



UNIT

8

The United States and the World



Panamanian ship *United Caroline* guided through the port of Los Angeles



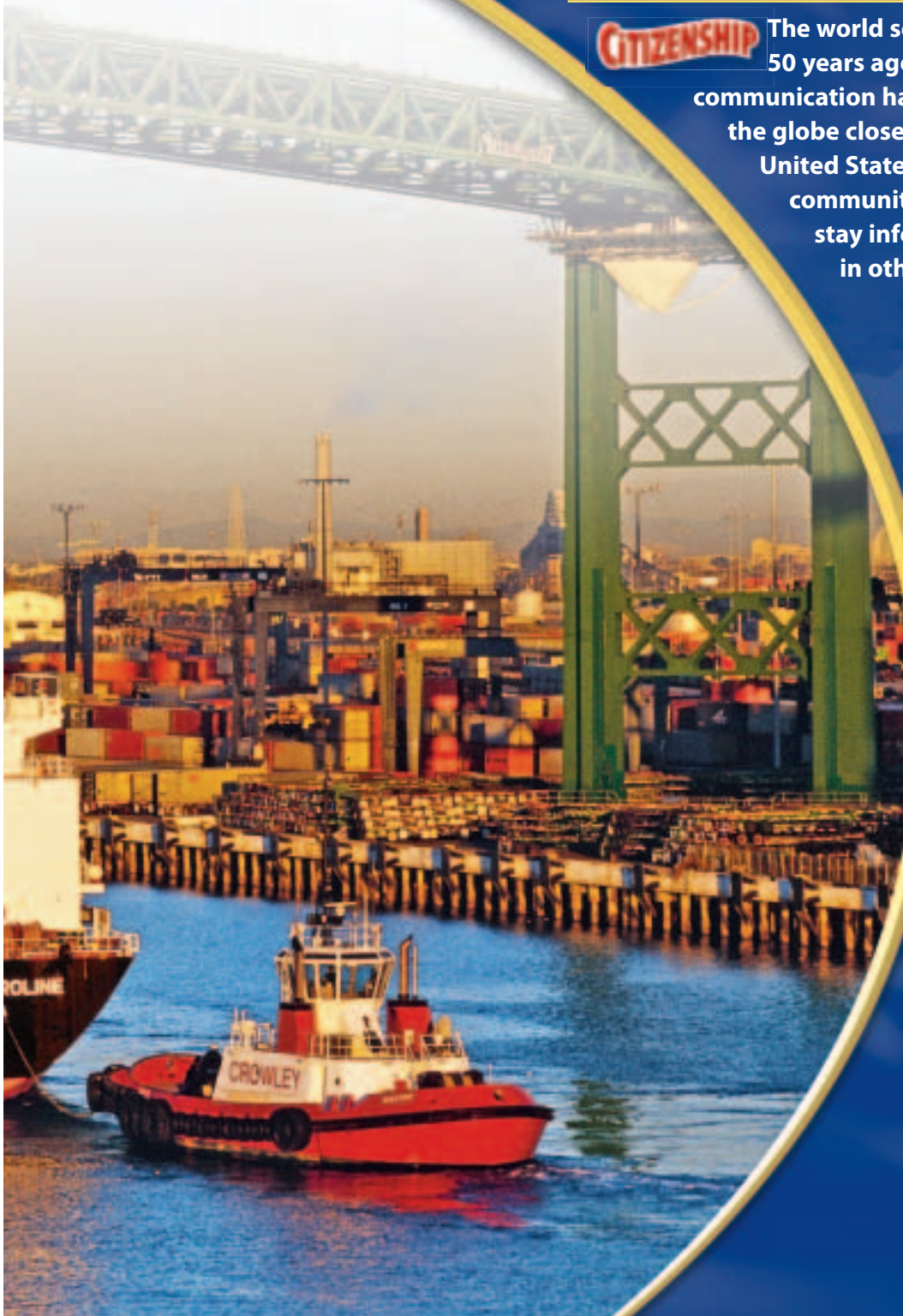
★ **Chapter 26** Comparing Economic Systems

★ **Chapter 27** An Interdependent World

Be an Active Citizen



The world seems smaller than it did only 50 years ago. Modern transportation and communication have brought people around the globe closer together. As citizens of the United States and members of the global community, we have a responsibility to stay informed about developments in other nations and the world.





Reading Social Studies

Monitoring and Clarifying

1 Learn It!

When you read something that is difficult, monitor your comprehension as to when your understanding breaks down. Clarify, or clear up, confusing parts by rereading, defining unfamiliar words, and asking questions.

- Read the following paragraph and look at the chart below. Write what you understand from the text in the column labeled √.
- Write what is confusing in the column labeled ?.

The German thinker and writer Karl Marx was a socialist who predicted violent revolution. Marx believed that the population in industrialized nations is divided into capitalists, or bourgeoisie, who own the means of production and workers, or proletariat, who work to produce the goods. Marx interpreted human history as a class struggle between the workers and the capitalists. Eventually, he thought the workers would revolt and overthrow the capitalists.

—from page 717

Clarifying Text

√	?
Karl Marx was a socialist who predicted violent revolution.	What is a socialist?
Workers, or the proletariat, work to produce goods.	<i>Capitalists, or bourgeoisie, own the means of production.</i> What does it mean to “own the means of production”?
Eventually, the workers would revolt and overthrow the capitalists.	<i>Marx interpreted human history as a class struggle between the workers and the capitalists.</i> Does that mean that he thinks every civilization will have a class struggle?

Reading Tip

If you read something confusing, slow down and think about the text. Look at pictures, words in bold, and other hints to figure out the meaning.



2 Practice It!

- Read the following paragraph. Draw a chart like the one below.
- Write what you understand from the text in the column labeled √.
- Write what is confusing in the column labeled ?.

Nevertheless, the United Nations has helped bring about peace in some areas and helped those who live in war-torn countries. In nations such as El Salvador, Cambodia, and Haiti, UN peacekeeping operations have helped sustain ceasefires, conduct free and fair elections, monitor troop withdrawals, and prevent violence.

—from page 741

Read to Write Activity

Read “Issues to Debate” on page 714, titled “Should the United States Open ANWR for Oil Drilling?” Write at least two questions about the selection to help clarify your thoughts. Write the answers.

√	?



3 Apply It!

In a paragraph, identify two things you understand and two things that are confusing for:

- **Chapter 27, Section 2**



Chapter

26

Comparing Economic Systems

Why It Matters

The world is becoming more interconnected every day. One aspect of growing globalization is the vast number of foreign-made products you can buy. These products are in your stores because of international trade. Most of our trading partners are either developed or developing market economies.



BIG Ideas

Section 1: International Trade

The exchange of goods and services helps create economic interdependence among peoples in different places and different countries. Nations trade with one another to obtain goods and services they themselves cannot produce efficiently.

Section 2: Economic Systems

An economic system is the way a society organizes the production and consumption of goods and services. Market and command economies approach economic decision making in very different ways.

Section 3: Economies in Transition

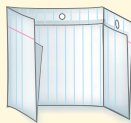
An economic system is the way a society organizes the production and consumption of goods and services. Both former command economies and developing nations face severe challenges in creating market economies.

Workers at a plant that is part of Steel Authority of India Limited (SAIL), the leading steelmaking company in India

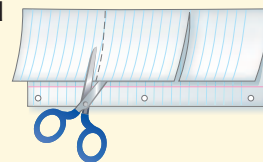
FOLDABLES™ Study Organizer

Analyzing Information Study Foldable Make the following Foldable to help you analyze the purposes and powers of world regional economic trade agreements.

Step 1 Fold a sheet of paper in half from side to side, leaving a two-inch tab at the bottom. Turn the paper and fold it into thirds.



Step 2 Unfold and cut along the top fold lines to create three tabs.



Step 3 Label the three tabs as shown.



Reading and Writing

As you read the chapter, note information about the three trade agreements. Then write a paragraph describing the agreement that you think is strongest and explain why.



Section
1

International Trade

Guide to Reading

Big Idea

The exchange of goods and services helps create economic interdependence among peoples in different places and different countries.

