Consequences

Economists, as well as businesses, can use per capita GDP and GNP to make predictions about what consumers will and can afford to spend. Examine the following table, and then answer the questions that follow.

Selected Per Capita GDP, GNP, Income, and Expenditures, 1993–1997 (Figures in Fixed 1992 Dollars)					
	Gross Domestic Product (GDP)	Gross National Product (GNP)	Disposable Personal Income	Personal Consumption Expenditures	
1993	24,750	24,822	18,221	16,825	
1994	25,357	25,389	18,431	17,207	
1995	25,616	25,642	18,861	17,460	
1996	26,088	26,101	19,116	17,750	
1997	26,835	26,781	19,493	18,170	

Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts of the United States, 1929–94, Vol. 2; and Survey of Current Business, August 1997 and May 1998.

	h did the per capi				
Look for rela	tionships within t	he data.			
(a) What hap	pened to personal	-	ependitures bet		1997?
	the relationship l				between 19
				-	

# CHAPTER 12

## Vocabulary Practice



Complete each sentence below and use the answer to help you identify the bracketed letter in the corresponding numbered item. When you have finished, use the words formed vertically by the bracketed letters to help you identify the key term for an important measure in the National Income and Product Accounts. Briefly define the key term.

1.	— — — —	[]	
2.	-		
3.	·	_[_]	
4.		_[_]	
5.			
6.		_[_]	
7.	<u> </u>	_[	
8.	<u> </u>	_ []	
9.	· _	_[_]	
10.	·	[]	
11.		_ []	
12.		_ []	we.
13.	· . ————		**
14.			•

- 1. GDP that is measured in unchanging prices is called
- 2. The average of all prices in the economy is the \_\_\_\_\_.
- The economy enters a period of \_\_\_\_\_, an economic decline marked by falling real GDP, after real GDP stops rising.
- 4. A prolonged economic contraction is called a \_\_\_\_\_.
- 5. Aggregate \_\_\_\_\_ is the total goods and services in the economy available at all possible price levels.

- 6. Light bulbs and food that lasts only a short time are \_\_\_\_ goods.
- 7. The lowest point in an economic contraction is called a
- 8. \_\_\_\_ growth is a steady, long-term increase in real GDP.
- GNP does not account for \_\_\_\_\_, the loss of the value of capital equipment that results from normal wear and tear.
- 10. A recession that is especially long and severe is called a

- 11. \_\_\_\_\_ deepening is one of the most important sources of growth in modern economies.
- 12. A period of macroeconomic expansion followed by a period of contraction completes a \_\_\_\_\_ cycle.
- 13. \_\_\_\_ progress is an increase in efficiency from production of more output without using more inputs.

## Unemployment



#### 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.

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

8.	Reviewing	Kev	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 1: Quiz

## Unemployment

#### A. Key Terms

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

Column		Column II
1	when a period of steady work is followed by a period of unemployment each year	a. seasonal unemployment
2	when unemployment rises during economic downturns and falls when the economy improves	b. cyclical unemployment
3	. when people change jobs or get laid off	c. frictional unemployment
4	when the skills of workers do not match the jobs that are available	d. structural
8. Main	Ideas	unemployment
Write the	letter of the correct answer in the blank provided.	
5.	How can changes in technology or consumer demand make it difficult for peget jobs?  a. by making it difficult for people to buy what they want  b. by changing the number or kind of jobs available  c. by creating a demand for things that are not available  d. by making it possible for some people to work fewer hours	ople to
6.	What does the unemployment rate represent?  a. the total number of people who are not employed  b. the total number of people who are unable to find work  c. the percentage of the total population that is not employed  d. the percentage of the total work force that is unemployed	e e
7.	What does "full employment" mean?  a. There is no cyclical unemployment.  b. Every person who wants to work has a job.  c. Approximately 80 percent of people have jobs.  d. Those who want to work have full-time jobs.	
8.	What can happen to the economy when the level of unemployment is very low a. It can make it difficult for some to find jobs. b. It can create a booming economy. c. It can cause wages and prices to rise. d. It does not have a predictable effect.	w?
9.	Why don't government planners try to end seasonal unemployment?  a. It would eliminate too many jobs.  b. Many people do not want to work all year.  c. It would be too expensive.  d. It is a natural part of a healthy economy.	
	What is the term for a situation in which a person is overqualified for the job or she has?  a. partial employment  c. low-skilled work	he

