

Fundamental Economic Concepts

UNIT PACING CHART			
	Chapter 1	Chapter 2	Chapter 3
Day 1	Unit Opener Chapter Opener Section 1	Chapter Opener Section 1	Chapter Opener Section 1
Day 2	BusinessWeek Newsclip Section 2 Profiles in Economics	Case Study Section 2 BusinessWeek Newsclip	Profiles in Economics Section 2
Day 3	Section 3 Case Study	Section 3 Profiles in Economics	Case Study Section 3 BusinessWeek Newsclip
Day 4	Review Chapter Assessment	Review Chapter Assessment	Review Chapter Assessment
Day 5	Debates in Economics	The Global Economy & You	

Teacher to Teacher



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R.L. Turner
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Carrollton, Texas

Follow Your Economic System Divide students in small groups. Assign an economic system to each group. Give each group a specific amount of resources in a bag, which are not identical, just as in the real world. (Bags contain commonly found items: index cards, clips, markers, empty small boxes, papers, rubber bands, tape, pipe cleaners, straws, ties, yarn, and so on.) All groups get “capital” such as hole-punches, scissors, rulers, and staplers. Limit the tools based on the economic system.

Each group should create a functioning object that a society would desire, using all the resources. Groups should name the object and demonstrate or describe its function. Groups should stay in the role of the economic system assigned and answer the basic economic questions. Students have 30 minutes to work and 2 minutes to present. A rubric for this activity could include the following: efficient use of resources, demonstration, name of product, works as system’s society might, describe system and its functioning, identify economy with this pattern.

Author Note



Dear Economics Teacher:

You may be surprised to learn that there was a time when I wasn't very interested in economics. Come to think of it, I wasn't very interested in going to college either, although my dad clearly had other plans for me.

All of that changed in my senior year of college when I visited Hungary during the height of the Cold War. I was on a study-abroad program at the time, and our professor had just taken us over the Austro-Hungarian border to a popular park that overlooked the city of Budapest. It was a cold December evening, with several inches of snow on the ground brightly lit by a full moon. By all accounts, the view should have been beautiful, if not spectacular—but it wasn't.

Instead, the landscape was cold, alien, and downright dreary. Even now I can remember asking: What is wrong with this scene? Why is it so depressing? Then it dawned on me that there was no color in the landscape. Here was a major European city, but everything was in shades of black and white. Instead of looking out at a sea of bright red, green, blue, and yellow lights, all I saw were dreary white streetlights and faded yellow reflections coming from the windows of buildings and apartments.

Then I remembered what I learned in economics: Hungary had a command economy where consumer goods were so scarce that people had to wait in line to make purchases. They even had to get on a waiting list of many years to buy a car. Advertising as we know it, with brightly colored lights to promote products and attract consumers, was unheard of.

This was truly a seminal event in my life because I realized that a country's economy actually made a difference. My visit to Budapest was the beginning of a lifelong search to figure out how things work. It's been fun, and it's been rewarding. I hope that you share my passion for economics and come to appreciate the many ways in which the economy affects us and we affect it.

A handwritten signature in black ink that reads "Gary Clayton". The signature is written in a cursive style and is positioned above a horizontal line.

Gary Clayton, Ph.D.
Author

Fundamental Economic Concepts

Unit Objectives

After studying this unit, students will be able to:

- **Define** economics and its fundamental principles.
- **Differentiate** between traditional, command, market, and mixed economies.
- **Identify** the major types of business and nonprofit organizations in the United States.

Unit Overview

Unit 1 provides a basic introduction to and an overview of economics.

Chapter 1 focuses on the fundamental economic problem of scarcity and introduces terms necessary to the study and understanding of economics.

Chapter 2 continues the discussion of decision making and focuses on the different economic systems.

Chapter 3 covers the various kinds of business and nonprofit institutions that operate in our economy.

CHAPTER 1

What Is Economics?

CHAPTER 2

Economic Systems and Decision Making

CHAPTER 3

Business Organizations

Because of scarcity, societies have to make careful choices about how to use resources such as energy and land.



Activity: Launching the Unit

Wants Have pairs of students interview their partners to obtain the following information: (1) Give an example of a want. (2) What inputs are necessary to produce the want? (*factors of production—land, labor, capital, and entrepreneurship*) (3) Do you have any part in the process necessary to get your want? (Does the student work?) (4) What can you do to get your want? After the interviews, ask the class

what is necessary to obtain their wants. Point out that wants are purchased in the marketplace and cost money that most people must earn by selling their labor, or working. In other words, we trade our productive efforts to satisfy our wants. **OL**

Making It Relevant

Ask: How would you feel about owning your own company?

Explain. (Answers will vary.)

Tell students that in a phone survey, the Gallup organization questioned a random sample of approximately 1,000 teenagers across the country on their thoughts about entrepreneurship. The sample ranged in age from 14 to 19 years and was evenly divided between males and females. Almost 7 out of every 10 respondents said that they wanted to be entrepreneurs. Asked if they would rather be a manager of a large company or the owner of a small company, most chose the latter. Discuss students' opinions on the subject.

BL

BusinessWeek **ONLINE**

To find up-to-date news and analysis on the economy, business, technology, markets, entrepreneurs, investments, and finance, have students search feature articles and special reports on the BusinessWeek Web site, www.businessweek.com.

Extra Credit Project

Have students create a television-viewing log chronicling the number and types of economics-related items presented on the nightly news. Suggest that some students watch national newscasts on the networks, that others watch national newscasts on cable (such as CNN or MSNBC), and that still others watch local newscasts. Students should record

the date, the subject of the item, and the length of time devoted to the item. When study of the chapter is completed, have students compare and discuss their logs, noting how much news related to economics was presented. **OL**

Planning Guide

Key to Ability Levels

BL	Below level	AL	Above level
OL	On level	ELL	English Language Learners

Key to Teaching Resources

	Print Material		DVD
	CD-Rom		Transparency

Levels				Resources	Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess
BL	OL	AL	ELL						
FOCUS									
BL	OL	AL	ELL	 Daily Focus Skills Transparencies		1, 5, 23	4, 65	2, 97	
TEACH									
BL	OL		ELL	 Guided Reading Activities*		p. 1	p. 2	p. 3	
BL	OL	AL	ELL	 Economic Content Vocabulary Activities*		p. 1	p. 1	p. 1	
	OL	AL		 Critical Thinking Activities		p. 1	p. 1	p. 1	
BL	OL		ELL	 Reading Essentials and Note-Taking Guide*		p. 1	p. 4	p. 7	
		AL		 Enrichment Activities				p. 1	
	OL	AL		 Free Enterprise Activities		p. 1			
BL	OL	AL	ELL	 Primary and Secondary Source Readings			p. 3		
BL	OL	AL	ELL	 Economic Cartoons			p. 8		
BL	OL	AL	ELL	 Hands-On Economics		p. 1			
BL	OL	AL	ELL	 Economic Concepts Transparencies, Strategies, and Activities		p. 1	p. 5	pp. 3, 5	
BL	OL	AL	ELL	 Math Practice for Economics				p. 1	
BL	OL		ELL	 High School Reading in the Content Area Strategies and Activities	✓	✓	✓	✓	✓
BL	OL	AL	ELL	 High School Writing Process Transparencies	✓	✓	✓	✓	✓
BL	OL	AL	ELL	 Writer's Guidebook	✓	✓	✓	✓	✓
BL	OL	AL	ELL	 StudentWorks Plus CD-ROM	✓	✓	✓	✓	✓
BL	OL	AL	ELL	 Vocabulary PuzzleMaker CD-ROM	✓	✓	✓	✓	✓

*Also available in Spanish



- Interactive Lesson Planner
- Interactive Teacher Edition
- Fully editable blackline masters
- Economics & You videos

- Differentiated Lesson Plans
- Printable reports of daily assignments
- Standards tracking system

Levels				Resources	Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess
BL	OL	AL	ELL						
TEACH <i>(continued)</i>									
BL	OL	AL	ELL	Economics & You Video Program DVD— <i>What is Economics?</i>	✓	✓	✓	✓	✓
BL	OL	AL	ELL	Graph Coach CD-ROM	✓	✓	✓	✓	✓
Teacher Resources				Differentiated Instruction Strategies	✓	✓	✓	✓	✓
				Success with English Learners	✓	✓	✓	✓	✓
				Presentation Plus! CD-ROM	✓	✓	✓	✓	✓
ASSESS									
BL	OL	AL	ELL	Section Quizzes and Chapter Tests		p. 5	p. 6	p. 7	pp. 9, 13
BL	OL	AL	ELL	Authentic Assessment Strategies and Activities		p. 1			
BL	OL	AL	ELL	ExamView® Assessment Suite CD-ROM		1-1	1-2	1-3	Ch. 1
BL	OL	AL	ELL	Interactive Tutor Self-Assessment CD-ROM		1-1	1-2	1-3	
CLOSE									
BL			ELL	Reteaching Activities*		p. 1	p. 1	p. 1	
BL	OL		ELL	Reading and Study Skills Foldables		p. 43	p. 43	p. 48	
BL	OL	AL	ELL	Graphic Organizer Transparencies		p. 37	p. 35		

*Also available in Spanish

Integrating Technology

Activity Using the Glencoe Web Site

Student Web Activities

Technology Product

The Glencoe Web site provides Web activities to students that reinforce and enrich chapter content. The Student Web Activities

- introduce topics relevant to chapter content, along with links to Web sites that provide information about the topics;
- prompt students to complete tasks specific to the activity;
- assess student comprehension of the material.

Objectives

The Student Web Activities help students

- learn online research and study skills;
- practice reading and comprehension skills.

Steps

Provide students with the following steps to complete the activities:

- Locate the Web page for the textbook being studied on the Glencoe Web site glencoe.com.
- Click on **Student Center** under the textbook title.
- In the Student Center, select a unit from the Unit Resources menu and a chapter from the Chapter Activities menu using the drop-down arrows.
- Click on the **Student Web Activities** link.
- Have students complete the activity on the page, clicking on the featured Web link for the chapter selected and answering the activity questions.

Provide students with an e-mail address to submit their answers for grading.

			
	Student	Teacher	Parent
Beyond the Textbook	•	•	•
Chapter Overviews	•	•	•
ePuzzles and Games	•		•
Concepts in Motion	•		•
Multi-Language Glossaries	•		•
Online Student Edition	•	•	•
Self-Check Quizzes	•		•
Student Web Activities	•		•
Study Central™	•		•
Time Current Events	•	•	•
Teaching Today		•	
Vocabulary eFlashcards	•		•
Web Activity Lesson Plans		•	





- **Timed Readings Plus in Social Studies** helps students increase their reading rate and fluency while maintaining comprehension. The 400-word passages are similar to those found on state and national assessments.
- **Reading in the Content Area: Social Studies** concentrates on six essential reading skills that help students better comprehend what they read. The book includes 75 high-interest nonfiction passages written at increasing levels of difficulty.
- **Reading Social Studies** includes strategic reading instruction and vocabulary support in Social Studies content for both ELLs and native speakers of English. www.jamestowneducation.com

Reading List Generator CD-ROM

GLENCOE BOOKLINK 3

Use this database to search more than 30,000 titles to create a customized reading list for your students.

- Reading lists can be organized by students' reading level, author, genre, theme, or area of interest.
- The database provides Degrees of Reading Power™ (DRP) and Lexile™ readability scores for all selections.
- A brief summary of each selection is included.

Leveled reading suggestions for this chapter:

For students at a Grade 10 reading level:

- *Oprah Winfrey: Rising Above, Reaching Out*, by Henry Billings and Melissa Billings

For students at a Grade 11 reading level:

- *Influential Economists*, by Marie Bussing-Burks

For students at a Grade 12 reading level:

- *How Cool Is Comics Lit*, by Charles McGrath

* Review suggested books before assigning them.



National Council on Economic Education

Voluntary Standards Emphasized in Chapter 1

Content Standard 1 Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.

Content Standard 2 Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something; few choices are "all or nothing" decisions.

Content Standard 14 Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

Resources Available from NCEE

- Virtual Economics®: An Interactive Center for Economic Education Version 3.0
- Capstone: The Nation's High School Economics Course
- Focus: High School Economics, Second Edition
- Economics in Action

To order these materials, or to contact your State Council on Economic Education about workshops and programs, call 1-800-338-1192 or visit the NCEE Web site at store.ncee.net.

What Is Economics?

The BIG Idea

As students study the chapter, remind them to consider the chapter-based Big Idea. The **Essential Question** in the chapter launch activity below ties in to the Big Idea and helps students think about and understand important chapter concepts. In addition, the Hands-On Chapter Project relates the content from each section to the Big Idea. The steps in each section build on each other and culminate in the Wrap-Up Activity on the Visual Summary page.



To generate student interest and

provide a springboard for class discussion, access the Economics & You Topic 1 video, **What is Economics?**, at glencoe.com or on the video DVD.

FOLDABLES™ Study Organizer

Dinah Zike's Foldables

are three-dimensional, interactive graphic organizers that help students practice basic writing skills, review key vocabulary terms, and identify main ideas. Have students complete this chapter's Foldable activity or activities in *Dinah Zike's Reading and Study Skills Foldables* booklet. **OL**

Economics ONLINE

Introduce students to chapter content and key terms by having them access **Chapter 1—Chapter Overviews** at glencoe.com.

Why It Matters

Congratulations on being selected to head up the prom committee! Now you must decide on location, music, and refreshments. What factors do you need to consider when making your choices? In groups of four, determine your budget and identify possible locations, music providers, and food. Read Chapter 1 to learn how your prom selections, like all economic decisions, require you to make choices about how to best use limited resources.

The BIG Idea

Scarcity is the basic economic problem that requires people to make careful choices about how to use limited resources.

Because of limited resources, consumers must make choices.

4 UNIT 1



Economics ONLINE Chapter Overview Visit the *Economics: Principles and Practices* Web site at glencoe.com and click on **Chapter 1—Chapter Overviews** to preview chapter information.

Activity: Launching the Chapter

Categorizing Have students brainstorm a list of common needs and wants such as food items, clothing, or entertainment expenses. Divide students into small groups and assign each group several of the items on the list. Ask them to explain why each item proves important to many people. **Essential Question:** **How do limitations on people's time and income affect these needs and wants?** (Students may suggest that these

limitations cause people to first focus on acquiring the things they need, before devoting additional time and income to the things they want.) Have students also use Internet resources and financial magazines to obtain pictures of the items on their list. Students should then create a poster listing needs and wants. **OL**

GUIDE TO READING

Section Preview

In this section, you will learn why scarcity is the basic economic problem that faces every society and why scarcity requires us to make choices.

