



UNIT

6

The Economy and the Individual



Young women making individual economic choices at a California shopping mall



★ **Chapter 18** What Is Economics?

★ **Chapter 19** The American Economy

★ **Chapter 20** Personal Finance and Economics

★ **Chapter 21** Demand and Supply

★ **Chapter 22** Business and Labor

Be An Active Citizen

CITIZENSHIP

What do you think economics is? Describe how, in your opinion, economics affects you. After you complete your study of Unit 6, compare your initial ideas with the new information you learn.





Reading Social Studies

Comparing and Contrasting

1 Learn It!

When you compare people, things, or ideas you show the similarities among them. When you contrast these things you point out their differences.

- Read the following paragraph. Note how the writer compares fixed costs to variable costs.
- How does the writer contrast fixed costs to variable costs?

The first kind of cost is fixed costs—costs, or expenses, that are the same no matter how many units of a good are produced. Mortgage payments and property taxes are two examples of fixed costs. It makes no difference whether your company produces one bicycle helmet or a very large number. Your fixed costs, such as your mortgage and property taxes, remain the same. . . . Another kind of cost is variable costs. Variable costs are expenses that change with the number of items produced. Wages and raw materials are examples of variable costs.

—from page 506

People, Things, or Ideas	Compare	Contrast
Fixed costs and variable costs	*Both are expenses	*Fixed costs remain the same *Variable costs change with the number of items produced

Reading Tip

As you read, look for signal words such as like, but, however, in contrast, or on the other hand to help you find comparisons and contrasts.

2 Practice It!

Read the following sentences from this unit that compare and contrast microeconomics to macroeconomics. Draw a chart like the one shown below.

... economics is divided into two branches. In microeconomics, economists look at the small picture. They study the behavior and decision making of small (the meaning of the prefix *micro-*) units such as individuals and businesses. On the other hand, macroeconomics looks at the big (the meaning of the prefix *macro-*) picture. It deals with the economy as a whole and decision making by large units such as governments or whole industries or societies.

—*from page 500*

People, Things, or Ideas	Compare	Contrast
Microeconomics		
Macroeconomics		

Read to Write Activity

Read the section titled “Circular Flow of Economic Activity” in Chapter 19, Section 2. Choose any two of the sectors (consumer, business, government, or foreign) to compare and contrast. Once you decide which two sectors you will write about, jot down facts about each and write a few sentences to show how they compare or contrast.

3 Apply It!

As you read look for people, things, or ideas that you can compare and contrast in:

- Chapter 20, Section 1
- Chapter 21, Section 2

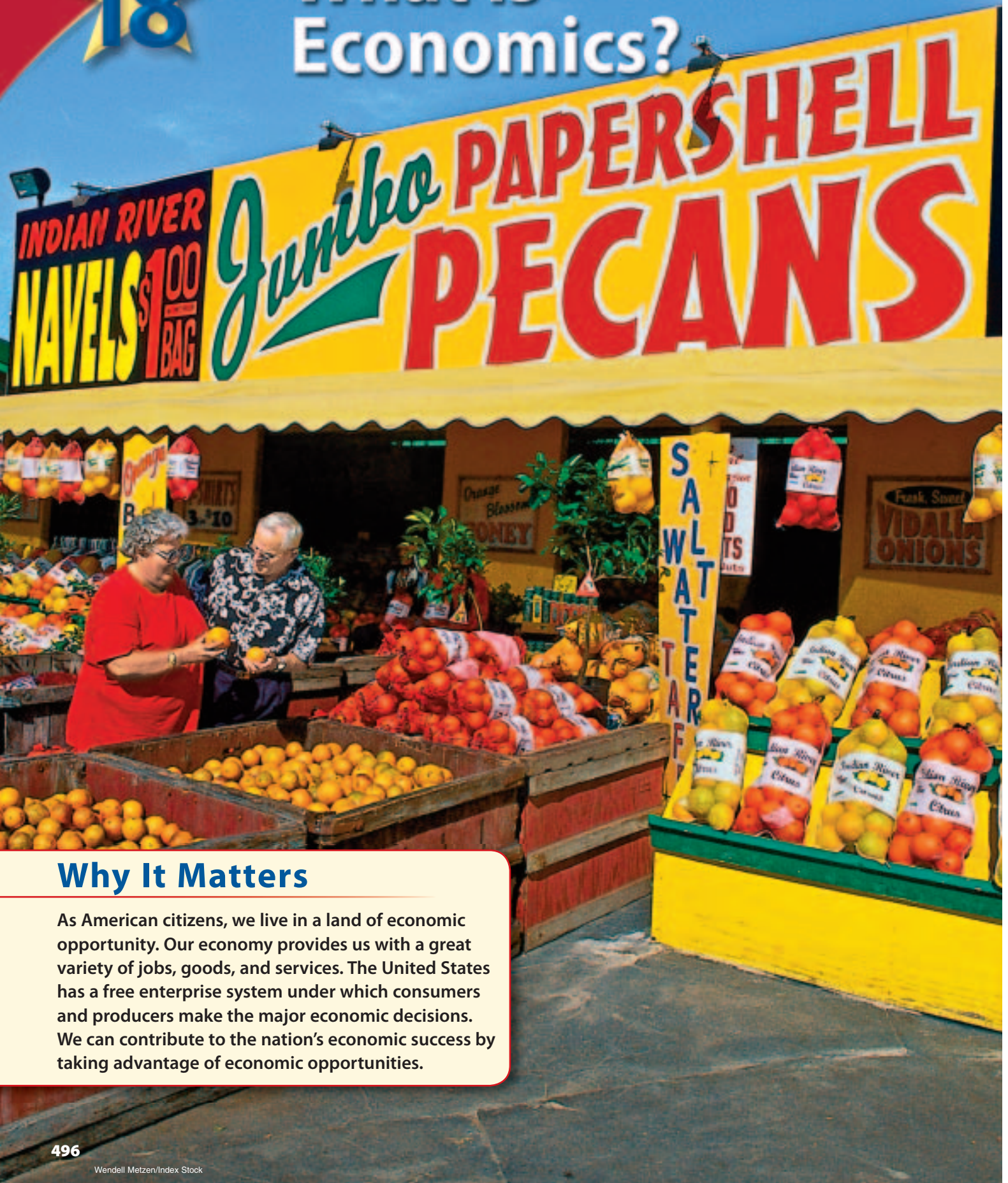




Chapter

18

What Is Economics?



Why It Matters

As American citizens, we live in a land of economic opportunity. Our economy provides us with a great variety of jobs, goods, and services. The United States has a free enterprise system under which consumers and producers make the major economic decisions. We can contribute to the nation's economic success by taking advantage of economic opportunities.

BIG Ideas

Section 1: How Economic Systems Work

An economic system is the way a society organizes the production and consumption of goods and services. Economics is the study of how we make decisions in a world in which resources are limited as well as the study of how things are made, bought, sold, and used.

Section 2: Making Economic Decisions

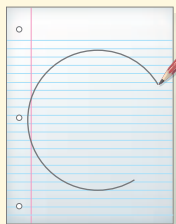
An economic system is the way a society organizes the production and consumption of goods and services. Economic decision making requires us to understand all the different costs and all the benefits of a choice.

◀ An abundance of Florida citrus products for sale in open-air markets

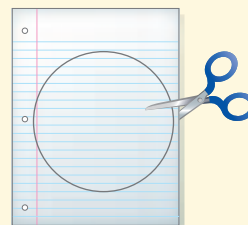
FOLDABLES™ Study Organizer

Defining Study Foldable Make the following Foldable to help you define the content vocabulary that you will encounter in this chapter.

Step 1 Stack four sheets of paper, one on top of the other. On the top sheet of paper, trace a large circle.



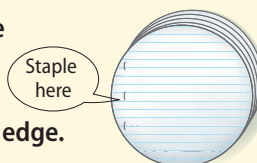
Step 2 With the papers still stacked, cut along the circle line you traced.



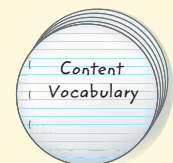
Reading and Writing

As you read the chapter, record the content vocabulary terms with definitions for each section of Chapter 18 on the fronts and backs of the sheets of your booklet for easy reference.

Step 3 Staple the paper circles together at one point around the edge.



Step 4 Label the front circle Content Vocabulary.





Section
1

How Economic Systems Work

Guide to Reading

Big Idea

An economic system is the way a society organizes the production and consumption of goods and services.

Content Vocabulary

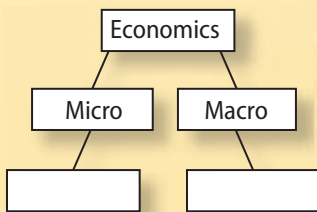
- need (p. 499)
- want (p. 499)
- economics (p. 499)
- microeconomics (p. 500)
- macroeconomics (p. 500)
- economic model (p. 500)
- economic system (p. 500)
- resource (p. 501)
- scarcity (p. 501)

Academic Vocabulary

- rational (p. 499)
- capable (p. 501)
- generate (p. 502)

Reading Strategy

Comparing As you read the section, compare the two ways of defining economics: microeconomics and macroeconomics.



Real World Economics Have you ever gone to the grocery store and found the shelves empty? Sometimes natural disasters can cause huge economic problems from food shortages to the disruption of gas supplies. Hurricane Rita, on the heels of 2005's Hurricane Katrina, shook the economic roots of not only the South but the entire United States. Because Louisiana and Texas are producers of oil and gas, energy needs all across the nation were affected. Both national and state governments provided help in the form of emergency services, health care, information, and supplies.

▼ Scarcity of products determines purchase prices following a disaster



NORTH CAROLINA STANDARDS
Civics and Economics

7.01 Describe the basic factors of production such as land, labor, capital, and entrepreneurial skills and their impact on economic activities.

7.02 Explain how scarcity influences producers and consumers to make choices.



Foreign-Made Products Needs and wants are often satisfied by products made in other countries. These auto imports have just been unloaded at the port in Portland, Oregon. **Contrasting** What is the difference between an economic need and a want?

Economic Choices

Main Idea Economics is the study of how we make decisions in a world in which resources are limited as well as the study of how things are made, bought, sold, and used.

Economics & You Have you ever found it difficult to tell the difference between something you wanted and something you needed? Read to find out how these two ideas influence the science of economics.

To be a well-informed citizen, it is important to have a good understanding of economics and the American economic system. Well-informed citizens do more than make choices in the voting booth. They also make **rational**, or reasonable, economic choices, and they make these choices every day. For example, imagine you have \$10 to spend on Saturday night. Do you rent a movie, go to a movie, order a pizza, go to a restaurant, buy snacks for a party, put gas in the car, or make any of a dozen other possible choices? You will quickly discover that your \$10 will not cover everything you might want to do. Therefore, you must choose.