d. discouraged worker

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b. underemployment

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ction 2: Guided Reading and Review Inflation	

	ou Read read Section 2, answer the following question	18.
. Wh	at would you use to see how prices have cha	nged over time?
2. Wh	nat does the example of the Barrow's house in years show?	acreasing from \$12,000 to \$150,000 over
 В. Но	ow is the Consumer Price Index (CPI) used?	
— 4. Но	ow does the Bureau of Labor Statistics determ	nine the CPI?
 5. Wl	hat data must you have to calculate the inflat	tion rate for a specific year?
 5. Wl	hat happens when hyperinflation occurs over	an extended period of time?
	oe three theories of the causes of inflation.	
α.		
Iow d	loes inflation affect each of the following?	
0. pu	irchasing power	
1. fiz 2. sa	xed income	
Define	viewing Key Terms e the following terms.	
	nflation rate	
14. de	eflation	No.
15. C	Consumer Price Index	
16. ir	nflation	
17. w	vage-price spiral	
18. p	rice index	

## Section 2: Quiz

## infation

#### A. 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	Column II
1. a general increase in prices	a. price index
2. income that does not increase even when prices go up	b. wage-price spiral
3. a sustained drop in the prices of goods	c. fixed income
4. a measurement that shows how the average cost of goods or service changes over time	es d. inflation e. deflation
5. rising wages causing higher prices which cause higher wages	•
B. Main Ideas  Write the letter of the correct answer in the blank provided.	
6. What is the Consumer Price Index?  a. a measure of prices of housing and rental costs all over the countrib. an index of prices of items used by manufacturers and retailers  c. an index determined by measuring the price of standard goods be consumers  d. an index of the cost of living for all U.S. consumers	
<ul> <li>7. What is considered one cause of inflation?</li> <li>a. Demand and supply are in equilibrium.</li> <li>b. Producers raise prices to meet increased costs.</li> <li>c. Employment is increased.</li> <li>d. Productivity is restricted in some manner.</li> </ul>	
<ul> <li>8. Which theory says that inflation occurs when the demand for goods existing supply?</li> <li>a. quantity theory</li> <li>b. cost-push theory</li> <li>c. supply-and-demand theory</li> <li>d. demand-pull theory</li> </ul>	s exceeds the
<ul> <li>9. What typically happens to the inflation rate when unemployment falevels?</li> <li>a. It rises.</li> <li>b. It falls.</li> <li>c. It stays the same.</li> <li>d. It will rise or fall but not with the unemployment rate.</li> </ul>	ills to very low
<ul> <li>10. If a person has money invested at 9 percent and the rate of inflation how much return are they actually making on their investment?</li> <li>a. 14 percent</li> <li>b. 9 percent</li> <li>c. 4 percent</li> <li>d. 1 percent</li> </ul>	n is 5 percent,

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### Section 3: Guided Reading and Review Povertw



CHAPTER

#### 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 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

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- economy.
- 10. The program that requires work in exchange for assistance is called \_\_\_\_\_\_.
- 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

## Poverty

<b>A. Key Te</b> l Briefly defi	rms ine or identify each of the following.
1. poverty	threshold
2. poverty	rate
3. workfar	e
ra 8.8 _ * II.	da a a
B. Main In Write the I	etter of the correct answer in the blank provided.
4.	How does the U.S. Census Bureau define a family?  a. two or more people related by birth who live in the same housing unit  b. all people who live in a housing unit regardless of relationship  c. a father, mother, and children regardless of where they live  d. a father, mother, and children living in the same housing unit
5.	Approximately how much total income does a family of four need to have to be considered above the poverty line?  a. \$11,275  b. \$14,500  c. \$16,530 d. \$20,000
	What age group in the United States has the largest percentage of its members living in poverty?  a. children  b. young adults  c. the middle aged  d. the elderly
7.	Which of the following is among the root causes of poverty in the United States?  a. disabilities  b. underemployment  c. size of family  d. lack of education
8.	How long can a family collect aid from the Temporary Assistance for Needy Families program?  a. as long as necessary  b. a maximum of two years c. a maximum of five years d. a maximum of ten years
9.	What does the Lorenz Curve illustrate about the economy?  a. the kinds of jobs  b. the distribution of income  c. the causes of poverty  d. the types of families
10.	Who are the "working poor?"  a. those who cannot work because they have small children  b. those who have jobs but do not earn enough  c. those who suffer from chronic health problems  d. those who cannot work because they are disabled