Content Vocabulary

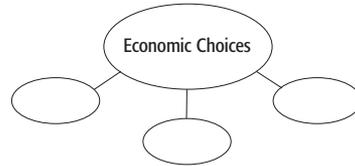
- scarcity (p. 6)
- economics (p. 6)
- need (p. 6)
- want (p. 6)
- factors of production (p. 8)
- land (p. 8)
- capital (p. 8)
- capital good (p. 8)
- labor (p. 8)
- entrepreneur (p. 9)
- gross domestic product (GDP) (p. 9)

Academic Vocabulary

- resource (p. 6)
- comprehensive (p. 10)

Reading Strategy

Listing As you read the section, complete a graphic organizer like the one below by listing and describing the three economic choices every society must make.



PEOPLE IN THE NEWS

—moneycentral.msn.com

Teens in the Red

Like a lot of hard-working women, Andrea Alba has moments of financial despair. Between juggling three jobs, paying her bills and trying to get out of debt, she feels overwhelmed. “I just want to pay everything off,” she says. “I wish I didn’t have to struggle so much.” But Alba is no debt-weary baby boomer. She’s only 19 and a couple of years out of high school.

Her financial burdens may be heavier than other teens: She pays her own college tuition and also helps pay the rent and utilities at home. But the sinker was signing that first credit card application before she had even graduated from high school. “It was fine at first,” she says. “I used it mainly for gas. Then it just got deeper and deeper.” Within a year and a half of her 18th birthday, Alba was \$2,500 in the hole. ■



You may wonder if the study of economics is worth your time and effort. As you learned in the news story, though, many young people find out about economic issues the hard way. They discover, however, that a basic understanding of economics can help them make sense of the world they live in.

The study of economics helps us in many ways, especially in our roles as individuals, as members of our communities, and as global citizens. The good news is that economics is not just useful. It can be interesting as well, so don’t be surprised to find that the time you spend on this topic will be well spent.

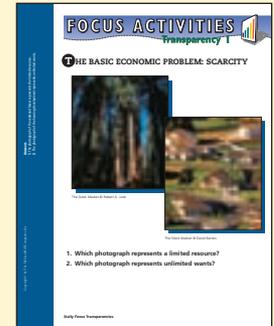
Personal Finance Handbook

See pages R10–R13 for more information on credit cards.

Focus

Bellringer

Daily Focus Transparency 1



GUIDE TO READING

Answers to Graphic: what to produce; how to produce; for whom to produce

Resource Manager

R Reading Strategies	C Critical Thinking	D Differentiated Instruction	W Writing Support	S Skill Practice
Teacher Edition <ul style="list-style-type: none"> • Making Connections, p. 7 • Det. Importance, p. 9 Additional Resources <ul style="list-style-type: none"> • Guid. Read. Act., p. 1 • Read. Ess. & Note-Taking Guide, p. 1 • Free Ent. Act., p. 1 	Teacher Edition <ul style="list-style-type: none"> • Det. Cause/Effect, p. 6 • Theorizing, p. 7 Additional Resources <ul style="list-style-type: none"> • Authentic Assess., p. 1 • Econ. Concepts Trans., Strat. & Act., p. 1 • Hands-on Econ., p. 1 	Teacher Edition <ul style="list-style-type: none"> • Special Ed., p. 6 • ELL, pp. 8, 9 Additional Resources <ul style="list-style-type: none"> • Daily Focus Trans. 1, 5, 23 • Reteach. Act., p. 1 	Teacher Edition <ul style="list-style-type: none"> • Expository Writing, pp. 8, 10 Additional Resources <ul style="list-style-type: none"> • High School Reading in the Content Area Strat. and Act. 	Teacher Edition <ul style="list-style-type: none"> • Analyzing Graphs, pp. 9, 11 Additional Resources <ul style="list-style-type: none"> • Graph. Org. Trans., p. 19 • Reading and Study Skills Fold., p. 43

Teach

C Critical Thinking

Determining Cause and Effect **Ask:** What effect do limited resources and unlimited wants have on the economy? (They create scarcity.) **OL**

D Differentiated Instruction

Special Education **Ask:** What is the difference between a need and a want? (A need is a requirement for living; a want is just something we would like to have.) Have students bring to class photographs or magazine clippings that illustrate needs and wants. Then have students organize the clippings into a two-column chart labeled “needs” and “wants.” **BL**

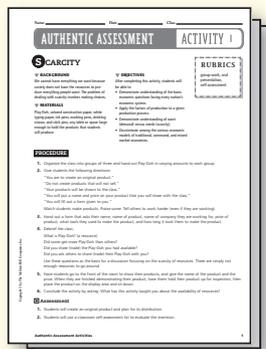
Economic Analysis

Answer: because most people seem to want more than they already have

Reading Check

Answer: A need is necessary for survival; a want is not.

Differentiated Instruction



Authentic Assessment Strategies and Activities, p. 1

scarcity fundamental economic problem of meeting people’s virtually unlimited wants with scarce resources

economics social science dealing with how people satisfy seemingly unlimited and competing wants with the careful use of scarce resources

need basic requirement for survival, including food, clothing, and shelter

want something we would like to have but is not necessary for survival

The Fundamental Economic Problem

MAIN Idea Societies do not have enough productive resources to satisfy everyone’s wants and needs.

Economics & You Can you remember a time when you saved money to buy something expensive? Was the item a necessity or something that you simply wanted to own? Read on to find out how this relates to the core concepts of economics.

Have you ever noticed that very few people are satisfied with the things they have? For example, someone without a home may want a small one; someone else with a small home may want a larger one; someone with a large home may want a mansion. Whether they are rich or poor, most people seem to want *more* than they already have. In fact, if each of us were to

make a list of all the things we want, it would most likely include more things than we could ever hope to obtain.

Scarcity

The fundamental economic problem facing all societies is that of scarcity. **Scarcity** is the condition that results from society not having enough **resources** to produce all the things people would like to have.

As **Figure 1.1** shows, scarcity affects almost every decision we make. This is where economics comes in. **Economics** is the study of how people try to satisfy seemingly unlimited and competing wants through the careful use of relatively scarce resources.

Needs and Wants

Economists often talk about people’s needs and wants. A **need** is a basic requirement for survival, such as food, clothing, and shelter. A **want** is simply something we would like to have but is not necessary for survival. Food, for example, is needed for survival. Because many foods will satisfy the need for nourishment, the range of things represented by the term *want* is much broader than that represented by the term *need*.

TINSTAAFL

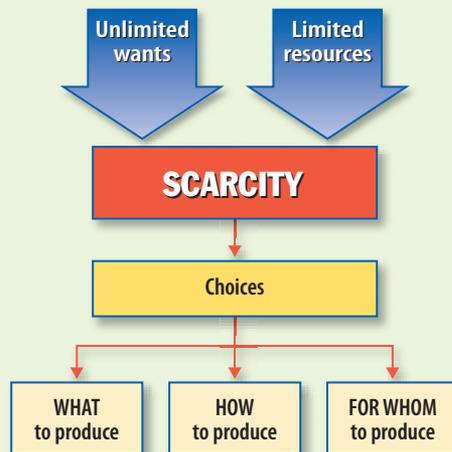
Because resources are limited, everything we do has a cost—even when it seems as if we are getting something “for free.” For example, do you really get a free meal when you use a “buy one, get one free” coupon? The business that gives it away still has to pay for the resources that went into the meal, so it usually tries to recover these costs by charging more for its other products. In the end, you may actually be the one who pays for the “free” lunch!

Realistically, most things in life are not free, because someone has to pay for producing them in the first place. Economists use the term **TINSTAAFL** to describe this concept. In short, it means There Is No Such Thing As A Free Lunch.

Reading Check

Contrasting What is the difference between a need and a want?

Figure 1.1 ► Scarcity



► Scarcity is the fundamental economic problem that forces consumers and producers to use resources wisely.

Economic Analysis Why is scarcity a universal problem?

Scarcity

Objective: Understand the basic economic questions facing the economic system of every nation.

Focus: Ask students to brainstorm a list of economic decisions that businesses must make.

Teach: Review the procedure outlined in the activity and guide a discussion about the results.

Assess: Discuss students’ responses on their self-evaluations.

Close: Have students identify similar examples of scarcity in the business world.

Differentiated Instruction Strategies

BL Ask students to identify two factors of production used to make several common products.

AL Have students describe how a change in the amount of Play-Doh might change their product’s price.

ELL Help students list products that they might create with the Play-Doh.

Three Basic Questions

MAIN Idea Scarcity forces every society to answer the basic questions of WHAT, HOW, and FOR WHOM to produce.

Economics & You When you write a report, you usually answer the who, what, when, where, and why questions. Read on to learn about the three basic questions in economics.

Because we live in a world of relatively scarce resources, we have to make careful economic choices about the way we use these resources. Figure 1.1 presents three basic questions we need to answer as we make these choices.

WHAT to Produce

The first question is WHAT to produce. For example, should a society direct most of its resources to the production of military equipment or to other items such as food, clothing, or housing? Suppose the decision is to produce housing. Should the limited resources be used to build low-income, middle-income, or upper-income housing? A society cannot have everything its people want, so it must decide WHAT to produce.

HOW to Produce

A second question is HOW to produce. Should factory owners use automated production methods that require more machines and fewer workers, or should they use fewer machines and more workers? If a community has many unemployed people, using more workers might be better. On the other hand, in countries where machinery is widely available, automation can often lower production costs. Lower costs make manufactured items less expensive and, therefore, available to more people.

FOR WHOM to Produce

The third question is FOR WHOM to produce. After a society decides WHAT and HOW to produce, it must decide who will receive the things produced. If a society decides to produce housing, for



WHAT to Produce Societies need to decide whether to include parks in housing areas or to produce more housing. *How do the three questions help societies make choices about scarce resources?*

example, should it be the kind of housing that is wanted by low-income workers, middle-income professional people, or the very rich? If there are not enough houses for everyone, a society has to make a choice about who will receive the existing supply.

These questions concerning WHAT, HOW, and FOR WHOM to produce are never easy for any society to answer. Nevertheless, they must be answered as long as there are not enough resources to satisfy people's seemingly unlimited wants and needs.

Reading Check Analyzing Why are societies faced with the three basic questions of WHAT, HOW, and FOR WHOM?

Critical Thinking

Theorizing Ask: What problems do you think society might face in trying to decide what, how, and for whom to produce? (Answers will vary but may include the problem of meeting many needs with limited resources.) **OL**

Reading Strategy

Making Connections Ask: What resources have you noticed are less abundant than in previous years? How has this change affected your family's use of the resource? (Answers will vary but may include water, electricity, and gasoline. Students' families may use these resources carefully, such as by carpooling or conserving water.) **AL**

Caption Answer: The three questions focus on using scarce resources to meet people's needs.

Reading Check Answer: because the world has scarce resources and societies need to make careful choices about the way they use these resources

CHAPTER 1 What Is Economics? 7

Leveled Activities

BL Reteaching Activities, p. 1

RETEACHING ACTIVITY 1

WHAT IS ECONOMICS?

The study of economics is based on several fundamental concepts. Research in the basic concepts provides the foundation for more advanced study. Read each concept and answer the questions that follow. Write your answers in the spaces provided.

Directions: Match each of the following concepts with the appropriate definition by writing the definition letter next to the concept.

Concepts:

- Scarcity
- Production possibility frontier
- Opportunity cost
- Consumer surplus
- Production possibility frontiers
- Consumer surplus
- Trade of resources

Definitions:

- The rare basic economic question: what, how, and for whom?
- The study of how people make choices about the use of their resources.
- The study of how people make choices about the use of their resources.
- The study of how people make choices about the use of their resources.
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OL Hands-On Economics, p. 1

ACTIVITY 1

ECONOMICS: NO FREE LUNCHES

Have you ever heard the saying, "There's no such thing as a free lunch"? This saying is based on the economic principle of opportunity cost. Opportunity cost is the value of the next best alternative that you give up when you choose to do something. For example, if you decide to spend your money on a new pair of shoes, you are giving up the opportunity to use that money for another choice. Every economic choice you make has an opportunity cost.

Directions: Explain opportunity costs in your own life by completing the following activity. You will need a pencil and paper and your textbook or computer software.

STEP 1 IDENTIFY THE RESOURCE AND OPPORTUNITY COST OF AN ECONOMIC CHOICE

1. Think of one of the most important economic choices you have ever made. Use many other economic choices, choosing to use the opportunity cost. Think about what you might do if you had more of the resource. Write your answer in the space provided.

The Economic Choice You Made	What the Choice Means to You
Buying the shoes and not the sneakers	1.
	2.
	3.

2. Explain why you have chosen the resource, but the most important economic choice you have ever made. Write your answer in the space provided. Which of your resources are you giving up when you decide to buy?

AL Free Enterprise Activities, p. 1

FREE ENTERPRISE ACTIVITY 1

PRODUCTIVE RESOURCES

Resources are the inputs used to produce goods and services. The three basic resources are land, labor, and capital. Each resource has a different role to play in the production process. Read the following information and answer the questions that follow.

Directions: Use the information above to complete the following activities.

1. Write a short paragraph about the factors of production, the resources needed to produce goods and services. List the resources that the three factors needed to make these resources, the jobs.

2. All resources fall under three categories. Land includes natural resources that are used to make a product. Labor is the work that people do to make goods, services, and resources. Entrepreneurship is the ability to combine the other two resources to create a new product or service. Write your answer in the space provided.

Land	Labor	Capital

3. All the three factors (land, labor, and capital) are needed to produce goods and services. Explain.

D Differentiated Instruction

English Language Learners

Explain that in the context of economics, words such as *capital* and *labor* have meanings different than those with which students may be most familiar. Ask students to write these terms on a sheet of paper and draw several illustrations that demonstrate the meaning of each term, as described in the text. **ELL**

W Writing Support

Expository Writing

Point out the image representing *land* at the bottom of the page. Instruct students to write a brief paragraph that identifies the resources that could be considered *land* in the photograph, and explains why the resources identified fit this categorization. (Answers may include *trees, plants, minerals, and so on.*) **BL**

Economic Analysis

Answer: land, capital, labor, entrepreneurs

Additional Support

factors of production productive resources that make up the four categories of land, capital, labor, and entrepreneurs

land natural resources or other “gifts of nature” not created by human effort

capital or capital goods tools, equipment, and factories used in the production of goods and services

labor people with all their efforts, abilities and skills

The Factors of Production

MAIN Idea Four factors of production—land, capital, labor, and entrepreneurs—must be present to produce goods and services.

