

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.

Statement**Explanation**

1. People must make choices to satisfy their needs and wants.
2. Scarcity always exists.
3. Physical capital is an important factor of production.
4. All goods and services are scarce.
5. Entrepreneurs are important to the production of goods and services.

1. _____
2. _____
3. _____
4. _____
5. _____

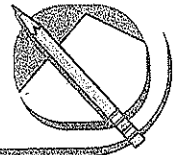
B. Reviewing Key Terms

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 _____.

Section 1: Quiz

Scarcity and the Factors of Production

**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

- _____ 1. a situation that occurs when a producer cannot offer a particular good or service at the current price
- _____ 2. the effort that a person devotes to a task, for which the person is paid
- _____ 3. physical objects such as baseballs or umbrellas
- _____ 4. the study of how people make decisions to satisfy their needs and wants

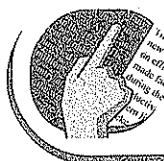
Column II

- a. goods
- b. economics
- c. shortage
- d. labor

B. Main Ideas

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

- _____ 5. Which of the following are factors of production?
 - a. capital and land
 - b. scarcity and shortages
 - c. technology and productivity
 - d. economics and business decisions
- _____ 6. Which of the following is an example of using physical capital to save time and money?
 - a. hiring more workers to do a job
 - b. building extra space in a factory to simplify production
 - c. switching from oil to coal to make production cheaper
 - d. lowering workers' wages to increase profits
- _____ 7. To what part of an industry does a worker's education contribute?
 - a. technology
 - b. physical capital
 - c. human capital
 - d. scarce resources
- _____ 8. Which of the following is an entrepreneur?
 - a. a person who earns a lot of money as a singer or dancer
 - b. a person who creates a game and sells it to a game manufacturer
 - c. a person who starts an all-organic cleaning supplies business that employs others
 - d. a person who works as a highly paid computer programmer
- _____ 9. What is the difference between a shortage and scarcity?
 - a. A shortage can be temporary or long-term, but scarcity always exists.
 - b. A shortage results from rising prices; scarcity results from falling prices.
 - c. A shortage is a lack of all goods and services; scarcity concerns a single item.
 - d. There is no real difference between a shortage and scarcity.
- _____ 10. What does an economist mean by the term *land*?
 - a. farmland only
 - b. food crops grown on farmland as well as the farmland itself
 - c. goods and services that are produced from the land
 - d. all natural resources used to produce goods and services



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

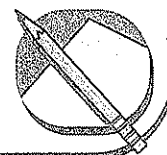
Answer each of the following questions.

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 2: Quiz
Opportunity Cost**A. Key Terms**

Use each of the following terms in a sentence that suggests its meaning.

1. trade-off _____
2. opportunity cost _____
3. thinking at the margin _____

B. Main Ideas

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

- _____ 4. The economic concept of *guns or butter* means that
 - a. a person can spend extra money either on sports equipment or food.
 - b. a company must decide whether to manufacture guns or butter.
 - c. a government must decide whether to produce more or less military or consumer goods.
 - d. a government can buy unlimited military and civilian goods if it is rich enough.
- _____ 5. If a person who wants to buy a compact disc (CD) has just enough money to buy one, and chooses CD A instead of CD B, then CD B is the
 - a. trade-off.
 - b. opportunity cost.
 - c. decision at the margin.
 - d. opportunity at the margin.
- _____ 6. A decision-making grid is a visual way of
 - a. examining opportunity costs.
 - b. selling goods or services.
 - c. making marginal decisions.
 - d. identifying shortages.
- _____ 7. Making a decision at the margin is possible only in situations where
 - a. the available opportunity costs are unclear or complicated.
 - b. the available alternatives can be divided into increments.
 - c. there are more than three different types of alternatives to consider.
 - d. there are differences in the amount of time each alternative will consume.
- _____ 8. Every decision involves trade-offs because
 - a. everyone has to make decisions.
 - b. everyone's resources are limited.
 - c. some people have more money than others.
 - d. some decisions are made for business, others for society.
- _____ 9. All of the following are trade-offs for a student who spends a semester abroad EXCEPT
 - a. eating all of their favorite foods.
 - b. seeing friends from home daily.
 - c. experiencing the culture of another country.
 - d. missing family activities at home.
- _____ 10. A decision is made at the margin when each alternative considers
 - a. a different trade-off than the others.
 - b. where the most costly alternative will be.
 - c. what the "all or nothing" alternative will be.
 - d. cost and benefit ranked in progressive units.