Needs and Wants

As individuals, we have many **needs** that are required for survival, such as food, clothing, and shelter. In addition, we also have an enormous number of **wants**, or things we would like to have, such as entertainment, vacations, and other items that make life more comfortable and enjoyable.

The choices we face, as individuals and as a society, are based on the fact that we do not have enough productive resources to satisfy all our wants and needs. Even a seemingly plentiful resource such as water is considered scarce because it is not free; we pay to use it.

Economics: A Definition

Economics is the study of how we make decisions in a world in which resources are limited. The study of economics will help you think about the process of making decisions.

Economics is also the study of how things are made, bought, sold, and used. It helps answer questions such as these: Where do these products come from? Who makes them? How do they get to the stores? Who buys them? Why do people buy them?

American Biography

John H. Johnson (1918–2005)

John H. Johnson began his career in 1942 at the age of 24. He used a \$500 loan on his mother's furniture to start *Negro Digest*, a magazine devoted to the accomplishments of African Americans. Today, Johnson Publishing Company, Inc., is the world's largest African American-owned publishing company. This media empire includes many magazines, such as *Ebony* and *Jet*, and Johnson Publishing Company Book Division.

Like many minority-owned companies, Johnson faced many hurdles:



"[The difficulties include] trying to get circulation and to break through in advertising to get large companies to recognize that black consumers had money and would respond to advertising directed

to them. . . . The first 20 years or so in business, we couldn't get a bank loan."

Many start-up companies face the same hurdles, but in his autobiography, Johnson expressed a message of hope.

In 1995 Johnson received the Presidential Medal of Freedom, America's highest civilian honor, from former president Bill Clinton. Clinton said Johnson gave "African-Americans a voice and a face, in his words, 'a new sense of somebody-ness,' of who they were and what they could do, at a time when they were virtually invisible in mainstream American culture."

Making a Difference

CITIZENSHIP

Johnson's businesses support all minorities. **Analyzing** What qualities did Johnson possess that made him a leader and a success in business?

Micro and Macro As you read, keep in mind that economics is divided into two branches. In **microeconomics**, economists look at the small picture. They study the behavior and decision making of small (the meaning of the prefix *micro-*) units such as individuals and businesses. Microeconomics helps explain how individual economic decisions are made. On the other hand, **macroeconomics** looks at the big (the meaning of the prefix *macro-*) picture. It deals with the economy as a whole and decision making by large units such as governments or whole industries or societies. Think of other terms you know that start with the prefixes *micro-* and *macro-*.

Micro- and macroeconomics are examples of economic models. An **economic model** is a theory that tries to explain human economic behavior.

Economic Systems

Every country has its own **economic system**, or way of producing the things its people want and need. A country's economic system helps determine how basic economic decisions will be made. In the United States and many other countries, the economic system is called free enterprise capitalism. All free enterprise systems use more or less the same general methods of making economic decisions and producing things their people want and need. Under this system, businesses are allowed to compete for profit with a minimum of government interference. You will learn more about our economic system, along with other economic systems, later in this unit.

Reading Check **Explaining** On what does microeconomics focus?



The Problem of Scarcity

Main Idea The limits on, or scarcity of, resources forces people to make careful economic choices.

Economics & You Have you ever wondered why we do not have more schools, parks, and highways? Read to find out why we have to make choices.

The goods and services a country can produce depend on its resources. **Resources** are the things used in making goods and providing services. They include tools; natural resources such as wood, soil, and water; and human resources—the people who provide the necessary labor, skills, and knowledge to produce the country’s goods and services.

A country with many resources is **capable**, or able, of satisfying its people’s wants and needs better than a country with few resources. A scarcity of resources affects the economic decisions a country and its people make. Scarcity affects decisions concerning what and how much to produce, how goods and services will be produced, and who will get what is produced.

Scarcity and the Need to Choose

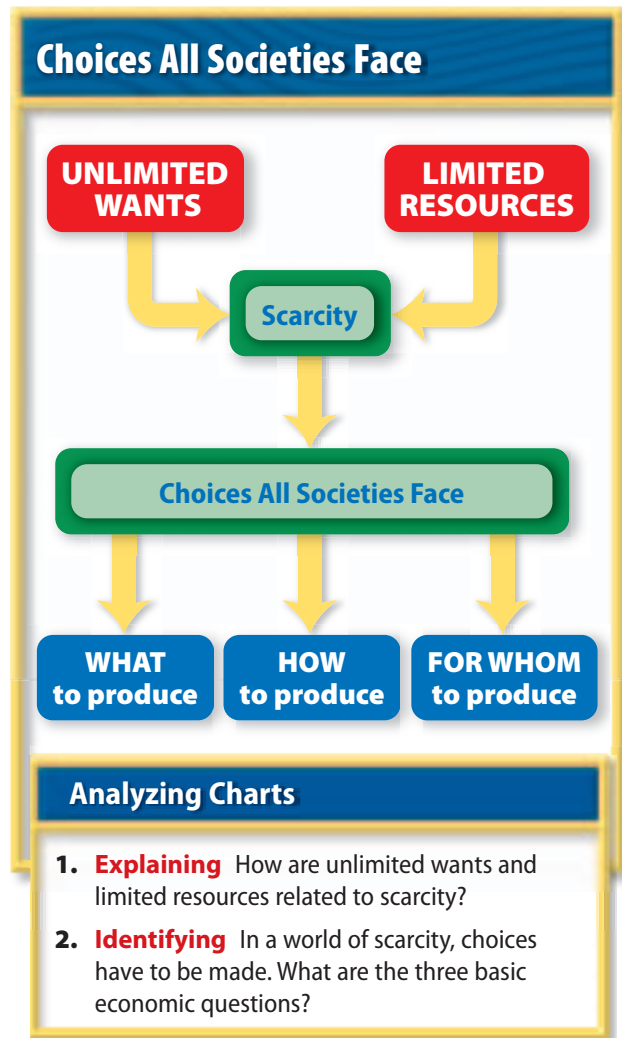
Scarcity occurs whenever we do not have enough resources to produce all the things we would like to have. The United States possesses abundant resources such as fertile soil, trained workers, forests, and water. No country, however, has all the resources it needs. Even a country as rich as the United States does not have enough productive resources to produce all the goods and services it needs.