Economics & You When you were younger, did you ever sell something or have a paper route to make money? Read on to find out how this relates to the factors of production.

People cannot satisfy all their wants and needs because productive resources are scarce. The **factors of production**, or resources required to produce the things we would like to have, are land, capital, labor, and entrepreneurs. As shown in **Figure 1.2**, all four are required to produce goods and services.

Land

In economics, **land** refers to the “gifts of nature,” or natural resources not created by people. “Land” includes deserts, fertile fields, forests, mineral deposits, livestock, sunshine, and the climate necessary to grow crops. Because a finite amount of natural

resources are available at any given time, economists tend to think of land as being fixed, or in limited supply.

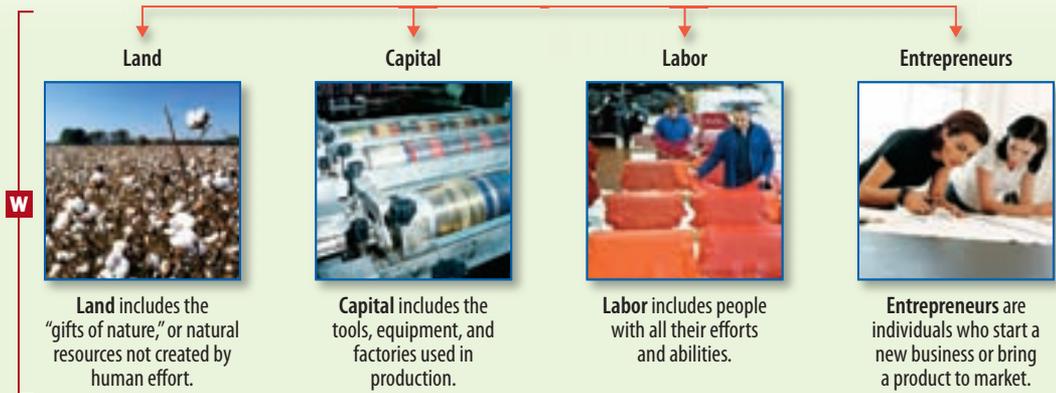
Capital

Another factor of production is **capital**, sometimes called **capital goods**—the tools, equipment, machinery, and factories used in the production of goods and services. Capital is unique because it is the result of production. A bulldozer, for example, is a capital good used in construction. When it was built in a factory, it was the result of production involving other capital goods. The computers in your school that are used to produce the service of education also are capital goods.

Labor

A third factor of production is **labor**—people with all their efforts, abilities, and skills. This category includes all people except a unique group of individuals called entrepreneurs, whom we single out because of their special role in the economy. Historically, factors such as birthrates, immigration, famine, war, and disease have had a dramatic impact on the quantity and quality of labor.

Figure 1.2 The Factors of Production



► The four factors of production are necessary for production to take place.

Economic Analysis What four factors of production are necessary to bring clothing to consumers?

Activity: Hands-On Economics

Scarcity and the Factors of Production

Tell students that just as consumers are faced with scarcity of goods and services, entrepreneurs must deal with scarcity of the other three factors of production—land, capital, and labor. Have students imagine that they are entrepreneurs in the business of producing and selling CDs. Inform them that the price of the raw material used for making CDs has doubled. Encourage

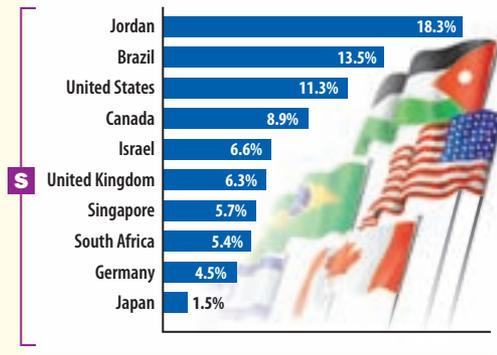
students to make economic predictions about what will happen in the CD business. (Possible answers: Fewer CDs will be produced. The price of CDs will go up. Consumers will purchase fewer CDs.) **OL**



Global Entrepreneurs Drive the Economy

Every time you get paid for baby-sitting, mowing the lawn, or being the deejay at an event, you have joined the “force”—the global entrepreneurial force, that is. A vast majority of the more than 20 million businesses in the United States are owned by entrepreneurs. Most either work alone or have a few employees.

Until recently, the United States led in the percentage of adult entrepreneurs, with an estimated 11.3 percent of Americans starting a new business each year. Today, the small country of Jordan has just over half a million entrepreneurs, but it can boast the highest percentage of individuals attempting to go it alone. That’s nearly one in every five adults. The bar graph here illustrates the percentage of the adult population in select countries who are starting new businesses.



Source: 2004 Global Entrepreneurship Monitor (GEM) www.gemconsortium.org

Entrepreneurs

Some people are singled out because they are the innovators responsible for much of the change in our economy. Such an individual is an **entrepreneur**, a risk-taker in search of profits who does something new with existing resources. Entrepreneurs are often thought of as being the driving force in an economy because they are the people who start new businesses or bring new products to market.

Production

Everything we make requires the four factors of production. The desks and lab equipment used in schools are capital goods. Teachers and other employees provide the labor. Land includes the property where the school is located as well as the iron ore and timber used to make the building. Finally, entrepreneurs are needed to organize the other three factors and make sure that everything gets done.

Reading Check **Interpreting** What would happen if one of the factors of production was missing?

The Scope of Economics

MAIN Idea Economics analyzes how societies satisfy wants through careful use of relatively scarce resources.

Economics & You So far, you have learned about the basics of economics. Read on to learn how economists help us make sense of this information.

Economics is the study of human efforts to satisfy seemingly unlimited and competing wants through the careful use of relatively scarce resources. Economics is also a *social science* because it deals with the behavior of people as they deal with this basic issue. The four key elements to this study are description, analysis, explanation, and prediction.

Description

One part of economics describes economic activity. For example, we often hear about **gross domestic product (GDP)**—the dollar value of all final goods, services, and structures produced within a country’s borders in a 12-month period. GDP is the

entrepreneur
risk-taking individual in search of profits

gross domestic product (GDP)
dollar value of all final goods, services, and structures produced within a country’s borders during a one-year period

Skills Handbook

See page R50 to learn about Using Bar Graphs.

S Skill Practice

Analyzing Graphs Ask: How many American entrepreneurs start a new business each year? (11.3 percent) **What three countries have the highest percentage of adults starting new businesses?** (Jordan, Brazil, and the United States) **OL**

D Differentiated Instruction

English Language Learners
Guide students in pronouncing *entrepreneur*. Tell them that *entrepreneur* comes from a nineteenth-century French word meaning “undertake.” **Ask:** What do entrepreneurs “undertake”? (Possible answers: new businesses; new ways of using resources) **ELL**

R Reading Strategy

Determining Importance
Ask: Why are entrepreneurs considered the driving force in an economy? (They start new businesses, bring new products to market, and do something new with existing resources.) **OL**

Reading Check **Answer:** Production would not take place.

Hands-On Chapter Project

Step 1

Modeling an Economic Decision

In this project, students will make a booklet describing the economic decisions of a business that designs and sells T-shirts.

Step 1: Identifying the Factors of Production. Students will determine the factors of production used to produce a good.

Directions: Organize the class into small groups. Instruct group members to

discuss the land, labor, capital, and entrepreneurship that would be required to establish a business that designs and sells T-shirts. Encourage students to be as thorough as possible when brainstorming their lists. Students may suggest items such as the following:

- Land: any natural resources used to produce the T-shirts, such as soil and water
- Labor: managers to make decisions and workers to gather materials and produce and sell the T-shirts

- Capital: a building in which the business can be located; machines and tools for making, printing, and packaging the products
- Entrepreneurship: the ability, initiative, and willingness to start such a business

Summarizing Direct each group to use their completed lists to write a brief report summarizing the factors of production needed to start this business. **OL**
(Chapter Project continued in Section 2.)

W Writing Support

Expository Writing Have students write a paragraph naming the four key elements of economics and explaining how they are interrelated. **OL**

✓ Reading Check **Answer:** because it deals with the behavior of people as they try to satisfy their wants with relatively scarce resources

Assess

 Use the Interactive Tutor Self-Assessment CD-ROM to review Section 1, and then assign the Section 1 Review as homework or as an in-class activity.

Close

Identifying Have students identify and explain the fundamental economic problem.

OL

most **comprehensive** measure of a country's total output and a key measure of a nation's economic health. Economics also describes jobs, prices, trade, taxes, and government spending.

Description allows us to know what the world looks like. However, description is only part of the picture, because it leaves many important "why" and "how" questions unanswered.

Analysis

Economics analyzes the economic activity that it describes. Why, for example, are the prices of some items higher than others? Why do some people earn higher incomes than others? How do taxes affect people's desire to work and save?

Analysis is important because it helps us discover why things work and how things happen. This, in turn, will help us deal with problems that we would like to solve.

Explanation

Economics also involves explanation. After economists analyze a problem and understand why and how things work,

they need to communicate this knowledge to others. If we all have a common understanding of the way our economy works, some economic problems will be easier to address or even fix in the future. When it comes to GDP, you will soon discover that economists spend much of their time explaining why the measure is, or is not, performing in the manner that is expected.

Prediction

Finally, economics is concerned with prediction. For example, we may want to know whether our incomes will rise or fall in the near future. Because economics is the study of both what is happening and what tends to happen, it can help predict what may happen in the future, including the most likely effects of different actions.

The study of economics helps us become more informed citizens and better decision makers. Because of this, it is important to realize that good economic choices are the responsibility of all citizens in a free and democratic society.

✓ Reading Check **Explaining** Why is economics considered to be a social science?

SECTION

1

Review

Vocabulary

1. **Explain** the significance of scarcity, economics, need, want, factors of production, land, capital, capital good, labor, entrepreneur, and Gross Domestic Product (GDP).

Main Ideas

- Identifying** What three basic questions must every society answer, and why?
- Organizing** Use a graphic organizer similar to the one below to identify and describe the factors of production.

Factor	Description
Land	

Critical Thinking

- The BIG Idea** How can studying economics help us make better choices about how to use scarce resources?
- Synthesizing Information** Do you pay to drink from the water fountains at school? Explain why the water is not really free by stating who actually pays for it.
- Analyzing Visuals** Look at Figure 1.2. Identify and categorize the factors of production for a business you know, such as your place of employment. What would happen if one of these factors was no longer available?

Applying Economics

7. **Scarcity** How does scarcity affect your life? Provide several examples of items you had to do without because of limited resources, and explain how you adjusted to this situation.

SECTION

1

Review

Answers

- All definitions can be found in the section and the Glossary.
- Societies must answer three questions—what to produce, how to produce it, for whom to produce—to help them make careful economic choices about the way they use resources.
- Land:** gifts of nature or natural resources. **Capital:** tools, equipment, factories used in production. **Labor:** people, their efforts and abilities. **Entrepreneurs:** people who start new businesses or bring a product to market

- Possible answer:** It helps us make choices about using scarce resources in responsible, logical, productive ways.
- There is no charge to drink from water fountains at school, but the water is paid for by the school district with tax money from citizens.
- Answers will vary but should identify the factors of production for a particular business. Students should recognize that if one of the factors was unavailable, there would be no production.

7. Answers will vary but should include examples of items students did without because of limited resources. Students should explain how they adjusted to the situation.

Entrepreneurs are willing to take risks because they hope to reap great rewards. These rewards may come more quickly for some than for others. Kevin Plank, founder and CEO of Under Armour Inc., proves that it takes sweat to be a successful entrepreneur.

Under Armour—No Sweat

Eleven years ago, Kevin A. Plank was a walk-on football player at the University of Maryland who relished throwing his body at hulking opponents. But he hated how the cotton T-shirts under his uniform got sopping wet with sweat or rain. By then, cycling outfits and football undershorts were made with moisture-wicking synthetic fabrics. Plank, a starter during kickoffs and punts, wondered why not gridiron T-shirts, too? He tore the content label off a pair of his wick-away shorts, bought the same material from a fabric store, and gave a tailor \$460 to sew seven shirts. "I set out to build a better football undershirt," he says.

Plank's teammates loved the tees. So he drove to New York's garment district, had hundreds more samples made, and dubbed his invention "Under Armour." Now, at 33, Plank is the multimillionaire head of an athletic apparel powerhouse. . . .

Yet it didn't happen as fast as Plank originally expected. "At 23, I was probably the smartest guy in the world," he jokes. . . . "But I learned early on [that] this is not about one blast of exposure or one person wearing the product."



Operating at first out of his grandmother's Georgetown house, Plank spent four years tirelessly pitching his product to college and NFL teams. "We convinced these big tough football players to start wearing tight-fitting synthetic shirts, which was completely new and different," he says. . . .

The pros' acceptance brings Under Armour an authenticity that advertising alone can't create. . . . That cachet also gives Plank license to charge \$40 for a short-sleeve T-shirt.

—Reprinted from *BusinessWeek*



Sources: Businessweek.com, www.123jump.com

S Examining the Newsclip

- Identifying** How did Kevin Plank get his idea for a new product?
- Analyzing** How does Plank exemplify the characteristics of an entrepreneur?

Teach

S Skill Practice

Analyzing Graphs Ask: What was the total amount of Under Armour's increase in revenue between 2002 and 2005? (about \$225 million) Have students work with a partner to create a graph showing the amount of revenue increase for each year. **OL**

BusinessWeek ONLINE

To find up-to-date news and analysis on the economy, business, technology, markets, entrepreneurs, investments, and finance, have students search feature articles and special reports on the BusinessWeek Web site, www.businessweek.com.

Examining the Newsclip

Answers:

- He hated how cotton T-shirts under his football uniform got wet with sweat or rain.
- He had an idea, created something new with existing resources, and started a successful, new business.

Additional Support

Extending the Content

Lockertag™ Technology One of the most recognizable trademarks of Under Armour is Lockertag™. It earned that status by going one step further than fulfilling its original purpose of creating a shirt out of moisture-wicking fabric: It removed the awkward garment labels from inside the shirts, and it provided space for the owner's jersey number to be clearly written on each piece of clothing. Taking the steps to increase comfort and individualize garments

for clothing owners has made Lockertag™ an even more recognizable trademark for Under Armour. It helps fulfill Under Armour's goal of allowing players to focus on the game, without the distraction of uncomfortable clothing.

Focus

Bellringer

Daily Focus Transparency 4



GUIDE TO READING

Answers to Graphic:

productivity; investing in human capital; division of labor and specialization; economic interdependence

GUIDE TO READING

Section Preview

In this section, you will learn about some key economic terms and concepts.

