



Section 1: Guided Reading and Review

Benefits of Free Enterprise

CHAPTER 3

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. _____

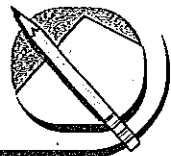
B. Reviewing Key Terms

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
 - b. to provide more competition
 - c. to influence consumer choices
 - d. to protect the public interest
- ____ 8. What is the purpose of free enterprise?
 - a. to allow businesses free rein
 - b. to give consumers freedom of choice
 - c. to keep government out of business
 - 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 _____

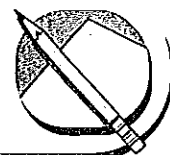
7. microeconomics _____

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

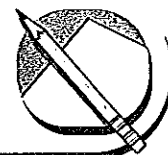
- _____ 7. shared good or service for which it would be impractical to make consumers pay individually and to exclude nonpayers
- _____ 8. situation in which the free market does not distribute resources efficiently
- _____ 9. part of the economy that involves the transactions of the government
- _____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

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

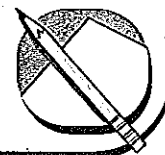
- The government institutes *welfare* programs to improve transportation routes. _____

- A nation's *standard of living* indicates its level of income distribution. _____

- 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.