Scarcity is the result. Because of scarcity, we have to make choices among alternatives. For example, a rational consumer compares prices and makes choices based on his or her limited resources. A rational consumer asks whether or not he or she can afford to buy a small car or a big car, own a home or rent, purchase brand-name items or generic ones, and so on.

What to Produce

One of the choices a society has to face is that of *what* to produce. As you have learned, we live in a world of scarcity. If more of one particular item is produced, then less of something else will be produced.

A Variety of Options For example, if resources are limited, we may have to choose between making weapons for defense or producing services for people who are retired or are too ill to work. Or we may have to choose between improving our roads or schools or even a nearby stadium for athletic events. Any civic leader in any community in the United States could extend this list almost indefinitely, given the wants and needs people have in their own communities.





How to Produce

After deciding what to produce, a society must then decide *how* these goods and services will be produced. If we need more crude oil to satisfy our energy needs, should we allow drilling in an Alaskan wildlife sanctuary? Or should we restrict oil recovery to less fragile areas? How much pollution should we allow manufacturing firms to **generate**, or create? After all, businesses like to produce as cheaply as possible, and that sometimes means leaving waste behind that may pollute the environment. As you can see, every producer of a good or service faces the question of *how* to produce.

For Whom to Produce

After goods and services are produced, a society must determine how the goods and services will be distributed among its mem-

bers. *Who* receives the new cars? *Who* benefits from a new school? Will anyone who is able and willing to pay the prices for the goods be able to obtain them, or will government decide who will have the goods?

As you will read, most goods and services in the United States are distributed to individuals and businesses through a price system. Other economies may distribute products through majority rule, a lottery, on a first-come-first-served basis, by sharing equally, by military force, and in a variety of other ways.

These questions concerning what, how, and for whom to produce are not easy for any society to answer. Nevertheless, as long as there are not enough resources to satisfy people's unlimited wants, they must be answered.

 **Reading Check Explaining** Why does scarcity lead to the need for making choices?

Section Review

Vocabulary

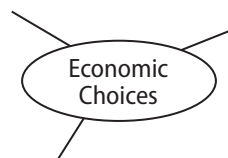
1. **Write** sentences using each of the following terms that will help explain its meaning: *need, want, economics, microeconomics, macroeconomics, economic model, economic system, resource, scarcity.*

Main Ideas

2. **Defining** What is the difference, in economic terms, between needs and wants? Give two examples of each.
3. **Explain** why scarcity and choice are basic problems of economics.

Critical Thinking

4. **Evaluating** In what ways can the study of economics help you and your family in your daily lives?
5. **BIG Ideas** On a graphic organizer like the one below, identify the three economic choices every society must make.



CITIZENSHIP Activity

6. **Analyzing** Interview a parent or adult about how the ideas in this section (needs, wants, and scarcity) influence his or her economic decision making. Share your findings in a short essay.
7. **Creative Writing** Write a short story, poem, or song about one of the economic ideas discussed in this section. For example, you might write a humorous song about someone choosing between a need and a want. Share your writing with the class.



Study Central™ To review this section, go to glencoe.com.



Dan Reiland/AP Images

Section 2

Guide to Reading

Big Idea

An economic system is the way a society organizes the production and consumption of goods and services.

Content Vocabulary

- trade-off (p. 504)
- opportunity cost (p. 505)
- marginal cost (p. 507)
- marginal benefit (p. 508)
- cost-benefit analysis (p. 508)

Academic Vocabulary

- previous (p. 504)
- compute (p. 506)
- diminish (p. 509)

Reading Strategy

Identifying As you read, identify the four types of costs and an example of each on a graphic organizer like the one below.



Making Economic Decisions

Real World Economics Have you heard the saying “Necessity is the mother of invention”? As the supply of fuel for automobiles becomes more scarce and citizens become more concerned about global warming, the push for developing new energy sources becomes ever stronger. These Wisconsin high school students explored new ideas for fuel efficiency in a contest called the “High Mileage Vehicle Challenge” sponsored by the University of Wisconsin. The team of Eau Claire North High School electronics students competed with a car of their own design and achieved 1,610 miles (2,591 km) per gallon—which propelled them into first place.

▼ The North High School Hybrid Vehicle Team





Trade-Offs

Main Idea Economic decision making requires us to understand all the costs and all the benefits of a choice.

Economics & You Have you ever had to choose one thing instead of another? Read to find out what economists call this common dilemma.

Economic decision making is surprisingly simple. It involves only a few terms and rules. In fact, you probably already think about many problems in the same way that economists do. As you learned **previously**, or earlier, scarcity forces people to make choices about how they will use their resources. Economic decision making requires that we take into account all the costs and all the benefits of an action.