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

1. Categories or specific goods or services to be compared

2. Range of choices in the combination of goods or services produced

3. Production possibilities frontier

4. An economy working at its most efficient production levels

5. An economy working below its most efficient production levels

6. Future production possibilities frontier if more land, labor, or capital resources become available

B. Reviewing Key Terms

Define the following terms.

7. production possibilities curve _____

8. production possibilities frontier _____

9. efficiency _____

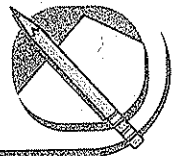
10. underutilization _____

11. cost _____

12. law of increasing costs _____

Section 3: Quiz

Production Possibilities Curves

**A. Key Terms**

Briefly define or identify each of the following.

1. underutilization _____
2. efficiency _____
3. law of increasing costs _____

B. Main Ideas

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

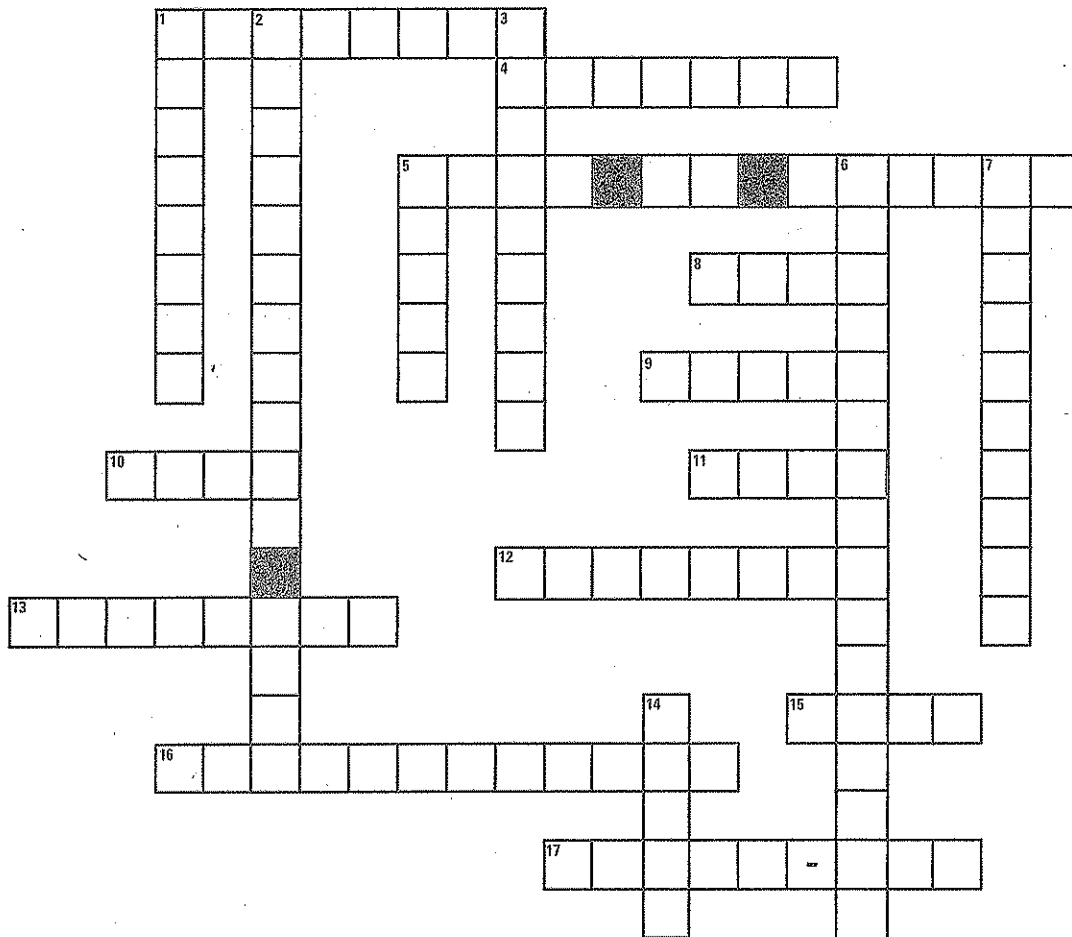
- _____ 4. A production possibilities curve shows the relationship between the production of
 - a. farm goods and factory goods.
 - b. two types of farm goods.
 - c. two types of factory goods.
 - d. any two categories of goods.
- _____ 5. The line on a production possibilities curve showing the relative amounts of two types of goods produced using all resources is called the
 - a. production possibilities frontier.
 - b. opportunity cost line.
 - c. utilization of resources.
 - d. maximum possible production line.
- _____ 6. Increasing the number of laborers in an economy generally causes a(n)
 - a. increase in the production possibilities curve.
 - b. decrease in the production possibilities curve.
 - c. increase in the opportunity cost of production.
 - d. decrease in the opportunity cost of production.
- _____ 7. The law of increasing costs means that as production shifts from one item to another,
 - a. the cost of production gets cheaper and cheaper.
 - b. the cost of producing an item stays the same no matter how many are produced.
 - c. more and more resources are necessary to increase production of the second item.
 - d. the land costs of increasing production rise much more steeply than do the labor costs.
- _____ 8. An economy that is NOT using all its resources to gain the maximum possible production is