Content Vocabulary

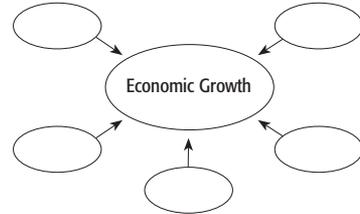
- good (p. 13)
- consumer good (p. 13)
- durable good (p. 13)
- nondurable good (p. 13)
- service (p. 13)
- value (p. 14)
- paradox of value (p. 14)
- utility (p. 14)
- wealth (p. 14)
- market (p. 15)
- factor market (p. 15)
- product market (p. 15)
- economic growth (p. 16)
- productivity (p. 16)
- human capital (p. 16)
- division of labor (p. 17)
- specialization (p. 17)
- economic interdependence (p. 17)

Academic Vocabulary

- transferable (p. 13)
- mechanism (p. 15)
- accumulation (p. 14)

Reading Strategy

Describing As you read the section, describe the factors that lead to economic growth.



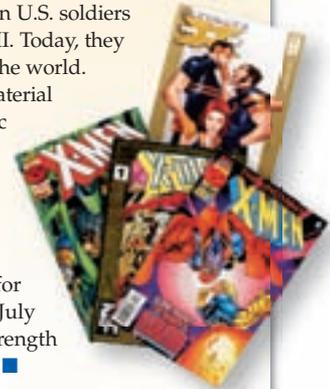
PRODUCTS IN THE NEWS

— Asbury Park Press and the New York Times

Comic Books a Big Business

America may have started the worldwide comics craze when U.S. soldiers scattered them around in foreign countries during World War II. Today, they are a global phenomenon—the most widely read literature in the world. According to one published report, 40 percent of all printed material in Japan consists of comics. In the United States, 375 new comic books are sold every month.

The comic-book industry as a whole has had a healthy year. Industry analysts from the Comic Buyer's Guide reported new comics sales of more than \$149 million for the first half of 2005, up 6 percent from the period a year earlier. Marvel Entertainment, a publicly traded company that filed for bankruptcy protection in December 1996 and reorganized in July 1998, has recovered strongly in recent years, largely on the strength of its success with movies based on X-Men and Spider-Man. ■



When you hear the word *economics*, you probably think of “big business”—large corporations that run banks and petroleum refineries, or companies that make automobiles, computers and, yes, even comic books. Economics does include big business, but it also includes much more.

Like other social sciences, economics has its own vocabulary and uses terms such as *recession*, *commodity*, or *utility*. To understand economics, a review of key terms is necessary. Fortunately, most economic terms are widely used, and you will already be familiar with many of them.

Resource Manager

R Reading Strategies	C Critical Thinking	D Differentiated Instruction	W Writing Support	S Skill Practice
Teacher Edition <ul style="list-style-type: none"> • Questioning, p. 13 • Making Inferences, p. 14 Additional Resources <ul style="list-style-type: none"> • Guid. Read. Act., p. 2 • Read. Ess. & Note-Taking Guide, p. 4 • Pri./Sec. Source Read., p. 3 	Teacher Edition <ul style="list-style-type: none"> • Ident. POV, p. 14 • Contrasting, p. 15 • Pred. Consequences, p. 16 Additional Resources <ul style="list-style-type: none"> • Crit. Think. Act., p. 1 • Econ. Concepts Trans., Strat. & Act., p. 5 	Teacher Edition <ul style="list-style-type: none"> • Kinesthetic, p. 16 • Visual/Spatial, p. 18 Additional Resources <ul style="list-style-type: none"> • Daily Focus Trans. 4, 65 • Econ. Cont. Vocab. Act., p. 1 	Teacher Edition <ul style="list-style-type: none"> • Personal Writing, p. 17 Additional Resources <ul style="list-style-type: none"> • High School Writing Process Trans. • Reading and Study Skills Fold., p. 43 	Teacher Edition <ul style="list-style-type: none"> • Visual Literacy, pp. 13, 15 • Analyzing Charts, p. 16 Additional Resources <ul style="list-style-type: none"> • Graph. Org. Trans., p. 18 • Econ. Cartoons, p. 8

Goods, Services, and Consumers

MAIN Idea Economic products are goods or services that are useful, relatively scarce, and transferable.

Economics & You Every time you buy something in a store, you act as a consumer. Read on to learn more about this and other basic economic vocabulary.

Economics is concerned with economic products—goods and services that are useful, relatively scarce, and **transferable** to others. Economic products help us satisfy our wants and needs. Because they are both scarce and useful, they command a price.

Goods

There are different types of economic products. The first one is a **good**—a useful, tangible item, such as a book, car, or compact disc player, that satisfies a want. When manufactured goods are used to produce other goods and services, they are called capital goods. An example of a capital good would be a robot welder in a factory, an oven in a bakery, or a computer in a high school. Goods intended for final use by individuals are **consumer goods**.

Any good that lasts three years or more when used on a regular basis is called a **durable good**. Durable goods include both capital goods, such as robot welders, and consumer goods, such as automobiles. A **nondurable good** is an item that lasts for fewer than three years when used on a regular basis. Food, writing paper, and most clothing items are examples of nondurable goods.

Services

The other type of economic product is a **service**, or work that is performed for someone. Services include haircuts, home repairs, and forms of entertainment such as concerts. They also include the work that doctors, lawyers, and teachers perform. The difference between a good and a service is that a good is tangible, or something that can be touched, while a service is not.

Consumers

Consumers are the people who use goods and services to satisfy their wants and needs. As consumers, people indulge in consumption, the process of using up goods and services in order to satisfy wants and needs.

Reading Check Interpreting How are goods, services, and consumers related?

good tangible economic product that is useful, relatively scarce, and transferable to others

consumer good good intended for final use by consumers rather than businesses

durable good a good that lasts for at least three years when used regularly

nondurable good a good that wears out or lasts for fewer than three years when used regularly

service work or labor performed for someone



Consumer Goods

These students are using computers in their school computer lab. **Would you consider computers as durable goods or nondurable goods, and why?**

13

Teach

R Reading Strategy

Questioning Ask: When purchasing a particular good, what question could you ask yourself to help identify the best product? (Possible answers: How much will I use a particular product? How long do I want a particular product to last?) **OL**

S Skill Practice

Visual Literacy In addition to the computer, have students identify another consumer good shown in the image. **Ask:** Is the good durable or nondurable? (Students may identify clothing and eye glasses as nondurable goods.) **OL**

Caption Answer: Computers are durable goods because they last longer than three years.

Reading Check Answer: Consumers use goods and services to satisfy their wants and needs.

Additional Support

Teacher Tip

Adjusting for Students' Learning Styles Suggest that visual, kinesthetic, and English language learners illustrate their tables with images of each good and service. Students might draw pictures or cut out images from magazine advertisements.

Activity: Collaborative Learning

Categorizing Have students work together in small groups of three or four. Ask each group to create a table with three headings: Durable Goods, Nondurable Goods, Services. Then ask them to list the goods and services that they use as consumers under the relevant heading on the table. For each durable and nondurable good, have students circle items that are capital goods and draw a

square around items that are consumer goods. Invite volunteers to explain their group's decisions. Keep a class tally of the number of responses in each heading. **BL**

R Reading Strategy

Making Inferences Ask: *Why do you think that some goods are more valuable than others? (To have monetary value, a good must be scarce and have utility for the person purchasing it. Some goods that have utility are more scarce than others, which makes them more valuable.)* **OL**

C Critical Thinking

Identifying Point of View Ask: *What was Adam Smith's view of the relationship between a country's wealth, its material possessions, and its people? (Adam Smith believed that a nation's wealth consisted of material possessions and its people. If material possessions were taken away, the people could restore the possessions. If a country's people were taken away, the nation's wealth would deteriorate.)* **OL**

✓ Reading Check Answer: For something to have value, it must have utility.

value monetary worth of a good or service as determined by the market

paradox of value apparent contradiction between the high monetary value of a nonessential item and the low value of an essential item

utility ability or capacity of a good or service to be useful and give satisfaction to someone

wealth sum of tangible economic goods that are scarce, useful, and transferable from one person to another

Value, Utility, and Wealth

MAIN Idea The value of a good or service depends on its scarcity and utility.

Economics & You Has anyone ever thought you paid too much for something? Read on to learn how the value of an item is determined.

In economics, **value** refers to a worth that can be expressed in dollars and cents. Why, then, does something have value, and why are some things more valuable than others? To answer these questions, it helps to review a problem Adam Smith, a Scottish social philosopher, faced back in 1776.

The Paradox of Value

Adam Smith was one of the first people to describe how markets work. He observed that some necessities, such as water, had a very low monetary value. On the other hand, some nonnecessities, such as diamonds, had a very high value. Smith called this contradiction the **paradox of value**. Economists knew that scarcity was necessary for something to have value. Still, scarcity by itself could not fully explain how value is determined.

Utility

It turned out that for something to have value, it must also have **utility**, or the capacity to be useful and provide satisfaction. Utility is not something that is fixed or even measurable, like weight or height. Instead, the utility of a good or service may vary from one person to the next. One person may get a great deal of satisfaction

from a home computer; another may get very little. One person may enjoy a rock concert; another may not.

Value

For something to have monetary value, economists decided, it must be scarce *and* have utility. This is the solution to the paradox of value. Diamonds are scarce and have utility, thus they possess a value that can be stated in monetary terms. Water has utility but is not scarce enough in most places to give it much value. Therefore, water is less expensive, or has less monetary value, than diamonds.

The emphasis on monetary value is important to economists. Unlike moral or social value, which is the topic of other social sciences, the value of something in terms of dollars and cents is a concept that everyone can easily understand.

Wealth

In an economic sense, the **accumulation** of products that are tangible, scarce, useful, and transferable from one person to another is **wealth**. A nation's wealth is comprised of all tangible items—including natural resources, factories, stores, houses, motels, theaters, furniture, clothing, books, highways, video games, and even basketballs—that can be exchanged.

While goods are counted as wealth, services are not, because they are intangible. However, this does not mean that services are not useful or valuable. Indeed, when Adam Smith published his famous book *The Wealth of Nations* in 1776, he was referring specifically to the abilities and skills of a nation's people as the source of its wealth. For Smith, if a country's material possessions were taken away, its people, through their efforts and skills, could restore these possessions. On the other hand, if a country's people were taken away, its wealth would deteriorate.

✓ Reading Check **Summarizing** How are value and utility related?

Did You Know?

Value Economists aren't the only ones obsessed with value. Do a simple Google search of "value," and you'll get nearly 2 million hits. You'll get approximately a quarter million if you search for "measure of value," and nearly 140,000 if you search for "measuring value." Maybe that's why economists simply define *value* as "a worth that can be expressed in dollars and cents."

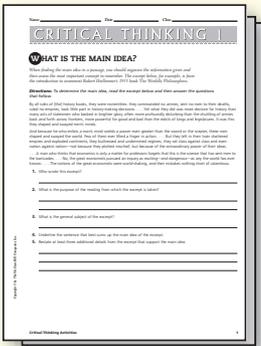
Differentiated Instruction

What Is the Main Idea?

- Objective:** Understand the importance of finding the main idea of a passage or feature.
- Focus/Teach:** Discuss how finding main ideas can help students understand a text. Then have students read the passage and answer the questions.
- Assess:** Review the answers to questions 1 through 5 as a class.
- Close:** Ask students to explain how a main idea is different from a supporting detail.

Differentiated Instruction Strategies

- BL** Have students explain how main ideas assist readers.
- AL** Have students write a paragraph about Adam Smith's idea of wealth, with at least three supporting details.
- ELL** Ask students to create a main idea and supporting details graphic organizer using the activity passage.



Critical Thinking Activities, p. 1

D Differentiated Instruction

Kinesthetic Write “human capital” on the board, and have students illustrate the concept. Encourage them to think of their personal skills and abilities, their health, how they learn, and what motivates them. Invite students to label their illustrations and present them to the class. **BL**

C Critical Thinking

Predicting Consequences

Ask: What might happen if individuals don't invest in their own education? (Possible answer: They will have trouble getting a job and making a living.) **OL**

S Skill Practice

Analyzing Charts Ask students to draw a conclusion based on the information in the chart. (Possible answer: Achieving higher education increases an individual's income.) **OL**

Economic Analysis

Answer: Education improves people's skills and abilities, which benefits both employers and their employees.

Hands-On Chapter Project

Step 2

Modeling an Economic Decision

Step 2: Identifying Basic Economic Concepts. Students will answer basic economic questions about their T-shirt business.

Directions: Ask student groups to work together to answer the following questions about their T-shirt business:

- Are you producing a good or a service? If it is a good, is it durable or nondurable? Explain.
- What consumers will you target with your product?
- Describe the value of your product.
- Describe three ways in which you can increase your business's productivity and achieve growth.
- What other kinds of businesses will you need to depend on to make and sell your product?

Comparing Have groups compare their answers with one another. Allow them time to revise or change their answers, if necessary.

OL

(Chapter Project continued in Section 3.)

economic growth
increase in a nation's total output of goods and services over time

productivity
measure of the amount of output produced with a given amount of productive factors

human capital
sum of people's skills, abilities, health, knowledge and motivation

Personal Finance Handbook

See pages R16–R19 for more information on education.

Productivity and Economic Growth

MAIN Idea A nation's economic growth is due to several factors.

Economics & You Have you decided yet what you will do after graduating from high school? Read on to learn how investing in more education now can give you a higher lifetime income.

Economic growth occurs when a nation's total output of goods and services increases over time. This means that the circular flow becomes larger, with more factors of production, goods, and services flowing in one direction and more payments in the opposite direction. Productivity is the most important factor contributing to economic growth.

Productivity

Everyone in a society benefits when scarce resources are used efficiently. This is described by the term **productivity**, a measure of the amount of goods and services produced with a given amount of resources in a specific period of time.

Productivity goes up whenever more can be produced with the same amount of resources. For example, if a company produced 5,000 pencils in an hour, and it produced 5,100 in the next hour with the same amount of labor and capital, productivity went up. Productivity is often discussed in terms of labor, but it applies to all factors of production.

Investing in Human Capital

A major contribution to productivity comes from investments in **human capital**, the sum of people's skills, abilities, health, knowledge, and motivation. Government can invest in human capital by providing education and health care. Businesses can invest in training and other programs that improve the skills of their workers. Individuals can invest in their own education by completing high school, going to technical school, or attending college.

Figure 1.4 shows that investments in education can have substantial payoffs. According to the table, high school graduates earn substantially more than nongraduates, and college graduates make even more than

Figure 1.4 ▶ Effect of Education on Income



▶ Education is one way to invest in human capital.