Content Vocabulary

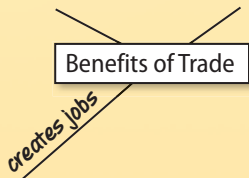
- export (p. 707)
- import (p. 707)
- comparative advantage (p. 708)
- tariff (p. 708)
- quota (p. 708)
- free trade (p. 710)
- exchange rate (p. 712)
- balance of trade (p. 712)
- trade surplus (p. 712)
- trade deficit (p. 713)

Academic Vocabulary

- consequently (p. 708)
- eventually (p. 710)
- flexible (p. 712)

Reading Strategy

Classifying On a graphic organizer like the one below, identify three reasons that nations trade.



Real World Economics Opening celebrations at the Hong Kong Stock Exchange include the giving of “Lai See,” or red packets of lucky money, to the crowd. International trade—which is transacted in this stock exchange—is important to the U.S. economy. Our trade deficit with China, the second-largest importer of goods to the U.S., was estimated at \$150 billion in 2004—a more than 20-fold increase in less than 20 years.

▼ Traders at Hong Kong Stock Exchange wave traditional lucky money



NORTH CAROLINA STANDARDS
Civics and Economics

9.05 Explain the impact on the United States economy of international trade and global products.

9.06 Investigate the ways that domestic and international economies are interdependent.



Industry Workers craft athletic shoes at a factory in South Korea. The nation's major exports include motor vehicles and petrochemicals as well as footwear. *Explaining Why do nations trade?*

Why Nations Trade

Main Idea Nations trade with one another to obtain goods and services they themselves cannot produce efficiently.

Economics & You What do you think would happen if the United States could no longer sell goods to other countries or buy goods in return? Read to find out how this situation might affect our standard of living.

No country produces everything it needs to survive. Every country depends on other countries. Because of international trade, Americans can eat fruit during the winter grown in Central America. Through international trade, American computers are sold in Africa and Asia. In 2005, about 10 percent of

all the goods produced in the United States were **exported**, or sold to other countries. A larger amount of goods were **imported**, or purchased from abroad. These purchases give Americans products they might not otherwise be able to enjoy.

Obtaining Scarce Goods

Trade is one way that nations solve the problem of scarcity. Nations trade for some goods and services because they could not otherwise have them or have them as cheaply. The United States buys industrial diamonds from other countries because it has almost no deposits of this mineral. Other nations trade for goods they cannot produce but that the United States can produce. Commercial aircraft built in California are sold to other countries that do not have the necessary factories or the skilled workers.



Comparative Advantage

The main reason countries trade with one another is **comparative advantage**. This is the ability of a country to produce a good at a relatively lower cost than another country can. The United States could make color televisions. Other countries, however, can make them at a lower cost. **Consequently**, the United States now buys color televisions that are made abroad.

Specialization Because of comparative advantage, nations can specialize. They use their scarce resources to produce those things that they produce better than other countries. Specialization can lead to overproduction—when a country produces more of a good than all the people in the country could consume. The answer to this problem is to sell the extra amount that is produced to other countries.

Factors of Production Comparative advantage can be based on natural resources. Saudi Arabia’s comparative advantage, its huge deposits of oil, allows it to export oil. Sometimes comparative advantage is based on labor and capital. The United States has large supplies of wealth, many highly skilled workers, and advanced technology. As a result, it has a comparative advantage in making expensive products such as airplanes and weapons.

Creating Jobs

Finally, international trade creates jobs. Suppose, for example, that American airplane makers built planes for only American airline companies. If so, they would have a limited market, because each airline needs only so many new planes each year. By exporting the planes, the companies have a chance to win more orders, which leads to the hiring of more workers.

 **Reading Check** **Defining** What is comparative advantage?

Restrictions and Integration

.....
Main Idea Countries sometimes try to protect their economies by setting up trade barriers.

Economics & You How important is price to you when you are shopping? If you are like most people, it is pretty important. In this section, you will learn how government actions can raise the price of imported goods.
.....

Many consumers like to buy foreign-produced goods because they are cheaper. When they do so, companies in the consumers’ own country lose sales. The companies are then likely to lower production and to lay off workers. When this happens, the affected workers and industries often demand that the government step in on their behalf to remedy the situation. The two most common kinds of barriers to trade that governments can apply are tariffs and quotas.

A tax on imported goods is called a **tariff**, or customs duty. If the United States wants to protect American steel producers, it can put a 20 percent tariff on all imported steel, thus adding 20 percent to its price. The goal of most tariffs is to make the price of imported goods higher than the price of the same goods produced domestically.

Sometimes people want a product so badly that higher prices have little effect—they will purchase it anyway. In this case, countries can block trade by using **quotas**, or limits on the amount of foreign goods imported. For example, during most of the 1970s, Japanese-made automobiles were so popular in the United States that the jobs of American autoworkers were threatened. As a result, President Ronald Reagan placed quotas on Japanese-made automobiles.

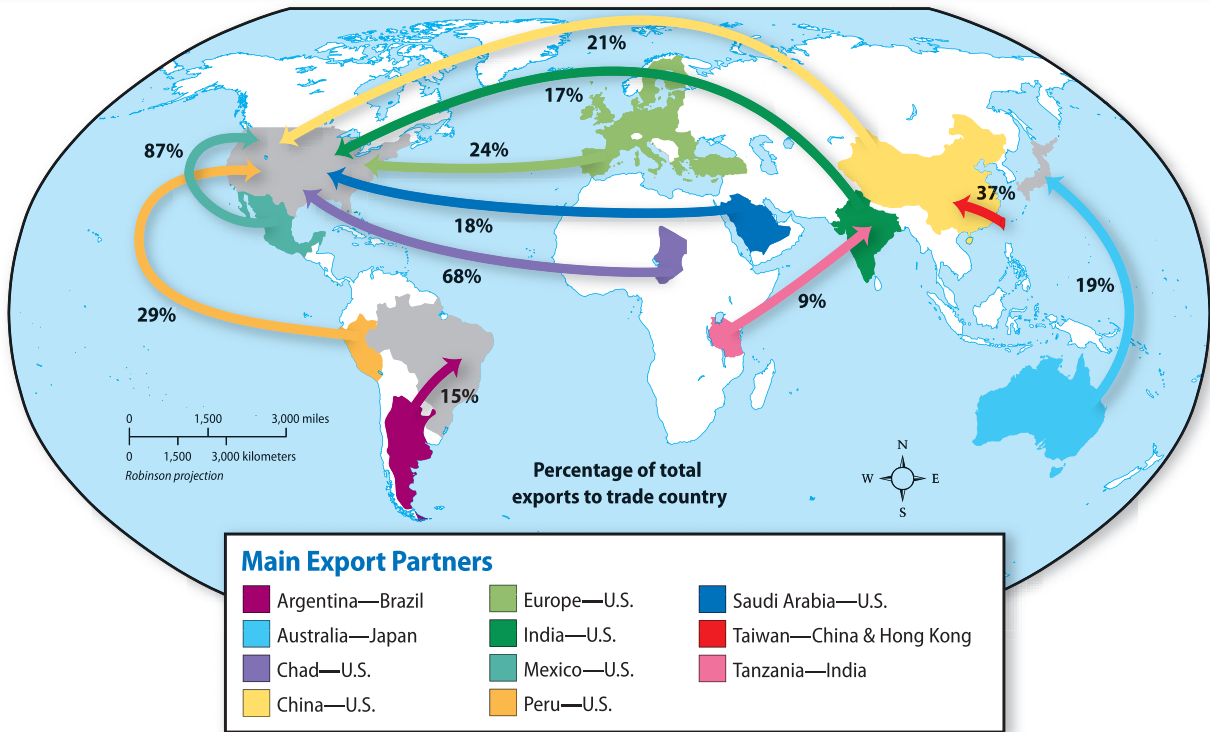


Student Web Activity Visit glencoe.com and complete the Chapter 26 Web Activity.