a. efficient.	c. growing.
b. underutilized.	d. trading off.
- _____ 9. The curve usually seen in a production possibilities frontier can be explained by
 - a. growth in the economy.
 - b. underutilization of resources.
 - c. increasing an economy's efficiency.
 - d. the law of increasing costs.
- _____ 10. An economy that is producing the maximum amount of goods and services is considered

a. efficient.	c. growing.
b. underutilized.	d. trading off.

Vocabulary Practice

VOCABULARY



Use the following clues to complete the crossword puzzle.

Across

1. unavailability of a good or service in a given situation
4. any human-made resource used to create other goods or services
5. government choice between making military goods or consumer goods
8. something necessary for survival
9. work for which a person is paid
10. item that is desirable but not necessary for survival
11. alternative sacrificed because of an economic decision
12. kind of capital involving human-made goods
13. activities one person performs for another
15. all natural resources used in production
16. brings together people and resources to create and market new goods and services
17. an alternative sacrificed when making a decision

Down

1. limited resources for meeting unlimited wants and desires
2. most desirable option given up in a decision
3. study of how people make choices to gain necessities and desires
5. physical items such as shoes and cars
6. using fewer resources than an economy is capable of using
7. use of resources that maximizes the output of products
14. kind of capital involving skills and knowledge gained by a worker

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) _____

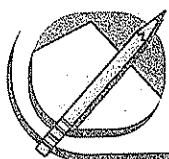
5. Four main kinds of economies:

- (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 1: Quiz

Answering the Three Economic Questions

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

- _____ 1. a system to protect people experiencing unfavorable economic conditions
- _____ 2. an economy in which economic decisions are based on exchange, or trade
- _____ 3. the income people receive for supplying factors of production
- _____ 4. an economy that relies on habit, custom, or ritual to answer economic questions
- _____ 5. the method used by a society to produce and distribute goods and services

Column II

- a. economic system
- b. factor payments
- c. safety net
- d. traditional economy
- e. market economy

B. Main Ideas

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

- _____ 6. Each society determines who will consume what is produced based on
 - a. its unique combination of social values and goals.
 - b. the amount of factor payments.
 - c. its needs and wants.
 - d. economic equity.
- _____ 7. To improve its standard of living, a nation's economy must
 - a. remain stable.
 - b. grow through innovation.
 - c. reach economic equity.
 - d. allow the central government to make economic decisions.
- _____ 8. Traditional economies are usually
 - a. small, close communities that welcome change and new technology.
 - b. large, widespread communities that welcome change and new technology.
 - c. large, widespread communities that are able to deal effectively with environmental disaster.
 - d. small, close communities that avoid change and new technology.
- _____ 9. An economy in which only the government makes economic decisions is a
 - a. mixed economy.
 - b. traditional economy.
 - c. centrally planned economy.
 - d. market economy.
- _____ 10. Pure market economies always
 - a. allow the central government to make economic decisions.
 - b. make fair or efficient decisions or allow for growth.
 - c. base economic decisions on exchange, or trade.
 - d. divide work along gender lines.