Making Trade-Offs

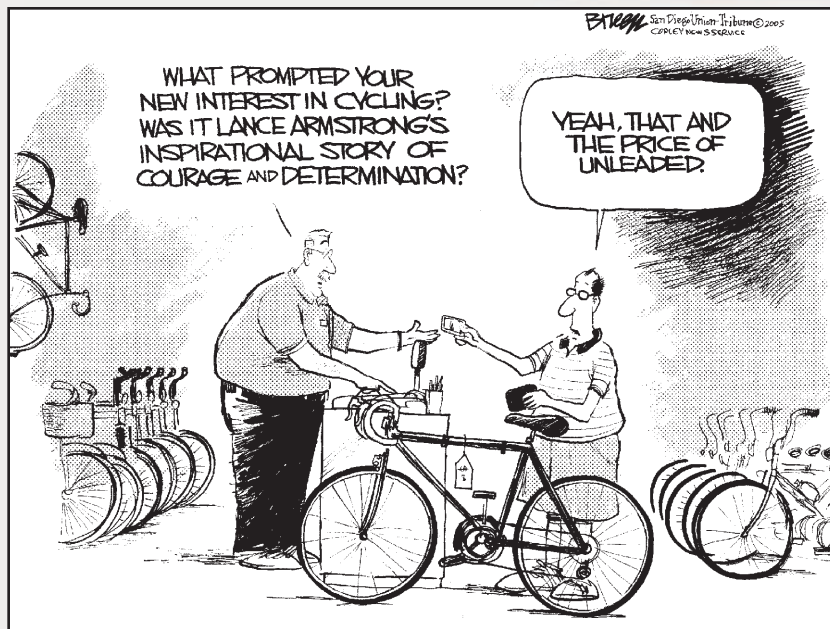
The economic choices people make involve exchanging one good or service for another. If you choose to buy a DVD player, you are exchanging your money for the right to own the DVD player rather than something else that might cost the same amount. A **trade-off** is the alternative you face if you decide to do one thing rather than another.

It is important to remember that a trade-off does not apply only to decisions involving money. Here is an example: Suppose you have an economics test tomorrow. Your friends invite you to a party at their house. Total time at the party and traveling to and from your house is four hours. You calculate you need at least three hours to study for the test. You also need to sleep eight hours that night. How do you make trade-offs with your time—what do you give up—studying time, time with friends, or sleep?

David Young-Welff / PhotoEdit

Part-Time Jobs Many young people need to have jobs after school so they have some money with which to make economic choices. **Explaining Why is a type of economic choice called a trade-off?**





Steve Breen/Copley News Service

Every year, more than half of all Americans do volunteer work. One of the responsibilities of citizens is to help make their role in it. One of the responsibilities of volunteer groups is to help make their role in it. One of the responsibilities of citizens is to help make their role in it.

The creator of this cartoon, Steve Breen, is making a statement on consumers' decisions regarding methods of transportation.

1. What is the setting for this cartoon?
2. What "new interest" is the man on the right pursuing?
3. What is the primary factor that prompted this interest?
4. Do you think there might be benefits to society if people drive less and cycle more? Explain.

Think about a trade-off on a larger scale. A country wants to put more money into education. This strategy may be a good one, but putting more money into education means having less money available for space exploration or national defense. Individuals, families, businesses, and societies make trade-offs every time they choose to use their resources in one way and not in another.

Opportunity Cost


Suppose you decide to go to college after you graduate from high school. If you do, you will quickly discover that the cost of college is more than the cost of books, transportation, tuition, and other fees. One of the biggest costs is the full-time income that you will not be able to earn because of the time you will spend studying and going to classes.

Economists have a term for this broad measure of cost. **Opportunity cost** is the

cost of the next best use of your time or money when you choose to do one thing rather than another.

People tend to think of *cost* only in terms of dollars and cents. Note that opportunity cost includes more than just money. It also involves all the possible discomforts and inconveniences linked to the choice. The opportunity cost of cleaning the house, for example, is not just the price of cleaning products. It also includes the time you could spend doing other things, such as listening to music or visiting with your friends.

A good way to think about opportunity cost is to realize that when you make a trade-off, you lose. What do you lose? You lose the ability to engage in your next highest valued alternative. In economics, therefore, opportunity cost is always an opportunity that is given up.

 **Reading Check Explaining** What does making a trade-off require you to do?



Costs Businesses, such as this farm, incur both fixed costs and variable costs. *Describing*
Is the farmland used for crops a fixed or a variable cost? How about equipment such as tractors, combines, and plows? Is the fuel to operate the machinery a fixed or a variable cost?

Costs and Revenues

Main Idea Economists have developed ways of measuring different types of costs and revenues.

Economics & You Have you wondered why goods from places like China usually cost less than goods made in the United States? Read to discover why this is so.

Suppose you are in the business of producing bicycle helmets. Do you know how many helmets you would produce? Would it be 100, 500, or 10,000? You may have a feeling that you should not produce too few or too many, but how would you know what were too few and what were too many? To begin to answer these questions, we need to look more closely at costs and revenues.

Types of Costs

All businesses have costs, but not all costs are the same type. Anyone in business must understand several different ways of **computing**, or figuring, cost.

Fixed Costs The first kind of cost is fixed costs—costs, or expenses, that are the same no matter how many units of a good are produced. Mortgage payments and property taxes are two examples of fixed costs. It makes no difference whether your company produces one bicycle helmet or a very large number. Your fixed costs, such as your mortgage and property taxes, remain the same.

Variable Costs Another kind of cost is variable costs. Variable costs are expenses that change with the number of items produced. Wages and raw materials are examples of variable costs.



Variable costs increase as production grows. Conversely, these expenses will decrease when production decreases. For example, the more helmets you make, the more plastic you must buy.