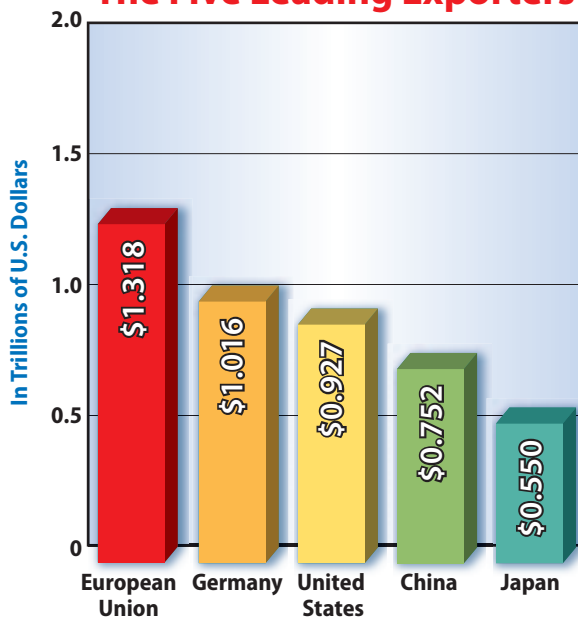
Imports and Exports, Selected Nations

Maps In Motion

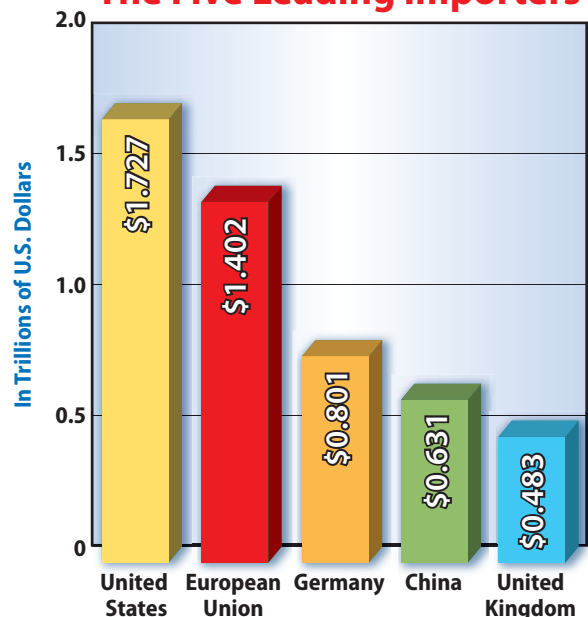
See StudentWorks™ Plus or glencoe.com.



The Five Leading Exporters



The Five Leading Importers



Source: CIA The World Factbook, 2006.

Analyzing Maps and Graphs

- Identifying** What nation is Brazil's chief import partner?
- Describing** Identify Mexico's chief export partner. What percentage of Mexico's exports go to that nation?



Scott Stantis/Copley News Service

In this cartoon, Scott Stantis reflects on America's trade deficit—the difference between the value of goods the U.S. imports and exports.

1. How is the U.S. trade deficit represented?
2. Why do you think Stantis selected this symbol?
3. How is Uncle Sam portrayed?
4. What warning is Stantis issuing about the U.S. economy?

Trade Agreements

Most policymakers agree that the total costs of trade barriers are higher than their benefits. For this reason, most countries now try to reduce trade barriers. They aim to achieve **free trade**. To increase trade, countries can join together with a few key trading partners to set up zones of free trade.

The European Union The European Union (EU) is an organization of independent European nations. There are no trade barriers among these nations. Goods, services, and even workers can move freely among them. In January 2002, these countries became even more closely linked when most began using a common currency, the euro.

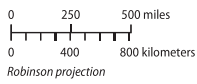
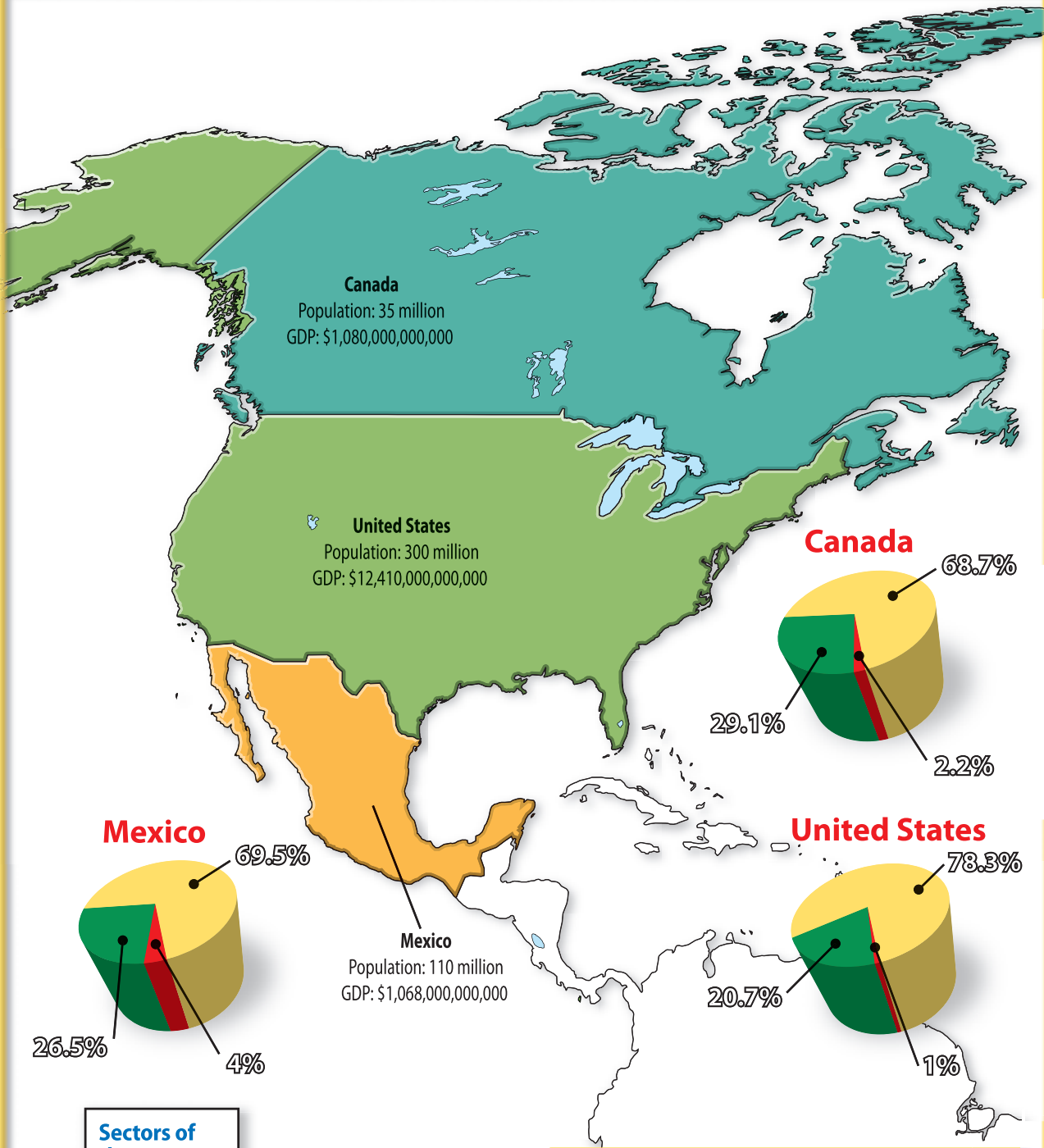
NAFTA In the 1990s, the United States, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA). This pact will **eventually** eliminate all barriers to trade among the three countries. Since NAFTA

was enacted, trade among the countries has grown twice as fast as the separate economies themselves have grown. Opponents of NAFTA contended that American workers would lose their jobs because U.S. plants would move to Mexico to take advantage of cheaper wages and less stringent enforcement of environmental and workers' rights laws. NAFTA supporters argued that increased trade would stimulate growth and put more low-cost goods on the market.

The WTO An international body called the World Trade Organization (WTO) oversees trade among nations. It organizes negotiations about trade rules, provides help to countries that are trying to develop their economies, and settles trade disputes. Critics say that WTO policies favor major corporations at the expense of workers, the environment, and poor countries.