# CHAPTER 13

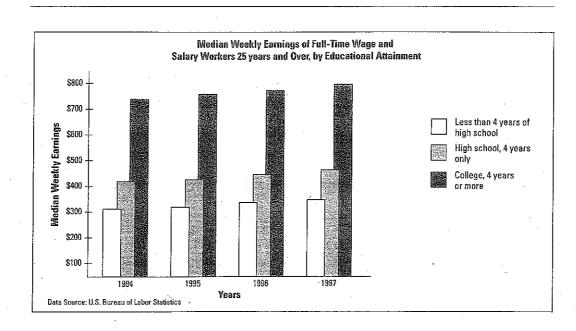
## Graphs and Charts Analyzing Bar Graphs



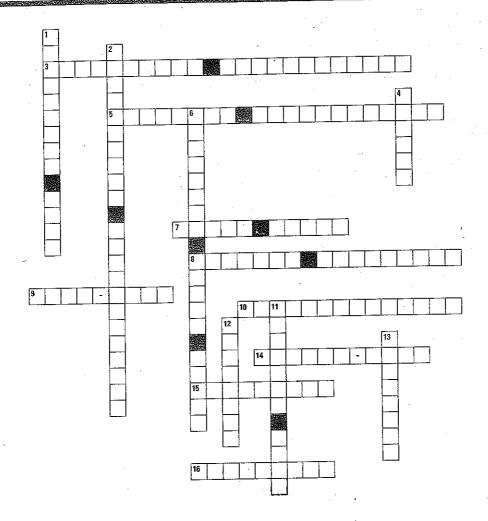
Cindy's economics class has been discussing the importance of education in determining a person's weekly earnings. She noticed that median weekly earnings appeared to be directly related to educational attainment. Cindy prepared a bar graph depicting data for four years that shows the relationship between median weekly earnings and educational attainment. Follow the steps below to analyze the information Cindy illustrated.

1. Identify the kind of information presented in	the graph. (a)	What part	of the illustration
identifies the kind of information depicted?			

- (b) What categories of educational attainment are shown on the graph?
- (c) In 1995, which group had the lowest median weekly earnings?
- 2. Look for relationships among the data. (a) Which of the groups received the smallest increase in earnings over the four-year period?
  - (b) How would you describe the change in median weekly earnings from 1994 to 1995 for people with less than four years of high school?
  - (c) In 1997, which was greater, the difference between the median weekly earnings of someone with four years or more of college and someone with four years of high school, or between someone with four years of high school and someone with less than four years of high school?
- 3. Use the graph to draw conclusions. Over the period of time shown in the bar graph, median weekly earnings for each of these groups remained relatively stable.
  - (a) What general observations can you draw about the economy based on this information?
  - (b) Consider the differences in median weekly earnings over the four-year period. Do you believe that the differences in earnings relative to educational attainment are increasing or decreasing? Why? \_\_\_\_\_



## Vocabulary Practice



Use the following clues to complete the crossword puzzle.

#### Across

- 3. the condition that occurs when people take time off from working
- 5. What rises during economic downturns, but falls when the economy improves?
- 7. a measurement that shows how the average cost of a standard group of goods changes over time
- 8. the income level below which income is insufficient to support a family or household
- 9. theory that increasing costs for wages and raw materials causes inflation
- 10. inflation that is out of control
- 14. theory that too great a demand for goods and services causes inflation
- 15. a sustained drop in the price level
- 16. a general increase in prices

#### Down

- 1. the percentage of change in prices over time
- 2. the condition that occurs when the skills that workers have do not match the jobs that are available
- 4. an official count of the population
- 6. an index that is determined by measuring the price of a standard group of goods meant to represent the "market basket" of a typical urban consumer
- 11. the percentage of people in a particular group who by official standards live in poverty
- 12. a program requiring work in exchange for temporary assistance
- 13. theory that too much money in the economy causes inflation