Section 2: Guided Reading and Review

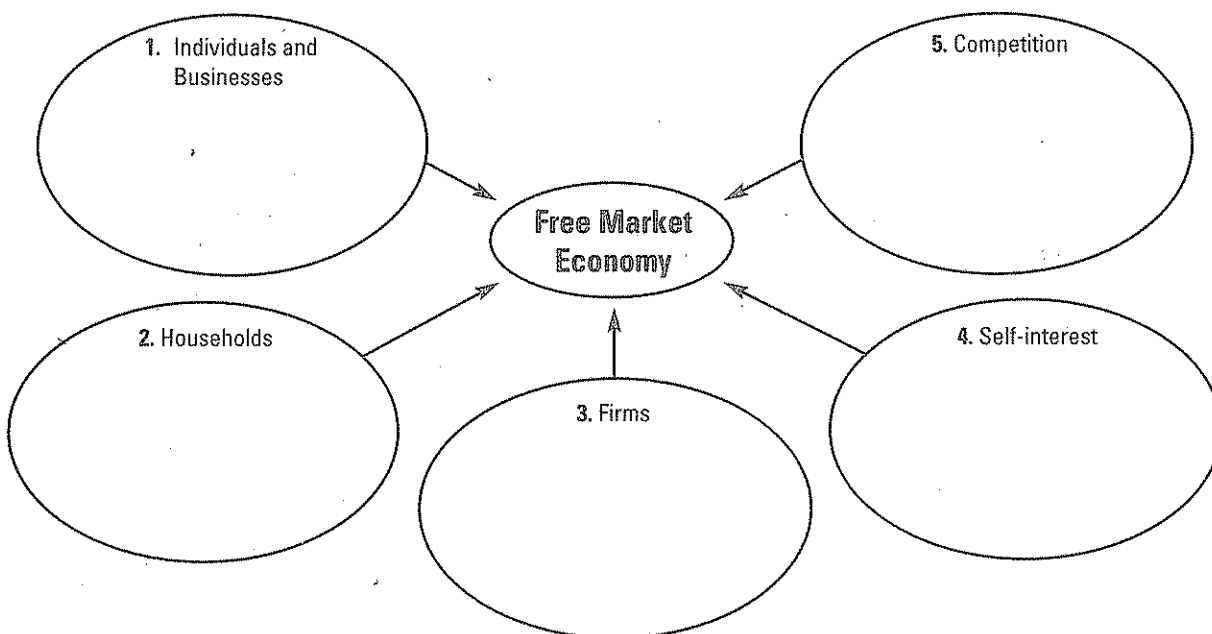
The Free Market



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

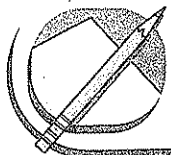
Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided. You will not use all of the terms.

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



Section 2: Quiz

The Free Market**A. Key Terms**

Briefly define or identify each of the following.

1. market _____
2. self-interest _____
3. incentive _____
4. consumer sovereignty _____

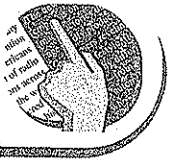
B. Main Ideas

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

- _____ 5. Why do people need to buy and sell products or services?
 - a. People need to buy and sell products to make a profit.
 - b. We need to maintain a competitive society.
 - c. No one is self-sufficient.
 - d. People need to provide the market with goods and services.
- _____ 6. Who owns the factors of production?
 - a. individuals
 - b. households
 - c. firms
 - d. the market
- _____ 7. How will consumers react to the incentive of a higher price on a good or service?
 - a. The negative incentive will cause consumers to purchase less of the good or service if it is of lower quality.
 - b. The positive incentive will cause consumers to purchase less of the good or service if it is of lower quality.
 - c. The negative incentive will cause consumers to purchase less of the good or service if it is of higher quality.
 - d. 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?
 - a. incentives and efficiency
 - b. specialization
 - c. competition between firms
 - d. competition and self-interest
- _____ 9. Why are free market economies able to attain economic growth?
 - a. Consumers can purchase all the goods they need, which causes firms to produce more.
 - b. Competition encourages innovation, which causes growth.
 - c. Everyone is acting in their own self-interest, which motivates market growth.
 - d. 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?
 - a. economic efficiency
 - b. economic freedom
 - c. economic equity
 - d. economic growth

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.