Economic Analysis How does this type of investment pay off for both employers and their employees?

Education	Average income	
	Males	Females
Less than 9th grade	\$19,746	\$11,492
9th to 12th grade (no diploma)	\$23,747	\$13,343
High school graduate or equivalent	\$34,700	\$20,325
Some college, no degree	\$43,531	\$25,111
Associate degree	\$45,800	\$29,031
Bachelor's degree	\$65,523	\$37,373
Master's degree	\$83,189	\$48,945
Professional degree	\$126,728	\$63,322
Doctorate degree	\$103,939	\$67,676

Source: U.S. Department of Commerce, Bureau of the Census, 2006

high school graduates. Educational investments require that we make a sacrifice today so we can have a better life in the future, and few investments generate higher returns.

Division of Labor and Specialization

Division of labor and specialization can improve productivity. **Division of labor** is a way of organizing work so that each individual worker completes a separate part of the work. In most cases, a worker who performs a few tasks many times a day is likely to be more proficient than a worker who performs hundreds of different tasks in the same period.

Specialization takes place when factors of production perform only tasks they can do better or more efficiently than others. The division of labor makes specialization possible. For example, the assembly of a product may be broken down into a number of separate tasks (the division of labor). Then each worker can perform the specific task he or she does best (specialization).

One example of the advantages offered by the division of labor and specialization is Henry Ford's use of the assembly line in automobile manufacturing. Having each worker add one part to the car, rather than a few workers assembling the entire vehicle, cut the assembly time of a car from a day and a half to just over 90 minutes—and reduced the price of a new car by more than 50 percent.

Economic Interdependence

The U.S. economy has a remarkable degree of **economic interdependence**. This means that we rely on others, and others rely on us, to provide most of the goods and services we consume. As a result, events in one part of the world often have a dramatic impact elsewhere.

This does not mean that interdependence is necessarily bad. The gains in productivity and income that result from specialization almost always offset the costs associated with the loss of self-sufficiency.

Reading Check **Analyzing** What role does specialization play in the productivity of an economy?

division of labor
division of work into a number of separate tasks to be performed by different workers

specialization
assignment of tasks to the workers, factories, regions, or nations that can perform them more efficiently

economic interdependence
mutual dependency of one person's, firm's, or region's economic activities on another's

Skills Handbook
See page R40 to learn about **Analyzing Information**.

SECTION

2

Review

Vocabulary

- Explain** the significance of good, consumer good, durable good, nondurable good, service, value, paradox of value, utility, wealth, market, factor market, product market, economic growth, productivity, human capital, division of labor, specialization, and economic interdependence.

Main Ideas

- Explaining** How do goods and services differ?
- Organizing** Use a graphic organizer similar to the one below to describe the different transactions that take place in product markets.



- Describing** How is economic growth related to productivity?

Critical Thinking

- The BIG Idea** How is value related to scarcity and utility?
- Drawing Conclusions** Why is investing in human capital beneficial?
- Analyzing Visuals** Look at Figure 1.3. How can individuals increase the flow of circular activity? What effect would this increase have on the other parts of the economy?
- Inferring** How might major events such as labor strikes affect you and your community? Select a possible event and write a brief paragraph about the potential effects.

Applying Economics

- Specialization** Provide at least three examples each of specialized workers and specialized capital that are used in your school to provide the service of education. How would productivity change if they were not available to your school?

Writing Support

Personal Writing Have students write about ways that they are dependent on others or how others are dependent on them. Then have students circle which examples show economic interdependence and explain why. **OL**

Reading Check **Answer:** It allows people to become more efficient by performing tasks that they can do better than others; this makes the economy more productive.

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 2, and then assign the Section 2 Review as homework or as an in-class activity.

Close

Making Connections Have students choose a product and identify its value and utility. **OL**

Review

SECTION

2

Answers

- All definitions can be found in the section and the Glossary.
- Goods are tangible products, and services are work or labor performed for someone.
- Organizers should illustrate the following transactions: Consumers spend money on goods and services. Businesses use this income to produce goods and services for consumers.
- High productivity results in economic growth.
- The value of a good or service depends on its scarcity and utility.
- Possible answer:** It makes employees more skilled, which increases a company's productivity.
- Individuals could spend more of their income on goods and services. That increase would put more income into businesses, which would produce more goods and services for the individuals.
- Answers will vary but should include the concept that during a labor strike, people produce fewer goods to sell and usually have less money to spend.
- Answers will vary, but students may say that the quality of education would drop if specialized workers (such as teachers and school nurses) and specialized capital (such as government grants and school levies) were not available.

Profiles in Economics

Teach

D Differentiated Instruction

Visual/Spatial Have students create a two-column chart, with the first column listing Adam Smith's new economic ideas and the second column describing each new idea. (*Division of labor: labor becomes more productive as each worker becomes more skilled at a single job. "Invisible hand": the belief that competition and individual self-interest would invisibly guide resources to their most productive uses. Wealth of nations: the sum of goods produced by labor.*) **OL**

Examining the Profile

Answers:

1. the importance of the division of labor, the idea of the "invisible hand" guiding resources, and the definition of the wealth of nations
2. Answers will vary but may include that factories use division of labor.

Additional Support



Adam Smith studied to become a philosopher. Yet today he is best known for his support of a free market economy.

Adam Smith (1723–1790)

- introduced the idea that the division of labor led to the great prosperity of Britain
- defined the wealth of a nation as the sum of the goods produced by its people

Division of Labor

Adam Smith did not set out to become an economist. In fact, he focused on philosophy when, at age 14, he earned a scholarship to attend Glasgow University. Travels throughout Europe and talks with notable thinkers helped Smith turn his attention to economics. In 1776 he published his most influential book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, in which he observed that labor becomes more productive as each worker becomes more skilled at a single job. This made him the first to introduce and recognize the importance of the "division of labor."

Invisible Hand

D Smith's most important contribution was the notion that competition and individual self-interest would somehow act as an "invisible hand" to guide resources to their most productive uses. He suggested that the role of government should be limited to enforcing contracts, granting patents and copyrights to encourage inventions and new ideas, and providing public works, such as roads and bridges.

Wealth of Nations

Smith also put forth the new idea that the "wealth of nations" should be defined as the sum of the goods produced by labor, not the personal financial wealth of those who owned them. Competition in markets, along with the division of labor and the invisible hand, would lead to increased productivity and output. Smith's doctrine of *laissez-faire* (French for "let it be") marked the beginning of modern economic thought, and it still serves as the basis of our free market economy.

Examining the Profile

1. **Summarizing Ideas** What ideas did Adam Smith contribute to economic thought?
2. **Synthesizing** Explain how Smith's ideas are evident in the workings of the American economy.

Activity: Collaborative Learning

Division of Labor Have students work together in small groups to form a fictitious business that manufactures a product such as computers, shoes, automobiles, or microwaves. Using the division of labor idea, have each group write an organizational plan for their business, where each group member is assigned a single job to perform. Groups should ensure that every position has a job description that contributes to the success of

the company. When groups have completed their plans, have volunteers present them to the class and predict how division of labor will influence their company's productivity. After each presentation, have a class discussion on how division of labor benefits each fictitious company. **OL**

GUIDE TO READING

Section Preview

In this section, you will learn that you face trade-offs and opportunity costs whenever you make an economic decision.

Content Vocabulary

- trade-off (p. 20)
- opportunity cost (p. 20)
- production possibilities frontier (p. 21)
- economic model (p. 23)
- cost-benefit analysis (p. 24)
- free enterprise economy (p. 24)
- standard of living (p. 24)

Academic Vocabulary

- alternative (p. 20)
- assumption (p. 23)

Reading Strategy

Identifying As you read this section, complete a graphic organizer similar to the one below by identifying the ways in which you can make economic choices and what these strategies allow you to learn.

Problems	Strategy	Purpose
Trade-offs	Decision-making grid	

PEOPLE IN THE NEWS

—BusinessWeek

The Grease Pits of Academia

Students at Belmont Abbey College may have a head start in the race for post-graduation jobs—at least jobs that go *VROOM!* Starting this fall, the 1,000-student school outside Charlotte, N.C., will offer the nation’s first four-year bachelor’s degree in Motorsports Management. Students will study such topics as sports marketing and racing management.

“The program will be NASCAR-focused but will have a broad application to all portions of the motor sports industry,” says Philip Bayster, head of the school’s business department. Charlotte, the NASCAR epicenter, is home to about 250 racing teams and 25 specialized media and marketing firms.

Pay is anything but the pits. Annual salaries for the region’s 14,000 motor sports jobs, not including drivers, average \$72,000. ■



What will you do after graduating from high school? Get a job? Go to college? If you choose to work, you will benefit by receiving a paycheck right away. If you decide to earn a college degree—like the NASCAR-focused degree at Belmont Abbey College—you may give up four years of earning potential. The benefit, however, is that your income after college will be

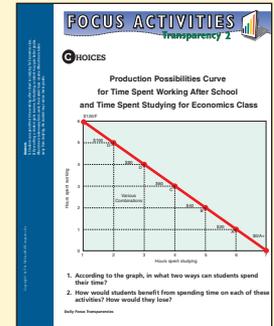
greater than the income you will earn with just a high school diploma.

Because resources are scarce, everyone has to make choices. To become a good decision maker, you need to know how to identify the problem and then analyze your alternatives. Finally, you have to make your choice in a way that carefully considers the costs and benefits of each possibility.

Focus

Bellringer

Daily Focus Transparency 2



GUIDE TO READING

Possible Answers to Graphic:

Trade-offs: decision-making grid; helps evaluate choices

Opportunity cost: decision-making grid; helps in deciding the next best alternative

Comparing choices: cost-benefit analysis; helps make choices with the highest return for the dollar spent

Resource Manager

R Reading Strategies	C Critical Thinking	D Differentiated Instruction	W Writing Support	S Skill Practice
<p>Teacher Edition</p> <ul style="list-style-type: none"> • Using Context Clues, p. 21 • Making Connections, p. 23 <p>Additional Resources</p> <ul style="list-style-type: none"> • Guid. Read. Act., p. 3 • Read. Ess. & Note-Taking Guide, p. 7 	<p>Teacher Edition</p> <ul style="list-style-type: none"> • Making Connections, p. 21 • Compare/Contrast, p. 24 <p>Additional Resources</p> <ul style="list-style-type: none"> • Math Prac. for Econ., p. 1 • Econ. Concepts Trans., Strat. & Act., p. 5 	<p>Teacher Edition</p> <ul style="list-style-type: none"> • Logical/Math., p. 22 • Verbal/Linguistic, p. 24 • Intrapersonal, p. 25 <p>Additional Resources</p> <ul style="list-style-type: none"> • Enrichment Act., p. 1 • Reading and Study Skills Fold., p. 48 	<p>Teacher Edition</p> <ul style="list-style-type: none"> • Persuasive Writing, p. 20 • Personal Writing, p. 23 • Expository Writing, p. 31 <p>Additional Resources</p> <ul style="list-style-type: none"> • Writer’s Guidebook 	<p>Teacher Edition</p> <ul style="list-style-type: none"> • Analyzing Charts, p. 20 • Visual Literacy, p. 26 • Analyzing Info., p. 30 <p>Additional Resources</p> <ul style="list-style-type: none"> • Daily Focus Trans. 2, 97

Teach

W Writing Support

Persuasive Writing Instruct students to think of a recent economic choice they made and the trade-offs involved in that choice. Then, direct them to write a short persuasive essay in which they explain their choice and attempt to convince others that they made the correct choice. **OL**

S Skill Practice

Analyzing Charts **Ask:** *Would you have made the same decision as Jesse? Why or why not?* (Students may have made a different decision because the criteria would have been different for them.) **OL**

✓ Reading Check **Answer:** The opportunity cost refers to the cost of the next-best alternative. Trade-offs include all of the other alternative choices.

Economic Analysis

Answer: They mean opportunity cost, or the cost of the next-best alternative.

Additional Support

trade-off alternative that is available whenever a choice is to be made

opportunity cost cost of the next-best alternative use of money, time, or resources when making a choice

Trade-Offs and Opportunity Cost

MAIN Idea Economic choices involve trade-offs and the careful evaluation of opportunity costs.

Economics & You When you go shopping, you usually have to make choices, because you cannot afford to buy everything you want. Read on to learn about the terms economists apply to these decisions.

There are alternatives and costs to everything we do. In a world where “there is no such thing as a free lunch,” it pays to examine these concepts closely.

Trade-Offs

Every decision we make has its **trade-offs**, or alternative choices. One way to help us make decisions is to construct models such as the grid in **Figure 1.5**. This grid shows how Jesse decides to spend a \$100 gift.

Jesse likes several **alternatives**: a video game, concert tickets, an MP3 player, and a replica NFL jersey. At the same time, he realizes that each item has advantages and disadvantages. Some of the items can be used more than once, and some might require his parents’ consent. Some even have additional costs such as batteries.

To help with his decision, Jesse can draw a grid that lists his alternatives and several

criteria by which to judge them. Then he evaluates each alternative with a “yes” or “no.” In the end, Jesse chooses the jersey because it satisfies more of his criteria than any other alternative.

Using a decision-making grid is one way to analyze an economic problem. It forces you to consider a number of alternatives and the criteria you’ll use to evaluate the alternatives. Finally, it makes you evaluate each alternative based on the criteria you selected.

Opportunity Cost

People often think of cost in terms of dollars and cents. To an economist, however, cost means more than the price tag on a good or service. Instead, economists think broadly in terms of **opportunity cost**, the cost of the next-best alternative. When Jesse decided to purchase the jersey, his opportunity cost was the MP3 player—the next-best choice he gave up. In contrast, trade-offs are all of the other alternatives that he could have chosen.

Even time has an opportunity cost, although you cannot always put a monetary value on it. The opportunity cost of reading this economics book, for example, the history paper or math homework that you could not do at the same time.

✓ Reading Check **Summarizing** How are trade-offs and opportunity cost related?

Figure 1.5 ▶ **Jesse’s Decision-Making Grid**

Alternatives	Criteria				
	Costs \$100 or less?	Durable?	Will parents approve?	Future expense unnecessary?	Can use anytime?
Video game	yes	yes	no	yes	no
Concert tickets	yes	no	yes	no	no
MP3 player	yes	yes	yes	no	yes
NFL jersey	yes	yes	yes	yes	yes

▶ A decision-making grid lists alternatives and criteria to help evaluate choices.