Reading Check Explaining Why do nations sometimes place quotas on an imported good?

The North American Free Trade Agreement (NAFTA)



Source: CIA The World Factbook, 2006.

Analyzing Maps and Graphs

1. **Comparing** What sector of the economy makes up the largest portion for all three nations?
2. **Calculating** What is the combined GDP of NAFTA member countries?



Financing Trade

Main Idea A nation's balance of trade can be either a surplus or a deficit.

Economics & You Can you name the currencies of some foreign countries? Read to find out how these currencies are valued against our dollar.

The United States uses the dollar as its medium of exchange; Mexico, the peso; and Japan, the yen. If you travel outside the U.S. or invest in foreign business, you will want to know the **exchange rate**—what the price of your nation's currency is in terms of another nation's currency. Most of the world's nations use a **flexible**, or adjustable, exchange rate system. Under this system, the forces of supply and demand are allowed to set the price of various currencies. Thus, a currency's price may change each day.

The Balance of Trade

Exchange rates have an important effect on a nation's balance of trade. The **balance of trade** is the difference between the value of a nation's exports and its imports. If a nation's currency depreciates, or becomes "weak," the nation will likely export more goods because its products will become cheaper for other nations to buy. If a nation's currency appreciates in value, or becomes "strong," the amount of its exports will decline.

Positive Balance of Trade When the value of a nation's exports exceeds the value of its imports, a positive balance of trade exists. For example, if the value of a country's exports is \$100 billion and the value of its imports is \$50 billion, then the country has a positive balance of trade (\$50 billion). In this case, the nation is bringing in more money than it is paying out. A positive balance of trade is known as a **trade surplus**.

Elmer Martínez/AFP/Getty Images

Balance of Trade Bananas are the most profitable export fruit in the world. Most bananas imported to the United States are grown on plantations in Latin America. **Explaining How** are exports and imports used to calculate a nation's balance of trade?





Negative Balance of Trade A negative balance of trade exists when the value of goods coming into a country is greater than the value of those going out. For example, if the value of a country's exports is \$70 billion and the value of its imports is \$120 billion, then the country has a negative balance of trade (-\$50 billion). A negative balance of trade is known as a **trade deficit**. A trade deficit can affect other factors in a country's economy.

Effects of a Trade Deficit

What are the effects of a trade deficit? A trade imbalance tends to erode the value of a country's currency on foreign exchange markets. The devalued currency then causes a chain reaction that affects income and employment in that country's industries. For example, the large deficit in the United States's balance of payments in late 2006

flooded the foreign exchange markets with dollars. As economists predicted, the rise in the supply of dollars caused the dollar to lose some of its value. The weaker dollar caused unemployment in import industries as imports became more expensive. However, this had an opposite effect in the area of exports. It caused employment to rise in export industries as the prices of these goods became more competitive.

Under flexible exchange rates, trade deficits will correct themselves through the price system. Historically this has been the case with regards to the American economy. A strong currency generally leads to a deficit in the balance of payment and a subsequent decline in the value of the currency. A weak currency tends to cause trade surpluses, which eventually pull up the value of the currency.

Reading Check Describing What is a trade deficit?

Section Review 1

Vocabulary

- Create** a set of flash cards to use when you review the section; write the definitions on the backs of the cards for these terms: *export, import, comparative advantage, tariff, quota, free trade, exchange rate, balance of trade, trade surplus, trade deficit.*

Main Ideas

- Identifying** What are three reasons that nations trade among themselves?
- Explaining** How can trade barriers raise prices?

- Identifying** What is the name for the condition that exists when the value of a nation's exports exceeds the value of its imports?

Critical Thinking

- BIG Ideas** In a graphic organizer like the one below, explain the likely effects of weak and strong currencies on a nation's exports.



- Evaluating** Is a trade deficit a bad situation for a country? Explain your answer.

CITIZENSHIP Activity

- Creative Writing** Write a song, poem, short story, or dialogue about an effect of international trade, such as the demand for cheaper goods or the loss of jobs, on individuals in a community like yours. Share your work with the class.



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Issues to Debate



Should the United States Open ANWR for Oil Drilling?

More than 40 years ago, the United States government set aside lands in northeast Alaska to protect its wildlife, wilderness, and recreation values. The 1980 Alaska National Interest Lands Conservation Act doubled the size of the Arctic Range to 19 million acres and renamed it the Arctic National Wildlife Refuge (ANWR). About 100 miles west of ANWR is Prudhoe Bay, North America's largest oil field. Americans' increasing dependence on foreign oil and the rising price of gasoline has raised the issue of whether the federal government should allow oil companies to drill in ANWR. The issue has sparked heated debate in Congress and among interest groups.



Discovered in 1968, the oil fields at Prudhoe Bay in northern Alaska are the largest in North America.

YES

Supporters of drilling in ANWR claim that only a small area of the wildlife refuge would be affected. New drilling technology would protect the environment, while a major oil discovery would reduce the nation's dependence on foreign oil. Representative Don Young of Alaska, in an open letter to Congress, said, "According to the U.S. Energy Administration, the mean estimate of technically recoverable oil in ANWR is 10.4 billion barrels. That is almost half of the total U.S. proven reserve of 21 billion barrels. So in basic economic terms, if we open up ANWR, we would be increasing our supply, which in turn would lower prices. . . . Getting ANWR passed would provide Congress a tangible answer for its constituents when they want to know what we are doing about the high energy costs. ANWR is American oil. ANWR is 30 years worth of Saudi Arabian imports."

—Representative Don Young, May 24, 2006

NO

Defenders of Wildlife is one of the many environmental interest groups that opposes drilling in ANWR. These groups believe that oil development in the region would require a large web of industrial companies, hundreds of miles of roads and pipelines, refineries, and power plants that would change the environment. The grizzly bears, wolves, caribou, whales, and other species would be at risk. Defenders of Wildlife reports, "At the Prudhoe Bay oil field just west of the Arctic Refuge, spills of oil products and hazardous substances happen *every single day*, and noise and air pollution are rampant. According to Alaska's Department of Environmental Conservation, there are 55 contaminated waste sites already associated with this development." And they add, "Drilling for oil in the Arctic National Wildlife Refuge will not end America's dependence on Persian Gulf or other oil imports."

—Defenders of Wildlife, 2006

Debating the Issue

- Identifying** What is ANWR?
- Describing** What is the location and size of ANWR?
- Explaining** Why has Congress considered drilling for oil in this area?
- Concluding** Do the benefits outweigh the risks of drilling for oil in ANWR? Explain.



Jorge Rey/AP Images

Section 2

Economic Systems

Guide to Reading

Big Idea

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

Content Vocabulary

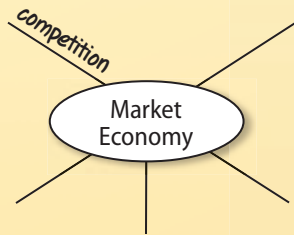
- market economy (p. 716)
- per capita GDP (p. 716)
- command economy (p. 717)
- socialism (p. 717)
- communism (p. 718)
- mixed economy (p. 719)

Academic Vocabulary

- intervene (p. 716)
- exploit (p. 717)

Reading Strategy

Describing As you read, complete a diagram like the one below by describing characteristics of a market economy.



Real World Economics Suppose the government told you that you could not operate your own business. That is exactly what happened to this Cuban woman in 2005. The Cuban government—one of the best-known examples of a command economy—told her that she could no longer sell flowers to make extra money. In Cuba, the government makes all the economic decisions. Many Americans hope that Cuba moves toward a freer market economy.

▼ **Havana native Laura Sanchez had her license to sell flowers revoked**



NORTH CAROLINA STANDARDS Civics and Economics

- 7.06** Compare and contrast how different economic systems address key economic factors.
- 8.01** Compare characteristics of command, market, traditional, and mixed economies.



Market Economies

Main Idea Market economies are characterized by individual freedom, competition, and less government control.