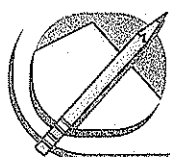
6. socialism _____

7. communism _____

8. authoritarian _____

9. collective _____

10. heavy industry _____



Section 3: Quiz

Centrally Planned Economies

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

- _____ 1. requiring strict obedience to an authority, such as a dictator
- _____ 2. a political system characterized by a centrally planned economy with all economic and political power resting in the hands of the central government
- _____ 3. a large Soviet farm leased by the state to groups of peasant farmers
- _____ 4. a social and political philosophy based on the belief that democratic means should be used to evenly distribute wealth throughout a society
- _____ 5. requires a large capital investment and produces items used by others

Column II

- a. communism
- b. authoritarian
- c. socialism
- d. heavy industry
- e. collective

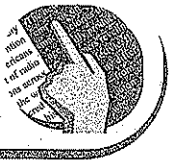
B. Main Ideas

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

- _____ 6. Why might a socialist society have a less rigid command economy than a communist society?
 - a. In a socialist society, various political systems may be combined with public control of the economy.
 - b. In a socialist society, all economic and political power rests in the hands of the central government.
 - c. In a socialist society, an authoritarian government controls the economy.
 - d. In a socialist society, the centers of economic power are under private control.
- _____ 7. Who decided what the farmers would produce on Soviet collectives?
 - a. the farmers
 - b. the military
 - c. the government
 - d. the consumers
- _____ 8. How did collectives in the Soviet Union avoid the competition that drives a free market economy?
 - a. There were no incentives for competition because the government determined prices, wages, and products.
 - b. The farmers were not able to sell their own products.
 - c. Heavy industry was not a direct competitor.
 - d. It was illegal to buy products from a competitor.
- _____ 9. Why might Soviet economic planners have favored heavy industry over the makers of consumer goods?
 - a. The products of heavy industry brought in more money.
 - b. There were more people trained to work in heavy industry.
 - c. Consumer goods are not good economic investments.
 - d. The products of heavy industry provide material for many other industries.
- _____ 10. Which of the following is NOT a disadvantage of a centrally planned economy?
 - a. It usually cannot meet consumers' needs and wants.
 - b. It tries to meet explicitly stated goals.
 - c. It does not reward innovation.
 - d. It sacrifices individual freedoms.

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. What country is one of the world's freest markets? _____

6. Why is it one of the freest? _____

B. Reviewing Key Terms

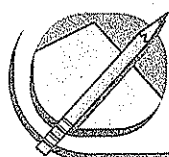
Answer each of the following questions.

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 4: Quiz

Modern Economies

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

- _____ 1. period of change in which an economy moves away from a centrally planned economy toward a market-based system
- _____ 2. an economic system that permits the conduct of business with minimal government intervention
- _____ 3. to sell to individuals state-run firms, which are then allowed to compete with one another in the marketplace
- _____ 4. the doctrine that government generally should not intervene in the marketplace
- _____ 5. a range with no clear divisions

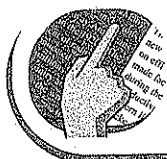
Column II

- a. laissez faire
- b. free enterprise
- c. continuum
- d. transition
- e. privatize

B. Main Ideas

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

- _____ 6. The United States economy is a mixed economy
 - a. based on the principles of the traditional economy, but allowing some government intervention.
 - b. based on the principles of the centrally planned economy, but limiting government intervention.
 - c. based on the principles of the free market, allowing no government intervention.
 - d. based on the principles of the free market, but allowing some government intervention.
- _____ 7. Government intervention in a modern economy is useful because
 - a. the needs and wants of modern society are always met by the marketplace.
 - b. the marketplace has many incentives to create public works such as parks and libraries.
 - c. governments are more able to meet some needs and wants of modern society in a way that ensures that all members of society can participate.
 - d. the marketplace provides all of its own laws.
- _____ 8. In most mixed economies, the government does NOT
 - a. purchase land, labor, and capital from households in the factor market.
 - b. own all the property and confiscate all economic output.
 - c. purchase goods and services in the product market.
 - d. redistribute wealth through taxes and other means.
- _____ 9. Sweden's social benefit programs
 - a. provide many health care and other advantages but involve a very high tax burden for the people.
 - b. provide many health care and other advantages at no cost to the people.
 - c. provide many health care and other advantages but cost the people three quarters of their base salary.
 - d. provide many advantages to businesses, making them highly profitable.
- _____ 10. The United States government intervenes to
 - a. provide competition for private firms.
 - b. impose barriers on foreign trade.
 - c. keep order, provide vital services, and promote the general welfare.
 - d. restrict the banking industry.



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. _____

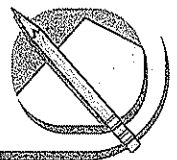
B. Reviewing Key Terms

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 1: Quiz

Benefits of Free Enterprise



A. Key Terms

Use each of the following terms in a sentence that suggests its meaning.