Total Costs When we add fixed costs to variable costs, we arrive at total costs. Suppose you want to compute total costs for a month. If fixed costs are \$1,000 for the month and variable costs are \$500, then total costs are \$1,500 for the month. Many businesses focus on average total cost. To arrive at average total cost, simply divide the total cost by the quantity produced. For example, if the total cost of making bicycle helmets is \$1,500 and the company produces 50, then average total cost is \$30 ($\$1,500/50 = \30).

Marginal Costs One final cost concept remains—**marginal cost**. Marginal cost is the additional cost of producing one additional unit of output. Suppose total cost is \$1,500 to produce 30 bicycle helmets and \$1,550 to produce 31 helmets. What is the marginal cost of the additional (31st) unit? The change in total cost is \$50 and the change in the number of units is 1, so the marginal cost is \$50.

Types of Revenue

Businesses use two key measures of revenue to decide what amount of output will produce the greatest profits. The first is total revenue, and the second is marginal revenue.

Total revenue is the number of units sold multiplied by the average price per unit. If 42 units of a product are sold at \$2 each, the total revenue is \$84.

When a business is thinking about a change in output, it considers how its revenue will change as a result of that change in output. What will be the additional revenue from selling another unit of output? Marginal revenue is the change in total revenue—the extra revenue—that results from selling one more unit of output.

Jessica Painter

Jessica Painter, 18, of Yucaipa, California, shares her coupon-clipping know-how with people in need.



QUESTION: How did you become a “coupon queen”?

ANSWER: When my mom was out of work and pregnant with me, stretching cash with coupons was a necessity. Stores nearby doubled the value of coupons, and Mom matched coupons with their weekly sales, and items became free or almost free.

Q: How did this lead to your group Food For Love?

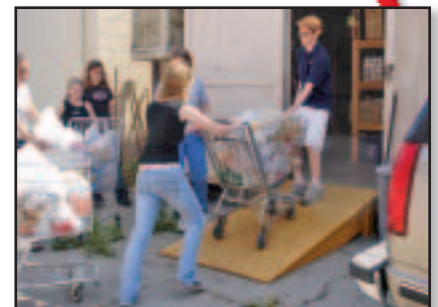
A: Growing up, we had more than we could use. We’d donate the extra items to other needy individuals and families. This was the start of the food program. When I was seven, my mom became ill and couldn’t do a lot of things that she needed to do to continue with the program. I didn’t want to let the people who depended on us down. I helped with shopping, sorting, and deliveries. I became a community leader and a “coupon queen” to help carry on Food For Love.

Q: What would you tell other teens interested in helping out?

A: Action volunteering is about changing the way people live. I’m hoping to help young people see they can make a difference at any age. Passing volunteerism on to future generations is the goal of my Web Site www.actionvolunteering.com.

ACTION FACT:

Painter and her family go to animal shelters and cheer up the animals. At one time the family had nine cats!



Delivering goods to a food bank

Making a Difference

CITIZENSHIP

Why is volunteer work an important part of Jessica’s life?



Measuring Revenue

On page 507, you learned that total revenue is defined as the price of a good multiplied by the quantity sold. For example, if the price of a book at your local bookstore is \$5 and 100 are sold, then total revenue is \$500. Consider another example:

- MRT is a retail store that sells DVDs for a price of \$10 each.
- MRT currently sells 100 DVDs a month.
- This means that MRT's total revenue is \$1,000.

If MRT sells one more DVD for \$10, what is the change in total revenue that results from the change in output sold?

To answer this question, we first calculate what the total revenue is when MRT sells 101 DVDs instead of 100: it is \$1,010. We conclude that the total revenue changes from \$1,000 to \$1,010 when an additional DVD is

sold. In other words, there is a change in total revenue of \$10.

The change in total revenue that results from selling an additional DVD is marginal revenue. In the example, \$10 is the marginal revenue. If the company sells 2 additional DVDs, the marginal revenue is \$20.

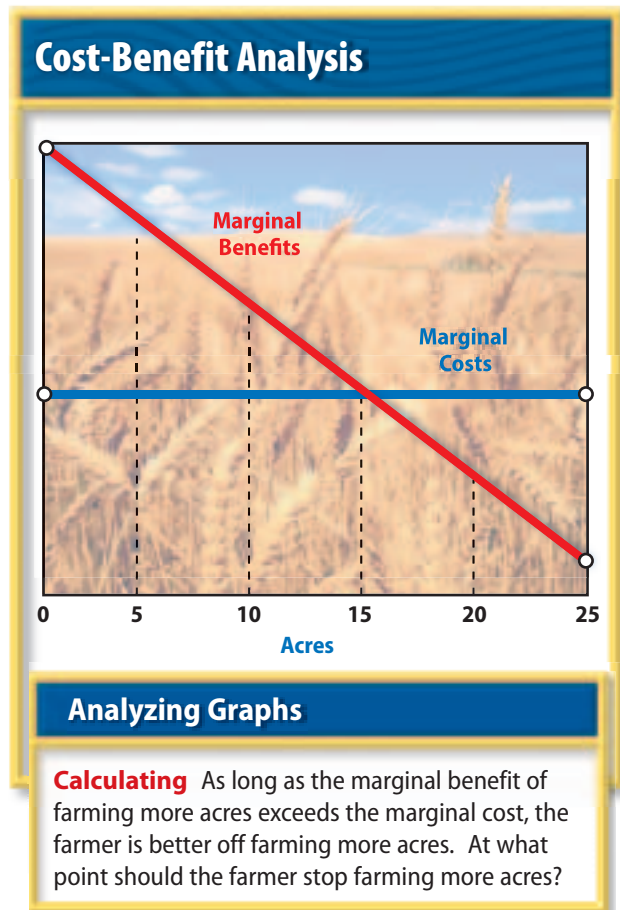
This situation provides an example in which marginal revenue is constant (marginal revenue = \$10 per DVD sold). This will not always be the case. Businesses often find that marginal revenues start high and then decrease as more and more units are produced and sold.