Economics & You Would having more pizza parlors in your town lower pizza prices or improve pizza quality? Read to find out why governments work to ensure competition.

Economic systems around the world vary. Some, like the one in the United States, are based on markets. Others, like China’s, feature far greater government control. These different economies deal with scarcity in different ways. All societies face the basic questions of *what* to produce, *how* to produce, and *for whom* to produce. How society answers these questions determines its economic system. In a pure **market economy**, the decisions are made in free markets based on the interaction of supply and demand. Capitalism is another name for this system.

Characteristics of a Market Economy

In a market economy, private citizens—not the government—own the factors of production. As you recall, those factors are natural resources, capital, labor, and entrepreneurship.

Individual Freedom A market economy offers a high degree of individual freedom. Businesses decide *what* to produce, *how* to produce, and *for whom* to produce. Driving those decisions is the business owner’s desire to earn a profit. At the same time, consumers decide what to buy. In a market economy, supply and demand interact to set prices, and producers and consumers make their own decisions.

Decisions in a market economy are made by all the people in the economy, not by just a few. Therefore, we say a market economy is decentralized. The economy seems to run by itself because no one coordinates the decisions.

Pure market economies seldom exist. Even in the United States, for example, the government provides public goods such as national defense and a system of justice.

Competition Governments play another role in an economy: they make sure markets stay competitive. As a consumer in a market economy, you are likely to benefit from competition between sellers. Effective competition requires a large number of sellers. The U.S. government can ensure this by regulating businesses. It also **intervenes**, or interferes, to punish businesses that break laws meant to ensure competition.

Dealing with Externalities Governments also influence externalities. These are the unintended side effects that have an influence on third parties. For example, the government works to reduce pollution, which is a negative externality. It also encourages activities that generate positive externalities. For instance, it provides money to fund scientific research, which businesses can then use to develop new products.

Higher Per Capita GDPs Most of the largest economies are market economies. Look at the map on page 718, which shows the per capita gross domestic product (GDP) for selected nations. **Per capita GDP** is the total GDP divided by the country’s population. By expressing GDP in terms of each person, we can compare one nation’s economic success to another’s without regard to the size of the two economies. Most of the countries that have high per capita GDPs, including the United States, have market economies.

Reading Check Explaining Why do we say a market economy runs itself?



Command Economy North Korean leader Kim Jong Il (far right) inspects a new food processing plant operated by the Korea People's Army (KPA) Unit 543. A factor contributing to the nation's poor economic performance is that North Korea focuses on producing weapons and not consumer goods. **Identifying Who owns most of North Korea's productive resources?**

Command Economies

Main Idea In command economies, the government tells producers what to do.

Economics & You Would you like the government to choose your job for you? In some economies, governments exert vast control over individuals.

Characteristics of a Command Economy

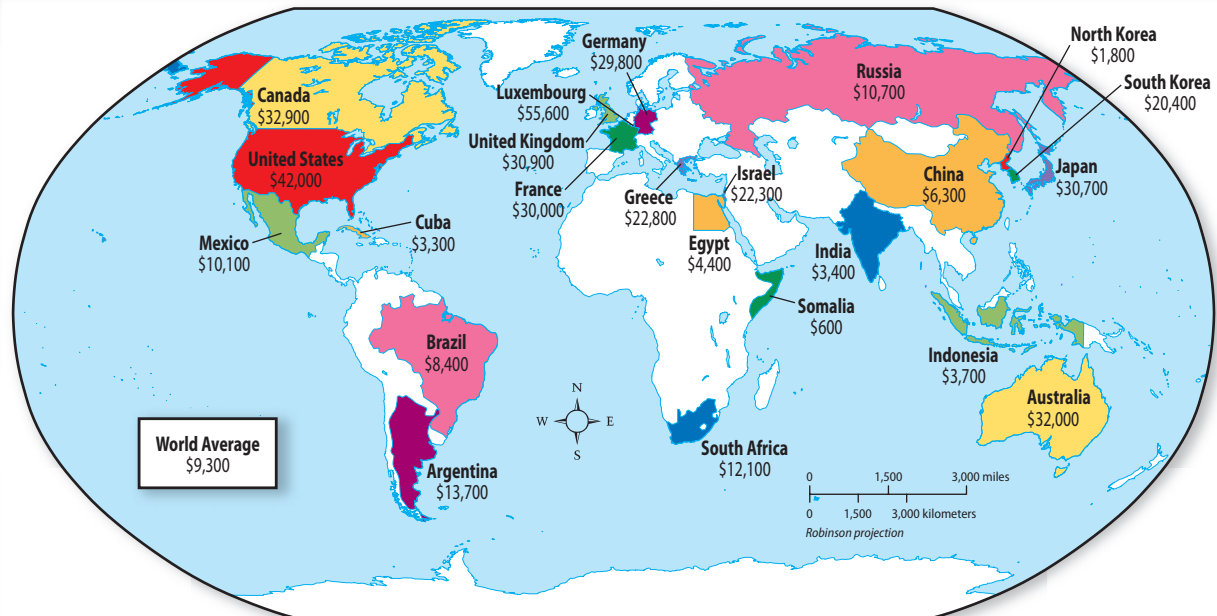
The opposite of a market economy is called a **command economy**. In a pure command economic system, the individual has little, if any, influence over how the basic economy functions. Major economic decisions are made by the central government. The government tells producers what to do—it *commands* what actions they should take. This economic system is also called a controlled economy.

Socialism Starting in the early 1800s, some people came to believe that aiding **exploited**, or oppressed, workers required eliminating capitalism completely. They advocated **socialism**, the belief that the means of production should be owned and controlled by society, either directly or through the government. Socialists felt that this system would distribute wealth more equally among all citizens.

Communism The German thinker and writer Karl Marx was a socialist who predicted violent revolution. Marx believed that the population in industrialized nations is divided into capitalists, or bourgeoisie, who own the means of production and workers, or proletariat, who work to produce the goods. Marx interpreted human history as a class struggle between the workers and the capitalists. Eventually, he thought the workers would revolt and overthrow the capitalists.



Per Capita GDP, Selected Nations



Source: CIA The World Factbook, 2006.

Analyzing Maps

- Comparing** Which nation on the map has the highest per capita GDP? Which has the lowest?
- Hypothesizing** If Cuba became a market economy, would the per capita GDP go up or down? Why?

Marx believed socialism would develop into **communism**. Under communism, one class would evolve, all property would be held in common, and there would be no need for government.

Government Control In a command economy, most productive resources—especially land and capital—are owned by government, not by private individuals. The government makes the three basic allocation decisions. It decides *what* to produce; it tells factory managers whether to make cars, buses, or military vehicles. The government also regulates *how* goods will be produced. It tells managers where to buy their raw materials, for example. Finally, the government decides for *whom* to produce. It fixes the wages of all workers and sets prices as well.

Unsurprisingly, governments in command economies have planning agencies with

a great deal of power. These organizations make the important decisions for different parts of the economy, such as agriculture, steel production, and consumer products manufacturing.

Slow Growth Because of their inefficiency, command economies tend to grow more slowly and attain a lower per capita GDP than do market economies. Cuba and North Korea are perhaps the two best current examples of command economies. Look at the map on this page to see how low their per capita GDPs are.

Reading Check **Contrasting** What is the difference between a pure market economy and a pure command economy?



Mixed Economies

Main Idea Today the American economy and others like it are described as mixed economies.

Economics & You Do you think it is possible for a nation to have a pure market economy? Read to find out about how some nations combine elements of different economic systems.

Pure forms of command or market economies are rare. In most cases, a country's economic system combines these principles in what is known as a mixed economy. In a **mixed economy**, individuals carry on their economic affairs freely, but are subject to some government intervention. Many countries of the world have a mixed economy.

In the United States, free enterprise is combined with and supported by government decisions in the marketplace. The government keeps competition free and fair and protects the public interest.

The United States also promotes the economy by providing services to businesses and consumers. For example, the federal and state governments have built extensive highway systems that have helped promote travel and the transportation of goods.