1. interest group _____
2. public interest _____
3. public disclosure laws _____

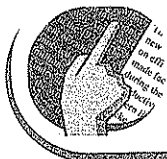
B. Main Ideas

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

- _____ 4. Why has America been referred to as "the land of opportunity"?
 - a. It provides anyone from any background the possibility of success through hard work.
 - b. It provides farmers with the ability to farm without levying taxes on the farmland.
 - c. It provides jobs for all citizens.
 - d. It provides paving surfaces made of gold.
- _____ 5. What basic principles are fundamental to American free enterprise?
 - a. state-owned property, contracts, voluntary exchange, self-interest, profit motive, and competition
 - b. economic freedom, private property, contracts, voluntary exchange, business interests, profit motive, and protection from competition
 - c. open opportunity, private property, contracts, voluntary exchange, profit motive, legal equality, and competition
 - d. economic freedom, private property, contracts, mandatory exchange, profit motive, legal equality, and competition
- _____ 6. In what two ways does the Bill of Rights protect and guarantee individuals' freedom to engage in business activities?
 - a. Recognizes property rights and limits on taxation.
 - b. Encourages legal equality and provides free contracts.
 - c. Denies the government the ability to regulate commerce.
 - d. Provides each industry with a competitive edge.
- _____ 7. Why do Americans want the government to intervene in their free enterprise economy?

a. to create more goods and services	c. to influence consumer choices
b. to provide more competition	d. to protect the public interest
- _____ 8. What is the purpose of free enterprise?

a. to allow businesses free rein	c. to keep government out of business
b. to give consumers freedom of choice	d. to influence economic policies
- _____ 9. How does information provided by the government influence consumer decisions?
 - a. Consumers prevent companies from selling products revealed to be dangerous.
 - b. Consumers do not buy products revealed to be dangerous.
 - c. Consumers use the information to test new products for themselves.
 - d. Consumers buy products regardless of government information.
- _____ 10. What is considered a negative effect of government regulations?
 - a. They cut into company profits.
 - b. They stifle competition.
 - c. They cause higher prices for consumers.
 - d. All of the above.



Section 2: Guided Reading and Review

Promoting Growth and Stability

CHAPTER 3

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 _____

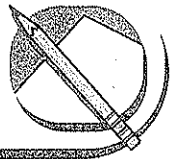
8. business cycle _____

9. gross domestic product _____

10. technology _____

Section 2: Quiz

Promoting Growth and Stability



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

- _____ 1. a period of macroeconomic expansion followed by a period of contraction
- _____ 2. the study of the economic behavior and decision making of small units, such as individuals, families, and businesses
- _____ 3. the process used to produce a good or service
- _____ 4. the study of the behavior and decision making of entire economies
- _____ 5. the total value of all final goods and services produced in a particular economy in a year

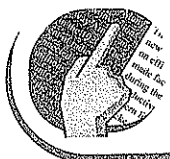
Column II

- a. macroeconomics
- b. microeconomics
- c. business cycle
- d. gross domestic product (GDP)
- e. technology

B. Main Ideas

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

- _____ 6. Business cycles occur in free enterprise systems because
 - a. the government creates public policy to create cycles.
 - b. the efficiency of workers is not the same from season to season, but fluctuates on a regular basis annually.
 - c. economic decisions about factors such as prices, production, and consumption are determined by the market.
 - d. the standard of living is very high.
- _____ 7. Policymakers pursue all of the following goals to stabilize the economy EXCEPT
 - a. stable productivity.
 - b. high employment.
 - c. stable prices.
 - d. steady growth.
- _____ 8. The federal government monitors and regulates American banks and other financial institutions
 - a. because the government is determined to protect its own money.
 - b. to keep greater control over the economy.
 - c. to shield money from the damaging effects of economic downturns.
 - d. to improve the standard of living.
- _____ 9. The government encourages an increased level of productivity by
 - a. maintaining steady price controls.
 - b. funding research and development projects at many levels.
 - c. hiring more workers to reduce unemployment.
 - d. regulating banks and other financial institutions.
- _____ 10. Improved technology helps create a higher standard of living for future generations by
 - a. preventing drastic shifts in general price levels.
 - b. reducing the number of unemployed workers.
 - c. creating specialized jobs for workers.
 - d. providing additional goods and services.



Section 3: Guided Reading and Review

Providing Public Goods

CHAPTER 3

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.