Economic Analysis *What do economists mean when they talk about costs?*

Extending the Content

Trade-Offs of Higher Education

As many high school students approach graduation, they must weigh the trade-offs of attending college or immediately entering the workforce. In 2004, 67 percent of students completing high school chose to enroll in college. This percentage has increased from 49 percent in 1972. In making these choices, high school

graduates must weigh both the cost of attending college, as well as the potential earning power they will gain by acquiring a college education. For the academic year 1984–1985, the average cost of undergraduates’ tuition, room, and board was about \$4,500. By 2004–2005, that figure had increased to more than \$13,000. However, the earning power of workers

with a college degree also proved significantly higher than that of workers with a high school diploma or GED. In 2004, males with a bachelor’s degree or higher earned about 67 percent more than workers who had only completed high school.

Production Possibilities

MAIN Idea Economies face trade-offs when deciding what goods and services to produce.

Economics & You You just learned that you face trade-offs and opportunity costs when making choices. Read on to learn how opportunity cost applies to countries as well as individuals.

To illustrate opportunity cost, economists use the **production possibilities frontier**, a diagram representing various combinations of goods and services an economy can produce when all its resources are in use. In the example in **Figure 1.6**, a mythical country called Alpha produces two goods—cars and clothing.

Identifying Possible Alternatives

Even though Alpha produces only two goods, the country has a number of alternatives available to it. For example, it could choose to use all of its resources to produce 70 units of cars and 300 units of clothing, which is shown as point **a** in **Figure 1.6**. Or it could shift some of its resources out of car production and into clothing, thereby moving to point **b**. Alpha could even choose to produce at point **c**, which represents all clothing and no cars, or at point **e**, which is inside the frontier.

Alpha has many alternatives available to it, which is why the figure is called a production “possibilities” frontier. Eventually, though, Alpha will have to settle on a single combination such as point **a**, **b**, or any other point on or inside the curve, because its resources are limited.

Fully Employed Resources

All points on the curve such as **a**, **b**, and **c** represent *maximum* combinations of output that are possible if all resources are fully employed. To illustrate, suppose that Alpha is producing at point **a**, and the people would like to move to point **d**, which represents the same amount of cars, but more clothing. As long as all resources are fully employed at point **a**, there are no extra

resources available to produce the extra clothing. Therefore, point **d** cannot be reached, nor can any other point outside the curve. This is why the figure is called a production possibilities “frontier”—to indicate the maximum combinations of goods and services that can be produced.

production possibilities frontier diagram representing the maximum combinations of goods and/or services an economy can produce when all productive resources are fully employed

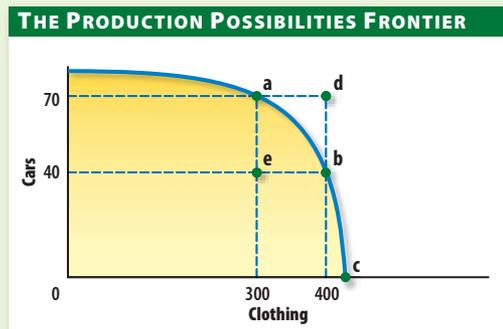
The Cost of Idle Resources

If some resources were not fully employed, then it would be impossible for Alpha to reach its maximum potential production. Suppose that Alpha was producing at point **b** when workers in the clothing industry went on strike. Clothing production would fall, causing total output to change to point **e**. The opportunity cost of the unemployed resources would be the 100 units of lost clothing production.

Production at point **e** could also be the result of other idle resources, such as factories or land that are available but not being used. As long as some resources are idle, the country cannot produce on its frontier—which is another way of saying that it cannot reach its full production potential.

Figure 1.6

Production Possibilities Frontier



▶ The production possibilities frontier shows the different combinations of two products that can be produced if all resources are fully employed.

Economic Analysis Why can production take place on or inside the frontier?

Reading Strategy

Using Context Clues Ask: What is the meaning of the term *frontier* when used by economists? (Answers may include a boundary or a limit. Countries have a boundary or limit when considering the maximum combination of goods and services that can be produced.) **OL**

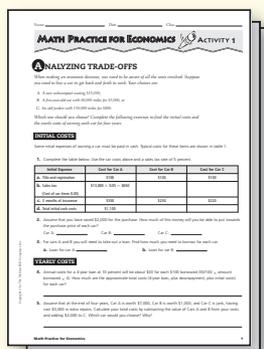
Critical Thinking

Making Connections Have students imagine a scenario in which it would be useful for a company to construct a production possibilities frontier. Ask volunteers to share their scenarios with the class. (Possible answer: A company is producing CDs and cassettes. They are thinking of eliminating cassettes and just producing CDs, but they want to see all the production possibilities before making their decision.) **OL**

Economic Analysis

Answer: Production on or inside the frontier indicates the maximum combinations of goods and services that can be produced.

Differentiated Instruction



Math Practice for Economics, p. 1

Analyzing Trade-Offs

Objective: Understand the costs involved whenever a choice is made.

Focus/Teach: Ask students to brainstorm possible purchases that involve choices. Then review the decision-making grid, and have students answer the activity questions.

Assess: Discuss the reasons behind students' choices.

Close: Ask students why it is important to analyze trade-offs when they are making economic decisions.

Differentiated Instruction Strategies

BL Have students summarize the concept of trade-offs.

AL Ask students to write a brief paragraph explaining how knowing about trade-offs will influence their decision making in the future.

ELL Have students fill out a decision-making grid as they complete the activity.

D Differentiated Instruction

Logical/Mathematical Tell students that Gerard has two choices for a summer job—a manufacturing job that pays \$10.25 per hour or a landscaping job that pays \$8.65 per hour. At the landscaping company, he could work and have lunch with three of his closest friends.

Ask: For one 40-hour workweek, what would be the opportunity cost, in dollars, of accepting the landscaping job? (\$64.00) What would be the opportunity cost of accepting the manufacturing job? (not working or eating lunch with his friends every day) **OL**

Economic Analysis

Answer: zero

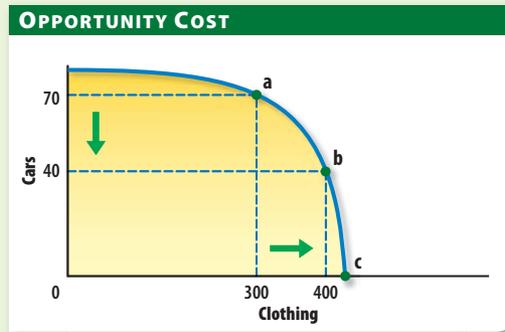
Economic Analysis

Answer: having more resources or increased productivity

Reading Check

Answer: by representing potential output at a given point in time

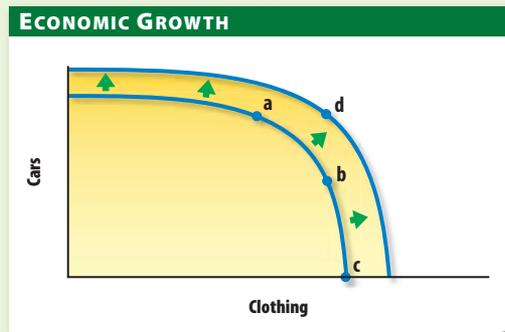
Figure 1.7 ▶ Opportunity Cost



▶ When the production for one item increases, the production of other items decreases. In the example shown, the opportunity cost for producing an additional 10 units of clothing is the 30 cars given up.

Economic Analysis If Alpha decided to produce units of clothing at point c, what would be the opportunity cost in cars?

Figure 1.8 ▶ Economic Growth



▶ The only way to expand the production possibilities frontier is to attain economic growth.

Economic Analysis What factors make it possible for the economy to grow?

D Opportunity Cost

Suppose that Alpha was producing at point a and that it wanted to move to point b. This is clearly possible as long as point b is not outside the production possibilities frontier. However, Alpha will have to give something up in return. As shown in Figure 1.7, the opportunity cost of producing the 100 additional units of clothing is the 30 units of cars given up.

As you can see, opportunity cost applies to almost all activities, and it is not always measured in terms of dollars and cents. For example, you need to balance the time you spend doing homework and the time you spend with your friends. If you decide to spend extra hours on your homework, the opportunity cost of this action is the time that you cannot spend with your friends. You normally have a number of trade-offs available whenever you make a decision, and the opportunity cost of the choice you make is the value of the next best alternative that you give up.

Economic Growth

The production possibilities frontier represents potential output at a given point in time. Eventually, however, changes may cause the production possibilities frontier to expand. The population may grow, the stock of capital may expand, technology may improve, or productivity may increase. If any of these changes occur, then Alpha will be able to produce more in the future.

The effect of economic growth is shown in Figure 1.8. Economic growth, made possible by having more resources or increased productivity, causes the production possibilities frontier to move outward. Economic growth will eventually allow Alpha to produce at point d, which it could not do earlier.

Reading Check

Synthesizing How can the production possibilities frontier be used to illustrate economic growth?

Leveled Activities

BL Reading Essentials and Note-Taking Guide, p. 7

Chapter 1, Section 3 (Pages 19–25)
Economic Choices and Decision Making

Big Idea
We use our pages 19–25 in your textbook, complete the graphic organizer below by identifying the ways in which you can make economic choices and what their consequences are for you.

Decision	Strategy	Response
Trade-offs	Decision-making grid	

Notes **Read to Learn**
Trade-Offs and Opportunity Cost (p. 20)

Economies exist because people make choices to satisfy their wants and needs with scarce resources. When people make choices, they consider their options. Every decision has trade-offs. A trade-off is an alternative that is available whenever a choice is to be made. People can use a decision-making grid to systematically analyze alternatives that they make in economic decisions. Decision-making grids show a number of alternatives and the results used to select the alternative. For example, a decision-making grid could compare colleges based on the criteria of location, price, and expenses in a particular subject. When economists evaluate the cost of a good or service, they consider more than just the price. They also consider the opportunity cost, or the cost of the next-best alternative use of resources, time, or resources. For example, the opportunity cost of going to the mall on a Tuesday may be not watching a football game on TV.

Synthesizing Information
Why are the opportunity costs of a choice zero when the opportunity cost of that choice is zero?

Chapter 1, Section 3

OL Economic Concepts Transparencies, Strategies, and Activities, p. 3

ECONOMIC CONCEPTS Student Activity 2

OPPORTUNITY COST AND TRADE-OFFS

ABOUT THE CONCEPT
Opportunity cost is the value of the next best alternative that is given up when a choice is made. It is the cost of the next best alternative that is not chosen. Opportunity cost is not always measured in terms of dollars and cents. It can be measured in terms of time, effort, or other resources.

RESPONDING TO THE TRANSPARENCY
Use the transparency to answer the following questions.

- What is the decision that Depew's daughter has made?
- What are some of the possible benefits of her decision?
- What are some of the possible costs of her decision?

GOING BEYOND THE TRANSPARENCY

- Are all choices free of opportunity cost? Why or why not?
- Are all choices free of opportunity cost? Why or why not?
- Give an example of a choice that is free of opportunity cost. What are the opportunity costs of your decision?
- Did it cost anything to complete this activity? If so, what was your opportunity cost?

Economic Concepts

AL Enrichment Activities, p. 1

ENRICHMENT Chapter 1

HUNGER FOR ECONOMIC KNOWLEDGE
Imagine that you are a student at a college. You are hungry for economic knowledge. You are looking for ways to learn more about economics. You are looking for ways to learn more about economics. You are looking for ways to learn more about economics.

- Describe the hunger for economic knowledge that you have.
- How can you learn more about economics? What are some ways to learn more about economics?
- Give an example of a choice that is free of opportunity cost. What are the opportunity costs of your decision?
- What are some economic choices that you have made? What are the opportunity costs of those choices?

Enrichment Activities

Thinking Like an Economist

MAIN Idea Economists use a strategy called cost-benefit analysis to evaluate choices.

Economics & You When you work a complicated math problem, do you ever look at a simplified example to better understand the process? Read on to learn how economists use models to understand complex economic activities.

Because economists study how people satisfy seemingly unlimited and competing wants through the careful use of scarce resources, they are concerned with strategies that will help people make the best choices. Two strategies are building models and preparing a cost-benefit analysis.

Build Simple Models

One of the most important strategies is to build economic models. An **economic model** is a simplified equation, graph, or figure showing how something works. Simple models can often reduce complex situations to their most basic elements. To illustrate, the production possibility frontiers in this section and the circular flow diagram in Figure 1.3 on page 15 are examples of how complex economic activity can be explained by a simple model.

Another basic model is the production possibilities frontier that is illustrated in Figure 1.6 on page 21. Realistically, of course, economies are able to produce more than two goods or services, but the concepts of trade-offs and opportunity costs are easier to illustrate if only two products are examined. As a result, simple models such as these are sometimes all that economists need to analyze or describe an actual situation.

It is important to realize that models are based on **assumptions**, or things we think are true. In general, the quality of a model is no better than the assumptions on which it is based, but a model with simple assumptions is usually easier to understand. In the case of the production possibilities frontier,

for example, we assumed that only two goods could be produced. This made the model easier to illustrate and still allowed us to discuss the concepts of trade-offs and opportunity costs.

It is also important to keep in mind that models can be revised to make them better. If an economic model helps us to make a prediction that turns out to be right, the model can be used again. If the prediction is wrong, the model might be changed to make better predictions the next time.

economic model simplified version of a complex concept or behavior expressed in the form of an equation, graph, or illustration

CAREERS

Economist

The Work

- * Collect and analyze data, observe economic trends
- * Advise businesses and other organizations on such topics as energy costs, inflation, imports, and employment levels
- * Study economic conditions in the United States or in other countries to estimate the economic effects of new legislation or public policies

Qualifications

- * Strong computer and quantitative skills
- * Ability to conduct complex research, write reports, and prepare statistical data
- * Bachelor's degree, with a focus on economics and statistics, accounting, or calculus
- * Master's degree required for most economists in the private sector

Earnings

- * Median annual earnings: \$72,780

Job Growth Outlook

- * Slower than average

Source: *Occupational Outlook Handbook, 2006–2007 Edition*



Reading Strategy

Making Connections Ask students to think about the ways in which economists might gather the data they use to study specific parts of the economy. Then, direct students to make a list of these methods. Students may suggest methods such as statistical analysis, polling and interviews, and surveys or questionnaires. Invite students to explain how these approaches to gathering data might help economists develop economic models. **OL**

Writing Support

Personal Writing Have students write a paragraph expressing their thoughts on the following question: *Does an economist's model have value if data collected shows that his or her theory is incorrect?* Students should clearly state their opinions on the topic and provide reasonable explanations for their beliefs. *(Answers will vary, but students may suggest that such a model does have value because it points the way for further study of the issue.)* **AL**

Hands-On Chapter Project

Step 3

Modeling an Economic Decision

Step 3: Evaluating Trade-Offs and Opportunity Costs. Students will identify trade-offs and determine opportunity costs associated with changes in production.