Many government agencies produce and distribute goods and services to consumers, giving government a direct role in the economy. The role is "direct" because the government supplies a good or service that competes with private businesses. Perhaps the best known is the U.S. Postal Service.

The government plays an indirect role when it acts as an umpire to make sure the economy operates smoothly and efficiently. One such case is the regulation of public utilities, investor- or municipal-owned companies that offer important products to the public, such as water or electric service.

Reading Check Explaining In what ways can mixed economies be considered a combination of other economic systems?

Section Review 2

Vocabulary

- Write** complete sentences about the world economic system using each of the following terms: *market economy, per capita GDP, command economy, socialism, communism, mixed economy.*

Main Ideas

- Describing** Why is per capita GDP a good way to compare the economic success of different countries?
- Explaining** What did advocates of socialism hope to achieve?

Critical Thinking

- Assessing** Why do you think most of the world's most successful economies are market economies? Explain your answer.
- BIG Ideas** In a graphic organizer like the one below, compare and contrast market and command economies.

Market Economy	Command Economy

- Analyze Visuals** Examine the map on page 718. What five countries had the highest per capita GDPs?

CITIZENSHIP Activity

- Persuasive Writing** Write an editorial that supports a position on the following statement: *Any government intervention in the U.S. economy is harmful.* Use your editorial to debate the idea with classmates.



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Financial Literacy

Help Wanted: Tomorrow's Job Market

The Bureau of Labor Statistics (BLS) predicts that more than 18.9 million new jobs will be added between 2004 and 2014, increasing the workforce from 147.4 million to more than 162 million. Young people ages 16–24 are projected to fill more than 22 million jobs.

- Employment growth will be concentrated in the service industries.
- Five of the 10 occupations adding the most jobs are service occupations.
- An associate or bachelor's degree is the major source of postsecondary education or training for 6 of the 10 fastest-growing occupations.

Fastest-Growing Occupations, 2004–2014

Percentage Growth

Occupation	Total employment 2014 (in thousands)	Percentage growth 2004–2014	Most significant source of postsecondary education or training
Home health aides	974	56	On-the-job training
Network systems and data communications analysts	357	55	Bachelor's degree
Medical assistants	589	52	On-the-job training
Physician assistants	93	50	Bachelor's degree
Computer software engineers	682	48	Bachelor's degree

Jobs Gaining the Most Workers

Occupation	Total employment 2014 (in thousands)	Employment growth 2004–2014 (in thousands)	Most significant source of postsecondary education or training
Retail salespersons	4,992	736	On-the-job training
Registered nurses	3,096	703	Associate degree
Postsecondary teachers	2,153	524	Doctoral degree
Customer service representatives	2,534	471	On-the-job training
Janitors and cleaners	2,813	440	On-the-job training

Source: Bureau of Labor Statistics.



Analyzing Economics

1. **Classifying** Is most of the growth concentrated in the service or the manufacturing sector? Explain.
2. **Describing** What are three factors that will change the job market?



Section 3

Economies in Transition

Guide to Reading

Big Idea

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

Content Vocabulary

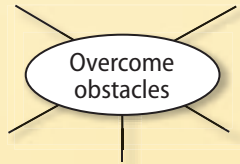
- developing country (p. 724)
- traditional economy (p. 724)

Academic Vocabulary

- collapse (p. 722)
- nevertheless (p. 723)

Reading Strategy

Identifying As you read, note the ways developing countries can overcome some of their obstacles.



Real World Economics The economy of Vietnam is in a state of transition. This woman sells appliances in an electronics shop in Hanoi that may soon feature products from Japan, China, and the United States. Vietnam, once a fiercely communist country, has for two decades moved toward a market economy, which replaced its earlier command economy. Now, slightly more than 30 years after the Vietnam War ended, Vietnam has applied for entry into the World Trade Organization (WTO).

▼ Customer and salesperson at a Hanoi electronics store





Changing Economies

Main Idea Russia and China are making the difficult transition from command to market economies.

Civics & You Have you ever decided to make a big change in your life? Major changes are difficult for countries, too.

Many nations in the world are making the transition from one type of economy to another. Some are moving from a traditional economy to a more developed system. Others are shifting from a command economy to a market system. The main reason for the transition is the remarkable success of the major market economies in the world. Many countries hope to bring the same prosperity to their own people.




Failure of Command Economies

In the 1980s, command economies began to seem increasingly unattractive. They were unable to achieve the economic growth that market economies could. The Soviet Union, China, and the countries of Eastern Europe had command economies. By 1991, however, they were all in the process of changing. In Eastern Europe, this economic change was accompanied by political changes. The countries moved toward greater democracy in addition to market economies.

Russia

The same transition took place in the Soviet Union, where change came with the actual breakup of the country. In 1991, the Soviet Union **collapsed**, or fell apart. Communist leaders could no longer keep the economy going. Russia emerged as the largest country to come out of the former Soviet Union.

Comparing Economies: Russia, China, and the U.S.

	 Russia	 China	 United States
Population (July 2006 est.)	142,894,000	1,313,974,000	300,000,000
GDP per capita	\$11,000	\$6,800	\$41,600
Labor Force			
-Agriculture	5.4%	12.5%	1%
-Industry	21.4%	47.3%	20.4%
-Services	57.5%	40.3%	78.7%
Exports	\$245 billion	\$752.2 billion	\$927.5 billion
Imports	\$125 billion	\$631.8 billion	\$1.727 trillion

Source: CIA The World Factbook, 2006; Statistics based on 2005, 2006 estimates.

Analyzing Charts

- Calculating** About how many times larger is the GDP per capita of the United States than of China?
- Explaining** What constitutes a favorable balance of trade? Do any of the nations listed show a favorable balance of trade?



Economic Change in China A worker at a construction site in Yantai, China still uses hand tools. In the background, several cranes are operating. **Describing What economic problems is China facing?**

Economic Change Most economic decisions during Soviet times were made by a central planning body. Soviet production was inefficient. Supplies did not arrive on time, too much or too little of a good was produced, and goods were not always delivered to the places that needed them most. The process became too complicated to work effectively.

Following the breakup of the Soviet Union, Russia's leaders wanted to use some elements of a market-based economy. State-owned factories had to be put in the hands of private ownership. Stock markets had to be created so that people could own the factories. People had to learn to make decisions based on supply and demand and market prices. This ongoing transition has been difficult, and the process will probably continue for many more years.

China

Like Russia, China is trying to incorporate certain elements of a market economy. The Chinese economy had been modeled

on the Soviet system of central planning. By the 1980s, China was falling far behind the market-based economies of its neighbors Taiwan, South Korea, Hong Kong, and Singapore. China began introducing market reforms to catch up. For example, it converted many state-owned factories to privately owned factories. The reunification of Hong Kong with China in 1997 gave China further motivation to change. Chinese leaders hoped to learn more about markets from Hong Kong.

China's economy has averaged 10 percent annual, or yearly, growth over the past 20 years—a high level of growth. Many workers in China's cities can now buy goods they were never able to have in the old economy. **Nevertheless**, along with these successes, there are some serious problems. Farmers find it hard to compete with cheaper foreign food. About 160 million Chinese are unemployed. China's leaders must find solutions to these problems.

 **Reading Check Explaining** Why did China introduce market reforms?



Developing Countries

Main Idea Developing countries face many problems as they try to create market economies.

Civics & You How do you feel when you owe a friend money? Does your debt nag at you until you pay it back? A similar problem affects developing countries around the world.

Economic Characteristics

Of the nearly 200 countries in the world, only about 35 are considered developed nations. These nations include the United States, Japan, Australia, the Republic of China, and Spain. Dozens of other countries are trying to make the transition to a market-based economy. Most of the countries are **developing countries**, or countries whose average per capita income is only a fraction of that in more industrialized countries.

Many of the countries trying to make this transition have **traditional economies**. Economic decisions are based on custom or habit. For example, if your grandparents and parents fished for a living, you also will fish for a living. Traditional methods and materials are used to make items in this economy.