Column I

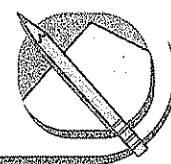
- _____ 7. shared good or service for which it would be impractical to make consumers pay individually and to exclude nonpayers
- _____ 8. situation in which the free market does not distribute resources efficiently
- _____ 9. part of the economy that involves the transactions of the government
- _____ 10. part of the economy involving transactions of individuals and businesses
- _____ 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
- _____ 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

Column II

- a. externality
- b. public sector
- c. market failure
- d. public good
- e. free rider
- f. private sector

Section 3: Quiz

Providing Public Goods



A. Key Terms

Briefly define or identify each of the following.

1. market failure _____
2. externality _____
3. free rider _____

B. Main Ideas

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

- ____ 4. Which of the following is NOT a reason for the government to provide a good or service as a public good?
 - a. The good or service should be made available to everyone.
 - b. Increasing the number of consumers would increase the cost to a private provider.
 - c. It would be inefficient to exclude nonpayers.
 - d. It would be impractical to make consumers pay individually.
- ____ 5. What part of the economy finances public goods?
 - a. public sector
 - b. private sector
 - c. free riders
 - d. consumers
- ____ 6. If a teacher decides to have her students volunteer at a community nursing home after school, which of the following would be a negative externality?
 - a. A student would enjoy himself and volunteer to spend more time with the residents.
 - b. A student would learn a new skill from a nursing home resident.
 - c. A student would be unable to work at her part-time job on that afternoon.
 - d. A student would feel good about herself.
- ____ 7. What is critical in determining whether something is produced as a public good?
 - a. whether the benefits to society are greater than the total cost
 - b. whether the market is willing to provide it
 - c. whether the government is willing to provide it
 - d. whether the benefits to society are equal to the total cost
- ____ 8. How do public goods limit a free market economy?
 - a. They allow consumers to make all of the economic decisions.
 - b. They allow government, and not consumers, to make some economic decisions.
 - c. They allow consumers to make only occasional economic decisions.
 - d. They do not allow consumers to make any economic decisions.
- ____ 9. Which of the following is NOT a reason that a suspension bridge is considered a public good?
 - a. The people who need it most cannot provide the money for its construction.
 - b. The government is able to provide the money for its construction.
 - c. Consumers acting in their own self-interest would not construct it.
 - d. Only a few people are going to benefit from its construction.
- ____ 10. What is government's role in controlling externalities in the American economy?
 - a. Government tries to encourage positive externalities and limit negative externalities.
 - b. Government tries to limit all externalities because they represent market failure.
 - c. Government tries to limit positive externalities and encourage negative externalities.
 - d. Government tries to encourage all externalities so that the market will be competitive.



Section 4: Guided Reading and Review

Providing a Safety Net

A. As You Read

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

Tax-Supported Safety Nets		
Program or Program Area	Form of Aid	Recipients
1. TANF		
2. Social Security		
3.		Workers who are laid off or lose their jobs
4. Worker's Compensation		
5.	Health insurance	
6. Education		

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. _____

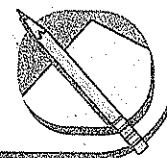
8. The government institutes *welfare* programs to improve transportation routes. _____

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 4: Quiz

Providing a Safety Net



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

- _____ 1. an income level below that which is needed to support a household
- _____ 2. direct payments of money to eligible poor people
- _____ 3. level of economic well-being
- _____ 4. goods and services provided for free or at greatly reduced prices
- _____ 5. government aid to the poor