Marginal Benefit Finally, we usually do something because we expect to achieve some benefit. In other words, we are concerned with the **marginal benefit**, the *additional* satisfaction or benefit received when one more unit is produced.

Cost-Benefit Analysis

Oftentimes, the best decision is made by comparing the *marginal* benefits against the *marginal* costs. To do so, economists use a type of decision making called **cost-benefit analysis**. Rational economic decision making tells us to choose an action when the benefits are greater than the costs. If the costs outweigh the benefits, we should reject the chosen option.

Using Cost-Benefit Analysis The graph on this page shows a sample cost-benefit analysis. Suppose you are a farmer trying to decide how much of your 25 acres to plant with wheat. Assume that the marginal (or extra) cost of planting and harvesting the wheat is the same for all 25 acres. As a result, the line showing marginal cost would be a horizontal line.



Student Web Activity Visit glencoe.com and complete the Chapter 18 Web Activity.



Diminishing Marginal Benefit Assume, though, that some of your land is better than the rest. As a result, the size of the harvest you can expect from each acre goes down as the number of acres increases. After all, you would plant the most fertile land first.

As more land is planted, you must use land that is less productive. As the graph on page 508 shows, the line representing marginal benefit would be downward-sloping, indicating **diminishing**, or declining, marginal benefits.

How Much Should You Plant? The information in the graph makes it easy to decide how much land you should plant. Clearly, you should plant the first 5 acres, because the marginal cost is low when compared to the marginal benefits to be gained. It would also be beneficial to plant 10 acres, even though the benefits are a bit lower. In fact, it would make sense to plant up to 15 acres, because to that point the marginal

benefit is greater than the marginal cost. You would not, however, want to plant more than 15 acres. After 15 acres, the extra cost is greater than the extra benefit.

Answering the Basic Questions The previous example represents how to use cost-benefit analysis to answer the question of how much to produce. This is an issue all businesses must deal with—not just farmers. The same method can be used to answer other basic economic questions.

For instance, you can also use this method to decide *for whom* to produce. Think of the costs and benefits of selling your wheat in a town that is close to your farm, compared to selling it in a town 100 miles away. Shipping the wheat farther will probably cost more than trucking it locally, so that makes the marginal benefit of selling it nearby greater.

Reading Check Explaining What economic model helps answer the question of *what* to produce?

Section Review 2

Vocabulary

- Write** sentences that demonstrate the meanings of *trade-off*, *opportunity cost*, *marginal cost*, *marginal benefit*, *cost-benefit analysis*.

Main Ideas

- Explaining** Give two examples of an economic trade-off decision.
- Explaining** What is the purpose of cost-benefit analysis?

Critical Thinking

- Describe** the relationship between trade-offs and opportunity costs.
- BIG Ideas** Identify a large purchase you would like to make. What opportunity costs can you identify if you go ahead with the choice? What is your final decision, based on analyzing the opportunity costs? Illustrate your decision on a grid like the one below.

Choice	Opportunity Cost	Final Decision

Writing

- Expository Writing** Because your time is limited, you are constantly facing trade-offs. Write a paragraph or two about the trade-offs you have made in choosing how to use your time during a one-week period. What activities did you choose to do? What were the opportunity costs involved in your choices?



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Financial Literacy

Simple and Compound Interest

When you deposit money in a savings account, the bank pays you interest for the use of your money. The amount of interest is expressed as a percentage, such as 6 percent, for a time period, such as a year. One type of interest is simple interest. **Simple interest** is figured on only the principal, or original deposit, not on any interest earned. **Compound interest** is paid on the principal plus any interest that has been earned. In other words, you are earning interest on interest. Over time, there is a significant difference in earnings between simple and compound interest.

Calculating Simple Interest

$6\% = .06$

$$\begin{array}{r} \$100 \\ \times .06 \\ \hline \$6.00 \end{array}$$

$$\begin{array}{r} \$100 \\ + 6 \\ + 6 \\ + 6 \\ \hline \$118 \end{array}$$

1 You deposit \$100 in a savings account that earns 6 percent simple interest per year. Convert 6 percent to a decimal.

2 To calculate the simple interest earned, multiply the principal by the interest rate.

3 Calculate the account balance for the first three years at 6 percent interest. The simple interest due at the end of three years on a principal of \$100 at a 6% annual interest rate is \$118.

	Simple Interest	Compound Interest
Principal	\$1,000	\$1,000
Account Balance After One Year	1,100	1,100
Account Balance After Two Years	1,200	1,210 (\$1,100 plus 10% of \$1,100)
Account Balance After Three Years	1,300	1,331 (\$1,210 plus 10% of \$1,210)



Analyzing Economics

- Calculating** How much interest would you earn if you deposited \$300 at 6 percent simple interest for three years?
- Concluding** Banks often pay higher rates of interest on money you agree to keep in the bank for longer periods of time. Explain why this might be.



Crowded college campus

Economics

Economics is the study of how we make decisions in a world in which resources are limited.

Microeconomics deals with decision making by small units such as individuals and firms.