Problems Developing Countries Face

Developing countries face numerous obstacles that make economic growth difficult. A major obstacle to economic growth is a high rate of population growth. When population grows faster than GDP, per capita GDP declines—each person has a smaller share of what the economy produces. Countries with higher rates of population growth tend to have lower per capita GDPs (see the map on page 718). Countries with high per capita GDPs, on the other hand, have low rates of population growth. Rapid population growth is often the source of many other problems, such as lack of food and housing.

Jacorey Patterson



Jacorey Patterson, 17, goes to a local school in his hometown of Brooklyn, New York. But with the help of Global Kids, Inc., Jacorey thinks worldwide.

QUESTION: What is Global Kids?

ANSWER: An educational organization that provides school-based and after-school programs to build young people's understanding of complex global issues.

Q: Like what?

A: Diversity and discrimination, human rights, education, the environment, immigration—and many other issues!

Q: What kinds of kids are involved?

A: They are racially, ethnically, and socio-economically diverse. The majority identify themselves as African American, Latino, South Asian, Middle Eastern, East Asian, or Caribbean.

Q: How does the organization affect the community?

A: In many ways; for example, following September 11, Global Kids youth conducted training for peers on Muslim stereotypes and facilitated an online dialogue for youth to share their fears and concerns about the attacks.

For more information about Global Kids, please visit www.globalkids.org.

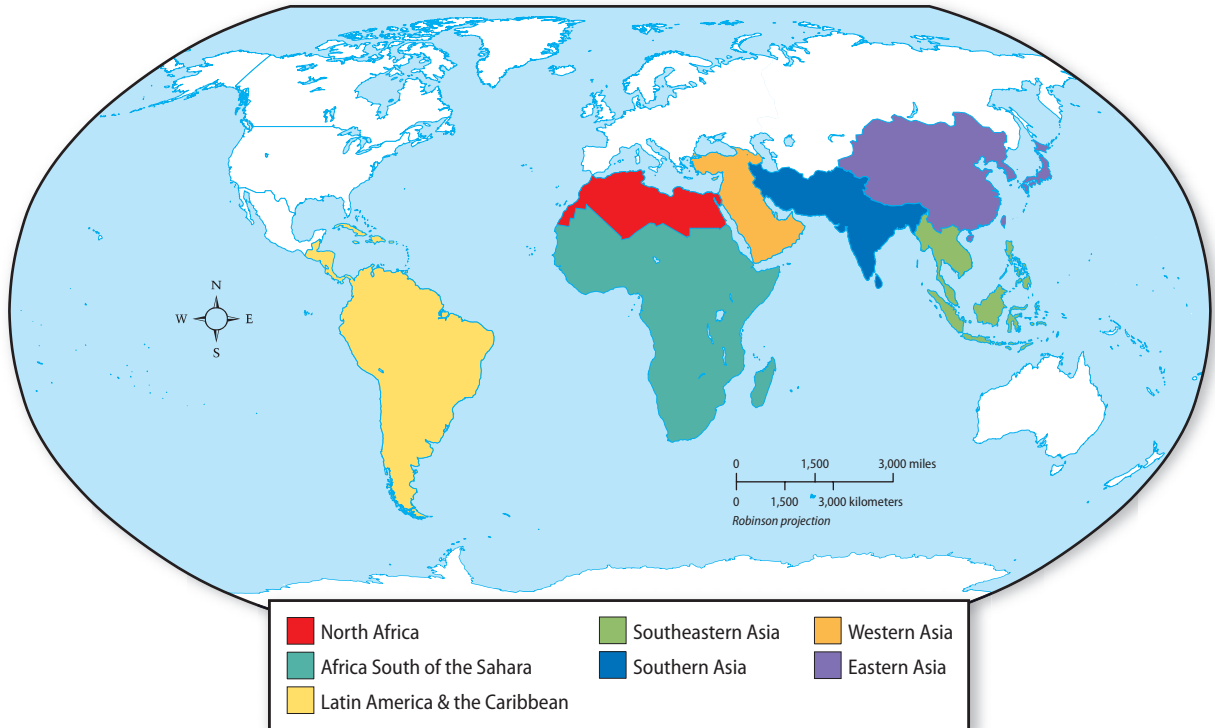


Making a Difference

CITIZENSHIP

Describing Write a paragraph describing how you could adapt Jacorey's Global Kids plan to your school.

Social Statistics Comparison, Selected Regions



	Africa		Asia				Latin America & Caribbean	World
	Northern	South of Sahara	Eastern	Southeastern	Southern	Western		
Mortality Rate								
Deaths per 1,000 live births	33	102	30	35	65	48	27	55
Under 5 years of age mortality rate, per 1,000	38	172	37	46	90	60	32	80
Unemployment rate of young people								
Percentage of females aged 15–24 unemployed	14.2	39.1	5.8	17.7	17.1	22.5	20.8	14.2
Percentage of males aged 15–24 unemployed	14.5	25.5	8.1	15.6	13.5	20.1	14.0	14.5
Literacy								
Literacy rate of 15–24-year-old females	72.5	69.3	98.6	95.1	62.8	80.3	95.9	83.8
Literacy rate of 15–24-year-old males	84.1	79.0	99.2	96.4	81.6	90.7	95.2	90.7

Analyzing Maps and Charts

- Comparing** What region has the lowest percentage of young people employed?
- Comparing** How does the literacy rate in Latin America and the Caribbean compare with the world literacy rate?



Geography and natural resources present other obstacles. Many developing countries do not have access to ocean trade routes. Others may have ocean access but lack key natural resources.

War, Debt, and Corruption War has left a chilling legacy in many developing countries. Countries such as Afghanistan, Ethiopia, and Vietnam experienced recent wars. Thousands of people have lost their lives since the Darfur conflict in the western region of Sudan erupted in February 2003.

Many countries also face the problem of severe debt. They borrowed large sums of money to spur economic growth. Now many cannot pay off the loans or even the interest on their debt.

Finally, corruption delays the development of some economies. Nigeria, for example, is rich in oil but is still a relatively poor nation because of the alleged corruption of its government officials.

Growth and Development

Developing countries face the responsibility for directing their own economic development and future. The World Bank has created a set of recommendations for developing countries. Governments in developing countries need to invest more in people—education, family planning, nutrition, and health care.

Price controls, subsidies, and other regulations limit the development of markets. The World Bank suggests that competitive markets—not government officials—should make the *what, how, and for whom* decisions.

Many developing countries have quotas, tariffs, and other barriers protect domestic jobs and young industries. At the same time, trade barriers protect inefficient industries. Countries that open their markets to the world can begin to grow economically.

Reading Check **Describing** What economic challenges do developing nations face?

Section Review 3

Vocabulary

- Write** complete sentences about two nations of the world using each of the following terms: *developing country, traditional economy.*

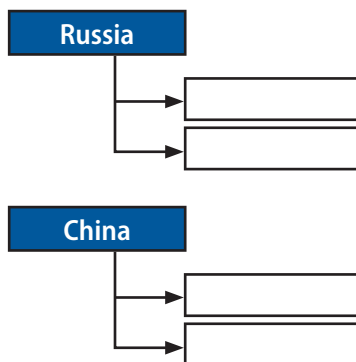
Main Ideas

- Explaining** Why did the former Soviet Union economy collapse?
- Identifying** What problems do developing nations face?

Critical Thinking

- Evaluating** Which of the problems that face developing countries do you think is the most challenging? Why?

- BIG Ideas** In a graphic organizer like the one below, list some of Russia's and China's achievements in their efforts to change economically.



- Analyzing Visuals** Examine the map and chart on page 725. In what region is female literacy the lowest? In what region is the mortality rate the highest?

CITIZENSHIP Activity

- Expository Writing** Write a paragraph explaining how large amounts of debt can hamper development in developing nations and what has been proposed to address the problem.



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

International Trade

- Nations trade with one another to obtain goods and services that they themselves cannot produce efficiently.
- Comparative advantage is the ability of a country to produce a good at a relatively lower cost than another country can.
- Countries sometimes try to protect their economies by setting up trade barriers, such as tariffs and quotas.
- A nation's balance of trade can be either a surplus or a deficit.
- A nation's currency can be strong or weak.