Column II

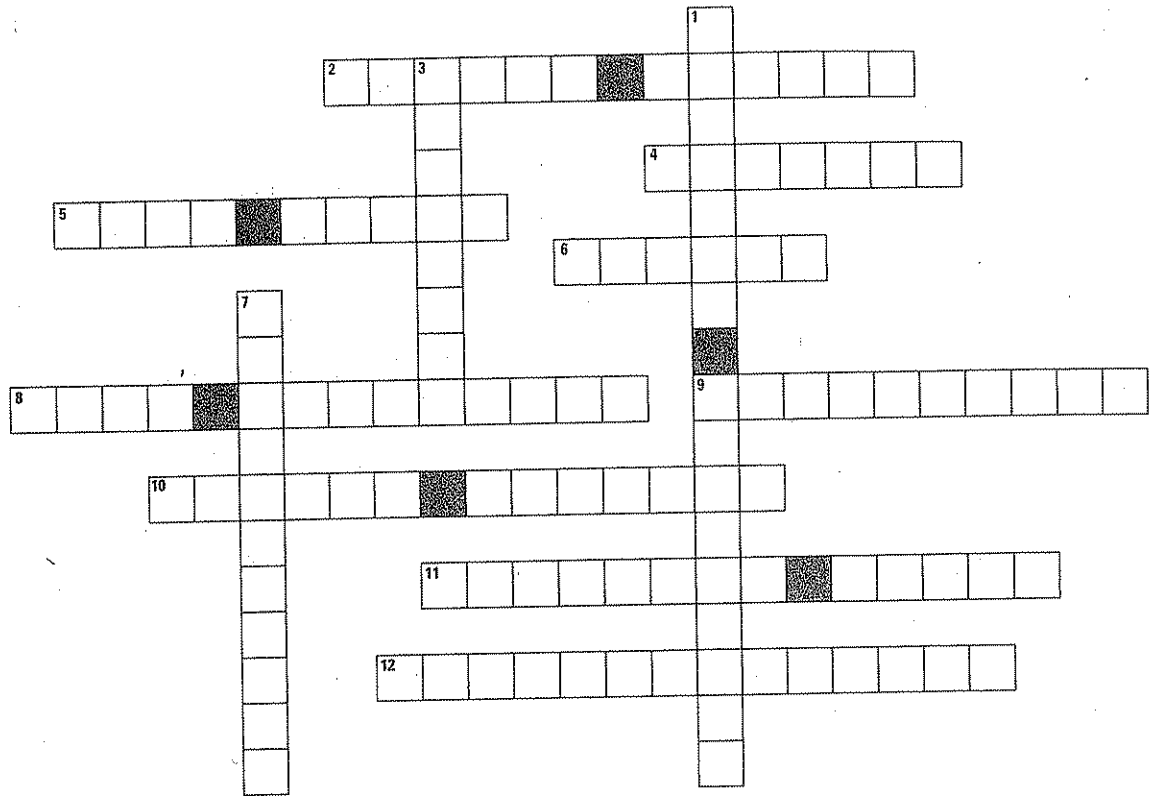
- a. standard of living
- b. welfare
- c. poverty threshold
- d. cash transfers
- e. in-kind benefits

B. Main Ideas

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

- _____ 6. Various federal, state, and local government programs help to raise people's standard of living because
 - a. people living in areas of poverty cannot afford to pay their taxes.
 - b. the standard of living is too low.
 - c. certain groups of people have fewer opportunities to be productive.
 - d. people expect to maintain that standard of living.
- _____ 7. The most common in-kind benefits are
 - a. coupons, food stamps, subsidized housing, and legal aid.
 - b. food giveaways, food stamps, subsidized housing, and legal aid.
 - c. food giveaways, food stamps, housing reimbursements, and legal aid.
 - d. food giveaways, food stamps, subsidized housing, and tuition reimbursements.
- _____ 8. All of the following programs provide direct cash transfers EXCEPT
 - a. Temporary Assistance for Needy Families (TANF).
 - b. Worker's Compensation.
 - c. Social Security.
 - d. Medicaid.
- _____ 9. Health insurance for the elderly, the poor, and the disabled is provided by
 - a. Medicare and Medicaid under the Social Security program.
 - b. Medicare and Medicaid under the unemployment insurance program.
 - c. Worker's Compensation and Medicaid under the Social Security program.
 - d. Medicare and Worker's Compensation under the unemployment insurance program.
- _____ 10. Education programs make the economy more productive by
 - a. adding to human capital and labor productivity.
 - b. reducing payments to unemployed people.
 - c. providing more jobs for educators.
 - d. reducing injuries on the job.

Vocabulary Practice



Use the following clues to complete the crossword puzzle.

Across

2. laws and standards on topics of public interest
4. economic and social programs for the needy
5. someone who reaps public benefits without choosing to pay
6. part of the economy involving transactions of individuals and businesses, or the private _____
8. direct payments of money to poor, disabled, and retired people
9. process used to produce a good or service
10. situation in which the market does not distribute resources efficiently
11. an entire period of economic growth followed by slowing or decline
12. study of the behavior of entire economies

Down

1. an income level below that which is needed to support families or households
3. goods and services provided for free or at greatly reduced prices, or in-kind _____
7. economic side effect of a good or service