Macroeconomics deals with the economy as a whole and decision making by large units such as government.

Assembly-line worker in Taiwan



Making Economic Decisions

Individuals satisfy their unlimited wants in a world of limited resources by making choices.

The need to make choices arises because of scarcity, the basic problem in economics.

Every society must answer the three basic economic questions:

- What to produce
- How to produce
- For whom to produce

Individuals are forced to make trade-offs every time they use their resources in one way and not in another.

The cost of making a trade-off is known as opportunity cost—the value of the next best alternative that has to be given up to do the action that is chosen.



Shoppers look for bargains

Costs and Revenue

Four important measures of cost are total cost, fixed cost, variable cost, and marginal cost.

A key measure of revenue is marginal revenue, which is the change in total revenue when one more unit of output is sold.

Economic Systems

Every type of economic system must answer the three basic economic questions.

The United States has a free enterprise, or capitalist, economic system.



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North Carolina End-of-Course Test Civics and Economics Practice

TEST-TAKING TIP

When you come across an unfamiliar word in an exam, look at the word's parts—root, prefix, and/or suffix—to figure out its meaning.

Reviewing Vocabulary

Directions: Choose the word(s) that best completes the sentence.

- Economics is the study of how we make decisions in a world of limited _____.
A needs **C** choices
B wants **D** resources
- Capitalism is an example of a(n) _____.
A economic model **C** economic system
B economic decision **D** branch of economics
- The income from a full time job that you give up when you go to college is called a(n) _____.
A trade-off **C** marginal cost
B opportunity cost **D** marginal benefit
- The additional profit obtained from producing one more unit in a factory is called a(n) _____.
A trade-off **C** marginal cost
B opportunity cost **D** marginal benefit

Reviewing Main Ideas

Directions: Choose the best answer for each question.

Section 1 (pp. 498–502)

- What does microeconomics deal with?
A the production of whole industries
B the distribution of goods worldwide
C the economic decisions of individuals
D the allocation of resources by governments
- Which of the following items is a want?
A food
B videos
C shelter
D clothing

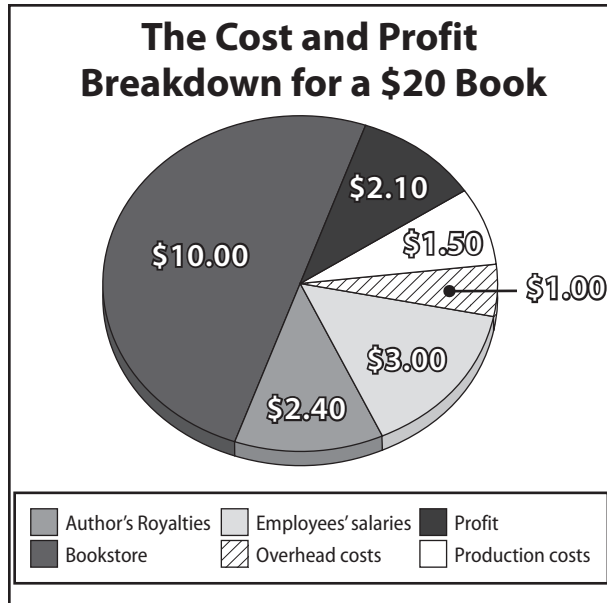
- Which of the following is a natural resource?
A water
B skills
C machinery
D knowledge

Section 2 (pp. 503–509)

- What is an example of a fixed cost of doing business?
A wages
B cost of fuel
C price of materials
D mortgage payment
- What is the formula for total costs?
A fixed costs + variable costs
B fixed costs + marginal costs
C variable costs + marginal costs
D fixed costs + variable costs + marginal costs
- Why do businesses use cost-benefit analysis?
A to compute total costs
B to measure total revenues
C to decide how much to produce
D to compare marginal cost and marginal revenue

Critical Thinking

Directions: Base your answers to questions 11 and 12 on the pie graph below and your knowledge of Chapter 18.



11. The publisher is thinking about printing one thousand more books but would have to hire another employee to do so. What would help her decide?
 - A tabulating the fixed and variable costs of new books
 - B comparing her marginal benefit to her marginal cost
 - C determining the marginal revenue for one more book
 - D calculating the total revenue from the sale of new books
12. What fixed cost paid by the bookstore owner comes in part from his share of the book's price?
 - A property tax payment
 - B the author's royalties
 - C wages for store clerks
 - D profit for the storeowner

Document-Based Questions

Directions: Analyze the document and answer the short-answer questions that follow.

In the following passage, historian Howard Zinn comments on the capitalist system in modern society.

The economist Milton Friedman . . . insists that in a capitalist system like the United States "the market" sees to it that people are paid "in accordance with product," in other words, according to how much they produce. He seems to be living in a world of his own creation, far removed from this one. In his world, everything works beautifully by the laws of the market, and people get more if they produce more, less if they produce less.

But how do you measure this thing called product and decide who deserves more or less? Here is the executive whose corporation produces nuclear bombs or deodorants or plastic toys. Did he himself produce it or did thousands of workers produce it? How can you measure his contribution to the final product? Indeed, in our complex modern society, where things are produced by the participation of huge numbers of individuals, how can you measure the contribution of each one to the product?

—Howard Zinn

13. What is Zinn's opinion of capitalism according to Friedman?
14. What economic question from the chapter sums up the main idea of the second paragraph?

Informational Writing

15. Compare and contrast microeconomics and macroeconomics.

STOP

Civics ONLINE

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Chapter 18 on glencoe.com.

Need Extra Help?

If you missed question . . .	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
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