Flower seller, Havana, Cuba

Economic Systems



South Korean athletic shoe factory

- Market economies, or capitalist systems, are characterized by individual freedom, competition, and less government control.
- In command economies, the government tells producers what to do, resulting in inefficiency and slow economic growth.

Economies in Transition

- Russia and China, two former command economies, with the nations of Eastern Europe, are making the difficult transition from command to market economies.



North Korean leaders inspect newly built food processing plant

- Developing nations are nations with little industrial development and low standards of living.
- Developing countries with traditional economies, many in Africa and Asia, also face problems as they try to create market economies.



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

TEST-TAKING TIP

When learning about international topics it helps to look at a world map or globe to see where major countries are located.

Reviewing Vocabulary

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

- A nation may put a limit on the amount of foreign goods imported by placing a(n) _____ on these goods.

A export	C deficit
B quota	D trade surplus
- In a pure _____, economic decisions are made based on the interaction of supply and demand.

A mixed economy	C communism
B socialism	D market economy
- The belief that society should own and control the means of production is part of the philosophy of _____.

A a traditional economy
B a mixed economy
C socialism
D free enterprise
- In a _____ the per capita GDP is very low.

A developed country
B traditional economy
C developing country
D all of the above

Reviewing Main Ideas

Directions: Choose the best answers for each question.

Section 1 (pp. 706–713)

- The ability of a country to produce a product at a lower cost than another country is called _____.

A free trade	C balance of trade
B comparative advantage	D import quota

- The NAFTA trade agreement was made among _____.

A United States, Canada, and Mexico
B European countries
C developing countries
D United States, Russia, and China

Section 2 (pp. 715–719)

- The way a society organizes the production and consumption of goods and services is its _____.

A trade economy	C communism
B economic system	D socialism
- In a command economy, trade decisions are made by _____.

A the individuals in the society
B factory owners
C one class of people
D the government

Section 3 (pp. 721–726)

- Many command economies have failed because of _____.

A the greater success of market economies
B the greater success of socialism
C the greater success of the Soviet Union's economy
D the greater success of China's economy
- A major challenge facing developing countries is _____.

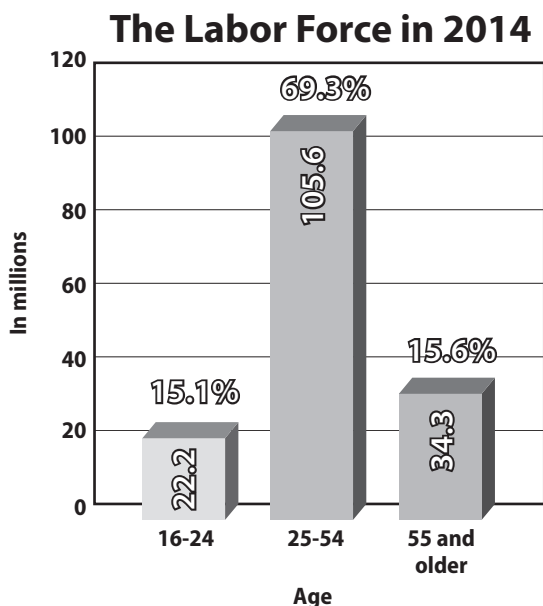
A below average temperatures
B huge population growth
C lack of roadways
D lack of organized religion

Critical Thinking

Directions: Choose the best answer for each question.

11. Why do some countries have trade barriers?
- A to encourage trade
 - B to do away with quotas
 - C to become communist
 - D to protect their economies

Base your answers to questions 12 and 13 on the graph below and your knowledge of Chapter 26.



Source: Monthly Labor Review estimate.

12. What is the projected size of the total U.S. labor force in 2014?
- A 105.6 million
 - B 34.3 million
 - C 162.1 million
 - D 120 million

13. According to the estimates, for every 100 workers in 2014, how many will be between the ages of 16 and 24?
- A 5
 - B about 15
 - C about 25
 - D 22.2

Document-Based Questions

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

Milton Friedman, who died in 2006, was considered one of the greatest economists of the twentieth century. Here he comments on society and economics.

Freedom requires individuals to be free to use their own resources in their own way, and modern society requires cooperation among a large number of people...The only way that has ever been discovered to have a lot of people cooperate together voluntarily is through the free market.

—Milton Friedman, Nobel Prize-winning economist

14. From this quotation, would you say Friedman is a supporter of capitalism or a non-supporter? Explain.
15. Why do you think Friedman sees a connection between society—people—and economics?

Informational Writing

16. Developing countries have several challenges they face in improving their economies. What one thing do you think is the most challenging and what suggestion could you make to help that challenge?

STOP



For additional test practice, use Self-Check Quizzes—Chapter 26 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	16
Go to page...	708	716	717	724	708	710	716	717	722	724	708	720	720	716	716	724

New Technology for the Developing World

From pedal-powered laptops to wireless Internet, high-tech tools are reaching those who need them most



fuse-project

The \$100 Laptop

When Nicholas Negroponte took a year off from his job as a professor at the Massachusetts Institute of Technology, he launched an ambitious project: to build a laptop so cheap that developing countries could buy them by the millions to help their kids leapfrog into the 21st century.

With the support of the United Nations, the “\$100 laptop” quickly found backing from a wide range of corporations. On the latest

prototype, a new foot pedal supplies power in areas lacking electricity.

Negroponte hopes to start in seven countries—Nigeria, India, China, Thailand, Brazil, Argentina, and Egypt—with a combined total of at least 5 million orders. “If this makes the industry address low-power, low-cost laptops that can be used in very remote places, that’s perfect,” he says.

The New Electric Lamp

Artificial lighting may not seem a necessity like food or shelter, but 1.6 billion people around the globe lack access to electricity and the on-off switches we take for granted. Inspired by the Light Up the World Foundation, which promotes

the use of energy-efficient light-emitting diodes (LEDs), Matt Scott and Amit Chugh teamed up to devise a replacement for the kerosene lamp.

The result is the Mightylight, a water-proof, shockproof, LED lamp that can

be used as a flashlight, reading lamp, or ceiling fixture. Solar-powered, capable of holding an eight-hour charge, and designed to last 100,000 hours, the Mightylight is safer and more cost effective than kerosene lamps. Not only do kerosene lamps start a lot of fires, but they are also a primary source of indoor air pollution, a major killer in developing countries.

More than 4,000 Mightylights have been distributed for earthquake relief in Pakistan and to the poor in Afghanistan, Guatemala, and Kashmir. In India, weavers and fishermen are using the lights to extend their work hours. Says Scott: “The exciting thing—more than just the light itself—is the model of using a sustainable approach to effect social change.”



NEW POWER Mightylight is replacing kerosene lamps in India.



IT TAKES A VILLAGE Local residents carried equipment to Nyarukamba in the foothills of Uganda's Rwenzori mountains (top) and helped set up the solar panel that powers the village's wireless Internet system (right). An old tree trunk is being used as a mounting pole for the network's antenna (above).

Villagewide Wi-Fi

To reach the village of Nyarukamba in western Uganda, visitors have to climb up a thin, almost vertical dirt track. It's not the kind of place you would expect to find farmers surfing the Web with wi-fi computers or making VOIP (voice over Internet protocol) phone calls. But that's exactly what the village's 800 or so inhabitants have been doing—thanks to a wireless, solar-powered communications system installed in the Rwenzori mountains by Inveneo, a San Francisco nonprofit group.

Inveneo's founders had done enough volunteer work overseas to see how wireless communications could improve and save lives—through phone calls to health clinics, fast reporting of natural disasters, support for trading co-ops, and better educational opportunities. So they designed a solar-powered Internet network that is easy to install, inexpensive, and nearly maintenance-free. At its heart is a regional hub from which wireless relay stations—some bolted to trees—fan out for up to four miles and connect a network of PCs. The total cost, including solar panels, was just \$1,995.

Nyarukamba is already reaping the benefits. Village income is rising, buying power has increased, and more people are learning to read. And in case the sun doesn't shine, the system can be powered up with a retrofitted bicycle.

Photos are Courtesy of Inveneo