Directions: Explain to students that their T-shirt business must now decide whether to produce hats also. Have students compose a list of possible trade-offs associated with this decision. Inform students that they will evaluate the

opportunity costs associated with producing hats by making a production possibilities curve. Direct students to construct such a curve using the data in the following table.

Number of T-Shirts and Hats Produced

T-Shirts	Hats
500	0
400	175
300	300
200	350
100	400
0	500

Describing When each group has completed its production possibilities chart, ask group members to use their finished work to describe the opportunity costs of producing several quantities of hats. **OL**

(Chapter Project continued in Visual Summary.)

C Critical Thinking

Comparing and Contrasting

Ask: How are economic models and cost-benefit analyses alike and different? (They are both strategies that help people make the best economic choices. An economic model uses graphs, equations, or illustrations to explain concepts. A cost-benefit analysis compares an action to its benefits.) **OL**

D Differentiated Instruction

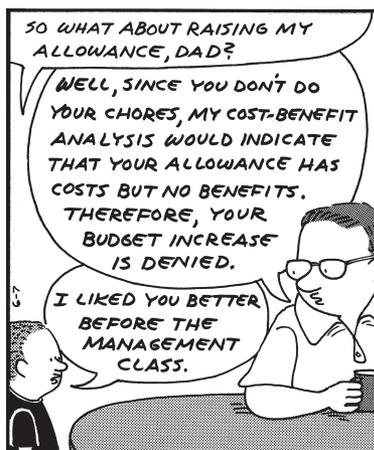
Verbal/Linguistic Have students research to find out what elements are used to measure a country's standard of living (for example, poverty rate and personal income). Have students use their findings to comment on the standard of living in the United States. **OL**

Caption Answer: to investigate projects that give the highest return per dollar spent

✓ Reading Check **Answer:** It reveals the choice with the lowest cost and the highest benefits.

Additional Support

Cost-Benefit Analysis Before making any major financial decisions, it is a good idea to weigh the benefits against the costs. **How might a business use cost-benefit analysis?**



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cost-benefit analysis way of thinking about a choice that compares the cost of an action to its benefits

free enterprise economy market economy in which privately owned businesses have the freedom to operate for a profit with limited government intervention

standard of living quality of life based on ownership of necessities and luxuries that make life easier

Apply Cost-Benefit Analysis

Most economic decisions can be evaluated with **cost-benefit analysis**, a way of comparing the costs of an action to the benefits received. This is what Jesse did when he devised a decision-making grid. This decision can be made subjectively, as when Jesse selected the jersey, or it can be made more objectively, especially if the costs of the various alternatives are different.

To illustrate, suppose that you have to make a decision, and you like choices A and B equally. If B costs less, it would get more satisfaction per dollar spent. Businesses make investment decisions in exactly this manner, choosing to invest in projects that give the highest return per dollar spent or, in other words, the best cost-benefit ratio.

Take Small, Incremental Steps

Finally, it also helps to take small, incremental steps toward the final goal. This is especially valuable when we are unsure of the exact cost involved. If the cost turns out to be larger than we anticipated, then the resulting decision can be reversed without too much being lost.

✓ Reading Check **Explaining** How does cost-benefit analysis help make economic decisions?

The Road Ahead

MAIN Idea The study of economics helps people become better citizens.

Economics & You As you become old enough to vote, are you also becoming more aware of current events? Read on to learn how economic issues affect politics.

The study of economics does more than explain how people deal with scarcity. Economics also includes the study of how things are made, bought, sold, and used. It provides insight as to how incomes are earned and spent, how jobs are created, and how the economy works on a daily basis. The study of economics also gives us a better understanding of the workings of a **free enterprise economy**—one in which consumers and privately owned businesses, rather than the government, make the majority of the WHAT, HOW, and FOR WHOM decisions.

Topics and Issues

The study of economics will provide you with a working knowledge of the economic incentives, laws of supply and demand, price system, economic institutions, and property rights that make the U.S. economy function. Along the way, you will learn about topics such as unemployment, the business cycle, inflation, and economic growth. You will also examine the role of business, labor, and government in the U.S. economy, as well as the relationship of the United States economy with the international community.

All of these topics have a bearing on our **standard of living**—the quality of life based on the ownership of the necessities and luxuries that make life easier. As you study economics, you will learn how to measure the value of our production and how productivity helps determine our standard of living. You will find, however, that the way the American people make economic decisions is not the only way to make these decisions.

Activity: Interdisciplinary Connection

Science Tell students that determining value can be very difficult when economic decisions are related to environmental concerns. When the Northern Spotted Owl was declared a threatened species, the owls' nesting sites and surrounding locations became protected by the government. This helped the chances for the owls' survival, but it greatly impacted the logging industry in parts of the northwest. Because fewer trees could be cut down,

logging decreased dramatically. Many workers lost their jobs in an area with few other economic opportunities. Have students report on another case in which environmental government policy impacted the economy. Discuss how the value of the environment might be weighed against other economic concerns. **OL**

Economists have identified three basic kinds of economic systems. We will analyze these systems and how their organization affects decision making in the next chapter.

Economics for Citizenship

The study of economics helps us become better decision makers—in our personal lives as well as in the voting booths. Economic issues are often debated during political campaigns, so we need to understand the issues before deciding which candidate to support.

Most of today's political problems have important economic aspects. For example, is it important to balance the federal budget? How can we best keep inflation in check? What methods can we use to strengthen our economy? The study of economics will not provide you with clear-cut answers to all of these questions, but it will give you a better understanding of the issues involved.

Understanding the World Around Us

The study of economics helps us understand the complex world around us. This is particularly useful because the world is not as orderly as your economics textbook, for example. Your book is neatly divided into sections for study. In contrast, society is dynamic, and technology and other innovations always lead to changes.

Economics provides a framework for analysis—a structure that helps explain how things are organized. Because this framework describes the incentives that influence behavior, it helps us understand why and how the world changes.

In practice, the world of economics is complex and the road ahead is bumpy. As we study economics, however, we will gain a much better appreciation of how we affect the world and how it affects us.

Reading Check Determining Cause and Effect

How do you think our society would be different if citizens did not study economics?

Economics ONLINE

Student Web Activity Visit the *Economics: Principles and Practices* Web site at glencoe.com and click on *Chapter 1—Student Web Activities* to learn more about how economics affects our lives.

D Differentiated Instruction

Intrapersonal Ask students to consider past economic decisions, such as buying a gift or finding a job. Then have them write a journal entry in response to this question: *How can studying economics help you personally?* **OL**

Reading Check Possible

Answer: Our society as a whole might not make good decisions for groups or individuals.

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 3, and then assign the Section 3 Review as homework or as an in-class activity.

Close

Making Connections Have students imagine that they have won \$100 in a raffle. Ask them how the knowledge of trade-offs and opportunity cost can help them decide what to do with the money. **OL**

SECTION

3

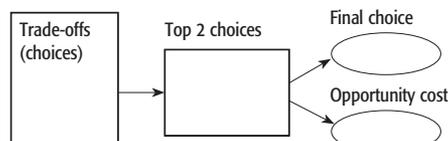
Review

Vocabulary

1. **Explain** the significance of trade-off, opportunity cost, production possibilities frontier, economic model, cost-benefit analysis, free enterprise economy, and standard of living.

Main Ideas

2. **Illustrating** Imagine you have \$50 to spend. What one item would you buy? Complete the graphic organizer below to illustrate your final choice, the opportunity cost of your choice, and the trade-offs.



3. **Explaining** What decision-making strategies do economists recommend using?

Critical Thinking

4. **The BIG Idea** Why is it important for governments to understand trade-offs and opportunity costs? Explain in a brief paragraph.

5. **Synthesizing** How does economics play a part in politics?

6. **Analyzing Visuals** Study the production possibilities frontier in Figure 1.6 on page 21. What does it mean when the frontier shifts outward? What possible causes exist for such a shift?

Applying Economics

7. **Economic Way of Thinking** Search the newspaper and identify a major economic issue facing your community or state. Identify possible solutions and prepare a decision-making grid to evaluate the alternatives. What decision would you make? Write a short essay in which you explain your choice.

Answers

- All definitions can be found in the section and the Glossary.
- Answers will vary, but students should illustrate how analyzing trade-offs and opportunity costs can help them make economic decisions.
- building economic models and preparing a cost-benefit analysis
- Possible answer:** Understanding trade-offs and opportunity cost helps governments decide what goods and services to produce.
- Possible answer:** Economic issues are often debated in political campaigns. Voters may decide which candidates to support by understanding their positions on economic issues.
- It means that resources have been shifted from the production of one good to another. Possible causes will vary but may include that demand for one of the goods has increased.
- Answers will vary but should demonstrate the student's understanding of decision-making grids to evaluate alternatives.



Teach

S Skill Practice

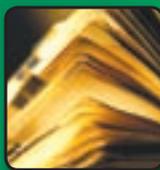
Visual Literacy Ask: Which store carries the most expensive jeans? The least expensive jeans? (Banana Republic; Old Navy) What is the difference in the price of the most expensive jeans and the least expensive jeans? (\$98.50) **OL**

Analyzing the Impact

Answers:

- Each of their brands now has a unique identity that is carried out in the store environment and marketing agenda.
- Answers will vary but should identify aspects of the site's design that reflect the brand's target audience.

Additional Support



Gap, Inc.

Search for the Perfect Jeans

We all have them. And if you don't, you are probably looking for them—the perfect pair of jeans. Preferably, they are faded, soft, and perfect. In 1969, Don and Doris Fisher opened the first Gap store in San Francisco “to make it easier to find” that perfect pair. This store was only the beginning. Gap, Inc., expanded its consumer market through Banana Republic, Old Navy, and, most recently, Forth and Towne.

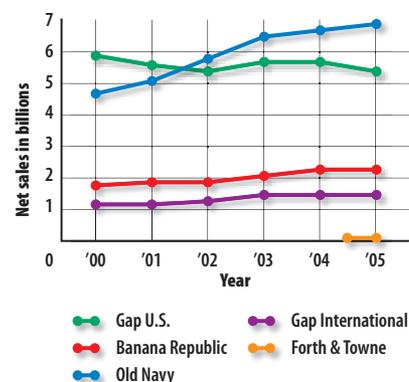


Something for Every “Body”

Why did a single retail shop morph into four different brands? In the 1990s, Gap seemed to be losing its edge. A boastful rival claimed to Gap's then-CEO Mickey Drexler that “he could create a cheap Gap knockoff that one day would be bigger than Gap itself.” Drexler liked the idea and ran with it himself. Enter Old Navy.

Just as each body requires a different pair of jeans—be it boot cut or low rise—each Gap, Inc., brand has a unique identity that is carried out in the store environment and marketing agenda. For example, budget-conscious consumers can peruse the deals at Old Navy while standing on concrete floors and listening to loud music. Down the street at Banana Republic, a more sophisticated crowd is checking out

GAP REVENUES



Source: www.gapinc.com

the season's trendiest fashions at “approachable prices.” Meanwhile, at Forth and Towne, the target is the female baby boomer. These 35-and-over women are treated to chandeliers and lavish fitting rooms stocked with bottled water and chocolates.

Retail Success

The economics and marketing savvy behind the retailer's rise to success are pretty simple: provide a product of value at different price levels in order to reach the maximum number of consumers. It seems to be working. With more than 3,000 stores and 2005 revenues topping out at \$16 billion, Gap, Inc. operates under the notion that every “body” deserves that perfect pair of jeans.

Analyzing the Impact

- Summarizing** How did Gap, Inc., tackle the economic problem of consumers having to make choices?
- Analyzing** Investigate each brand's Web site. How does each site's design reflect the brand's target audience?

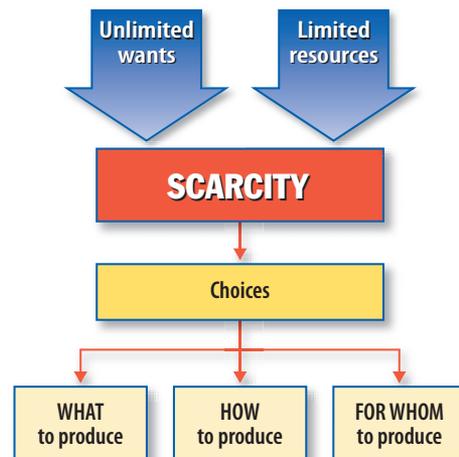
Extending the Content

Gap Facts In 1969 Doris and Don Fisher opened the first Gap clothing store. By the next year, the San Francisco outlet boasted \$2 million in sales. The Fishers quickly opened a number of other Gap stores in the 1970s to capitalize on the brand's popularity. In 1976 the Gap went public, offering 1.2 million shares of stock. Less than eleven years later, the company's annual sales topped \$1 billion. By 1998, the company had Gap stores in all 50

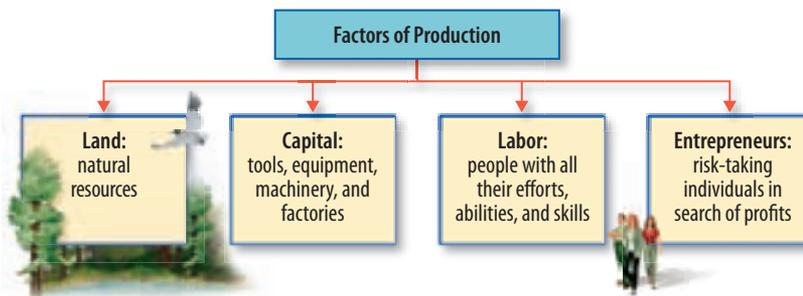
states. The company now operates more than 3,100 stores throughout the United States, Canada, the United Kingdom, France, Ireland and Japan, and employs more than 150,000 people.



- ▶ **Scarcity** Because of scarcity, society needs to decide how to distribute limited resources to satisfy seemingly unlimited wants and needs.



- ▶ **Factors of Production** Four factors of production are required to produce the things we would like to have.



- ▶ **Trade-offs and Opportunity Costs** All economic decisions require us to make choices among alternatives. Trade-offs are all the available alternatives. The opportunity cost is the next-best alternative we give up.



Assessing Ask students to think about needs that all people have and then consider people's most common wants. Have a volunteer record students' responses on the board. Then lead a class discussion about the most significant wants that people seek to acquire. **Ask:** *How do you think people determine what their most important wants will be?* (Answers will vary, but students may suggest that people determine what these wants will be based on factors such as the items' practicality, affordability, status, value, and so on.) **BL**

Personal Writing Direct students to write an essay in which they explain how their economic choices might change if they found themselves with twice the amount of financial resources they currently have. Ask them to consider whether they would allocate more money to spending, saving, and so on, and encourage them to explain the reasoning behind their decisions. **OL**

Modeling an Economic Decision

Step 4: Bringing It All Together. Students will synthesize what they learned in previous steps.

Directions: Have students resume work in their groups. Instruct each group to compile their work throughout the chapter into a booklet. The booklet should include their summary reports from Step 1, their answers to the questions posed in Step 2, and the production possibilities charts from Step 3.

Then, review the Big Idea with students by asking volunteers to explain how the problem of scarcity and the concept of limited resources affected each step in the T-shirt business plan. **OL**

Hands-On Chapter Project

Step 4: Wrap Up

ExamView®

Assessment Suite

This easy-to-use software includes extensive question banks and allows you to create fully customized tests that can be administered in print or online.

Review Content Vocabulary

- | | |
|------|-------|
| 1. b | 2. j |
| 3. h | 4. g |
| 5. f | 6. e |
| 7. i | 8. a |
| 9. d | 10. c |

Review Academic Vocabulary

- 11.–17. Students' sentences will vary but should demonstrate understanding of each term's meaning in an economic context.

Review the Main Ideas

18. Cause: not having enough resources to produce all of the things that people would like to have. Effects: careful decisions have to be made about how to use resources.
19. They are all required to produce goods and services.
20. describing an economic activity; analyzing the economic activity; explaining the activity to other people; predicting what may happen in the future
21. **Consumers:** People who use goods and services to satisfy their wants and needs. **Goods:** Tangible products that are useful, relatively scarce, and transferable to others. **Services:** Acts of work or labor performed for someone.

Review Content Vocabulary

Use the key terms from the list below to complete the sentences that follow.

- | | |
|--------------------------|---------------------|
| a. capital goods | f. opportunity cost |
| b. consumer goods | g. scarcity |
| c. economics | h. services |
| d. factors of production | i. utility |
| e. human capital | j. value |
- Economic products designed for final use by people are called _____.
 - The _____ of a CD player can be expressed in dollars and cents.
 - Haircuts and appliance repairs are examples of _____.
 - _____ arises because society does not have enough resources to produce all the things people would like to have.
 - The _____ of going to a football game instead of working would include the money not earned at your job.
 - _____ is the sum of the skills, abilities, health, and motivation of people.
 - _____ is another name for the capacity of a product to be useful.
 - The only factors of production that are themselves the result of earlier production are _____.
 - Land, capital, labor, and entrepreneurs are _____.
 - _____ is the study of how people use limited resources to satisfy unlimited wants.

Review Academic Vocabulary

On a separate sheet of paper, use each of these terms in a sentence that reflects the term's meaning in the chapter.

- | | |
|-------------------|-----------------|
| 11. resource | 15. mechanism |
| 12. comprehensive | 16. alternative |
| 13. transferable | 17. assumption |
| 14. accumulation | |

28 UNIT 1 Fundamental Economic Concepts

- the fact that some necessities have a very low monetary value and some nonnecessities have a very high value
- Individuals earn their income in factor markets, where factors of production are bought and sold. They spend their income in product markets. Businesses use this money to produce more goods and services.
- to produce more with the same amount of resources; to invest in human capital
- the next-best alternative

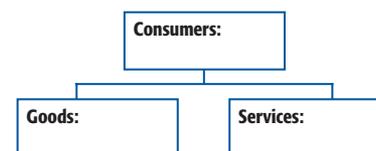
Review the Main Ideas

Section 1 (pages 5–10)

- Identify the cause and effects of scarcity.
- Explain how the factors of production relate to one another.
- Describe the key elements of studying economics.

Section 2 (pages 12–17)

- Define *goods*, *services*, and *consumers* and describe the relationship among the three, using a graphic organizer similar to the one below.



- Describe the paradox of value.
- Explain how the circular flow of economic activity generates wealth in an economy.
- Identify two ways to increase productivity.

Section 3 (pages 19–25)

- Describe how economists view the term *cost*.
- Identify the economic concept illustrated by the production possibilities frontier.
- Describe how economic models help economists develop strategies that help people make economic choices.
- Explain why economic education is important.

Critical Thinking

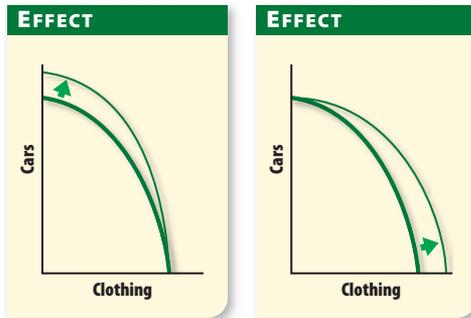
- The BIG Idea** You have learned that scarcity is the fundamental economic problem for societies. Write a short paragraph explaining how scarcity affects you and your family on a daily basis.

- the various combinations of goods and services that an economy can produce when all of its resources are in use
- Economists can use models to analyze or describe an actual situation, which helps people make economic choices.
- It helps us become better decision makers.

Critical Thinking

- Answers will vary, but students should identify the personal effects of scarcity.

- 30. Determining Cause and Effect** Copy the two diagrams of the production possibilities frontiers shown below. Then write captions that explain what each diagram is showing.



- 31. Understanding Cost-Benefit Analysis** How would you apply the concept of cost-benefit analysis to the decision whether to finish high school? To further your education beyond high school? To purchase a computer? Explain your results in a few sentences.
- 32. Evaluating Alternatives** Refer to the chapter opener activity on page 4 and evaluate the alternatives in *one* of the three categories (location, music, refreshments). What criteria will you use? What are the trade-offs? On a separate sheet of paper, illustrate your decision in a decision-making grid similar to the one below.

Alternatives	Criterion 1	Criterion 2	Criterion 3	Criterion 4

Writing About Economics

- 33. Persuasive Writing** Research a recent school funding levy for your school district that was not approved. Find out what changes the school district had to implement to adjust to the reduced funding levels and reduced resources available to schools. Write a two-page paper in which you evaluate the choices.

Math Practice

- 34.** A city administrator with a \$100,000 annual budget is trying to decide between fixing potholes or directing traffic after school at several busy intersections. Studies have shown that 15 cars hit potholes every week, causing an average of \$200 in damages. Collisions at the intersections are less frequent, averaging one per month at an average cost of \$6,000, although none have caused injuries or deaths. Use this information to answer the following questions.
- What are the annual costs from the pothole damage?
 - What are the annual costs due to damage from collisions?
 - Given the size of the annual budget, make your recommendation as to which project should be undertaken. Explain your answer in terms of dollar benefits per dollar spent.

Thinking Like an Economist

- 35.** Use a problem-solving process to gather information about the alternatives, trade-offs, and opportunity costs facing the city administrator in the previous question. Consider the advantages and disadvantages of implementing the possible solutions. Prepare a written summary.

Interpreting Cartoons

- 36. Critical Thinking** Look at the cartoon below. How does the message of this cartoon relate to the concepts presented in this chapter?



Economics ONLINE

Have students visit the Web site at glencoe.com to review Chapter 1 and take the **Self-Check Quiz**.

Thinking Like an Economist

- 35.** Answers will vary but should demonstrate use of a problem-solving process to consider advantages and disadvantages of implementing possible solutions.

Interpreting Cartoons

- 36.** Answers will vary but should demonstrate an understanding of trade-offs and opportunity costs.

- 30.** Answers will vary, but students should note that in the first diagram, the production of cars is shown increasing while the production of clothing stays the same. In the second diagram, the production of cars stays the same while the production of clothing increases.
- 31.** Answers will vary, but students should demonstrate understanding of the cost-benefit analysis in each given situation.
- 32.** Answers will vary, but students should illustrate their decision in a decision-making grid.

Writing About Economics

- 33.** Answers will vary but should demonstrate an understanding of how to evaluate choices.

Math Practice

- 34. a.** \$10,400
b. \$72,000
c. Answers will vary but should explain dollar benefits per dollar spent.



Should the Minimum Wage Be Increased?

Focus

Ask students to use an online inflation calculator to determine how much 25 cents per hour in 1938 would equal today. (You might suggest that they visit www.minneapolisfed.org.) Have students write a paragraph explaining whether they think the 1938 minimum wage was fair. (Students who believe that it was not fair may point out that the 1938 wage is equivalent to less than \$4.00 per hour today. Students who believe it was fair may point out that Depression-era businesses could not afford to pay more than 25 cents per hour.)

Teach

S Skill Practice

Analyzing Information

Ask: Does this graph support Dreier and Candaele's argument? Why or why not? (Possible answer: The graph supports their argument because it shows that the purchasing power of the minimum wage is nearing its lowest value since 1950.) **OL**

Additional Support

The minimum wage was created in 1938 by the Fair Labor Standards Act (FLSA), debuting at 25 cents per hour. Even though it has been raised many times since then, it remains the subject of debate. Unions and antipoverty organizations typically spearhead campaigns to increase the minimum wage, saying it will help the nation's working poor without affecting employment. Business organizations typically oppose a hike in the minimum wage, arguing that it will increase unemployment.

Who is right? As you read the selections, ask yourself: Should the minimum wage be increased?

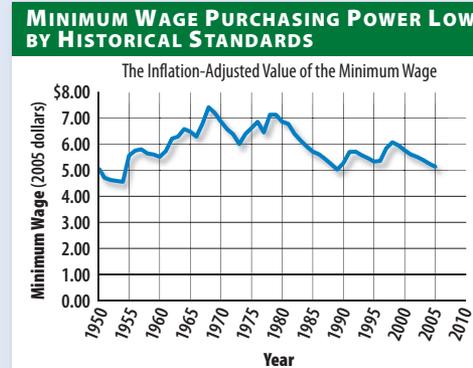
PRO A MORAL MINIMUM WAGE

... 1968 [was] the last year that the minimum wage was above the nation's poverty line. ... If the minimum wage were pegged at \$9.50, millions ... would be lifted out of poverty. The largest group of beneficiaries would be children, whose parents would have more money for rent, food, clothing and other basic necessities.

Business leaders still trot out economists to claim that raising the minimum wage will destroy jobs and hurt small businesses. But the evidence, based on studies of the effects of past increases in both the federal and state minimum-wage levels, ... shows otherwise. Because the working poor spend everything they earn, every penny of a minimum-wage increase goes back into the economy, increasing consumer demand and adding at least as many jobs as are lost. Most

employers actually gain, absorbing the increase through decreased absenteeism, lower recruiting and training costs, higher productivity and increased worker morale.

—Peter Dreier, director of the Urban & Environmental Policy program at Occidental College; and Kelly Candaele, founding member of the Peace Institute at California State University, Chico



Source: Author's calculations based on the U.S. Department of Labor.



Extending the Content

Minimum Wage in the States As of 2007 the federal minimum wage was \$5.15 per hour. However, millions of Americans earning minimum wage that year received a higher hourly rate of pay than \$5.15. This is because more than half of the states have set minimum wage rates that are higher than the federal rate. When state and federal laws set differing wage rates, the higher standard applies. Thus, in states such as New York, Massachusetts,

Oregon, and California, workers earning the minimum wage received more than \$7.00 per hour. Kansas, on the other hand, had a state minimum wage of \$2.65 per hour. Louisiana, Mississippi, Alabama, Tennessee, and South Carolina had no minimum wage law as of 2007.



CON WAGE HIKE WOULD COST JOBS

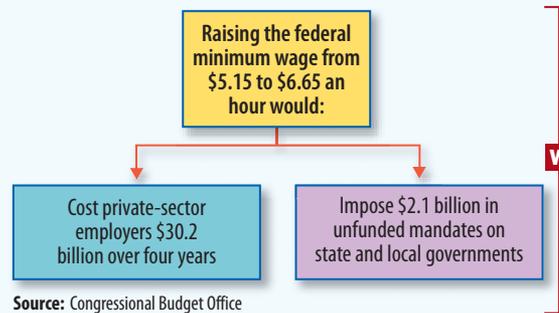
Raising the federal minimum wage by \$1.50 an hour will reduce job opportunities for those who need it most, new entrants to the job market with the least skills or experience. Raising the minimum wage hurts all American consumers and workers, by artificially inflating the cost of entry-level jobs, which is passed on through higher prices and lower real wages.

The convenience store industry offers a compelling employment opportunity, with competitive wages, flexible schedules, and career development. Most convenience stores offer wages far above the minimum—in 2001, the average was \$9.28 an hour. However, our industry strongly opposes an increase in the federal minimum wage because it will discourage the creation of entry-level jobs and hurt small businesses. With higher costs of health care and other benefits, and lower profit margins, convenience store owners and petroleum marketers cannot sustain an increase in the minimum wage.

NACS members want to do what's best for their own employees without government interference. And NACS members are very concerned about the inevitable result of a higher minimum wage—a 'ripple effect' of higher prices throughout the economy.

If Congress really wants to help low-income workers, there are much more constructive things that can be done, such as reducing payroll taxes, cutting the capital gains tax, and eliminating unnecessary and burdensome regulations.

—Allison Shulman, director, National Association of Convenience Stores, government affairs



Analyzing the Issue

- 1. Identifying** What arguments do Dreier and Candaele make in support of increasing the minimum wage?
- 2. Explaining** Why does Shulman believe that raising the minimum wage will hurt convenience stores and other small businesses?
- 3. Deciding** With which opinion do you agree? Explain your reasoning.

CHAPTER 1 What Is Economics? 31

Assess/ Close

W Writing Support

Expository Writing Have students select a time in U.S. history when Congress raised the minimum wage. Instruct students to research and then write about the economic effects of the minimum wage increase they selected. **OL**

Analyzing the Issue

Answers:

1. An increase would lift millions of Americans out of poverty, spark consumer spending, create jobs, and lower employer expenses.
2. It will discourage the creation of entry-level jobs and force businesses to absorb greater expenses that would lower profit margins.
3. Answers will vary but should be logical and well supported.

Additional Support

Activity: Interdisciplinary Connection

Art Organize the class into small groups. Instruct students in each group to decide among themselves which position on the minimum wage issue they support. Have groups then prepare sketches for a visual advertising campaign promoting the position they support. Ideas for campaigns include posters, bumper stickers, web banners, T-shirt logos, billboards, placards, mugs, and so on. Ask groups to present the sketches of their

visual ad campaigns to the class. After groups have presented, have students discuss the strengths and weaknesses of each ad campaign. They might consider whether the campaign is eye-catching and unique and whether it appeals to a diverse group of viewers. Then ask the class to vote on which ad campaign they think would be most effective. **OL**