

# Unit 7: Decisions, Decisions

## Content:

- Factors of production
- Costs and benefits
- Types of businesses
- Markets
- Supply and demand
- Business cycle
- Fiscal and monetary policy

## Essential Question:

How does *scarcity* affect decision making?

Conceptual Lens:  
*Scarcity*

## I Can...

- I can define scarcity and explain how it is the fundamental economic problem
- I can identify the four factors of production and explain how they are used in the production of goods and services
- I can differentiate trade-offs and opportunity costs
- I can describe the roles of profit and price in a market economy
- I can identify synonyms for a market economy
- I can identify why private property is an essential part of a market economy
- I can explain how competition regulates quality and price in a market economy
- I can describe how laissez-faire and the Invisible Hand regulate a market economy
- I can explain how supply and demand work together to set the equilibrium price
- I can use supply and demand schedules to create supply and demand graphs
- I can interpret supply and demand graphs
- I can identify factors that cause supply and demand curves to shift
- I can identify factors that affect elasticity
- I can identify how incentives influence decision-making
- I can identify factors other than profit that influence economic decisions
- I can identify the features of different types of businesses and describe advantages and disadvantages of each
- I can explain the role of banks in the economy
- I can describe economic features of North Carolina's economy
- I can describe factors that affect the US economy
- I can describe the phases of the business cycle and identify them on a graph
- I can identify different economic indicators and explain how they are used to measure the economy
- I can define monetary policy and fiscal policy and explain how they are used to regulate the economy
- I can describe how the Federal Reserve regulates the economy

## Essential Standards:

**CE.E.1.1** Compare how individuals and governments utilize scarce resources (human, natural and capital) in traditional, command, market and mixed economies.

**CE.E.1.2** Analyze a market economy in terms of economic characteristics, the roles they play in decision making and the importance of each role (e.g., private property, free enterprise, circular flow, competition and profit motive, and allocation of resources via the price system).

**CE.E.1.4** Analyze the ways in which incentives and profits influence what is produced and distributed in a market system (e.g., supply, demand, What to Produce?, How to Produce It?, How Much to Produce?, For Whom To Produce It?, free enterprise, etc.).

## Preview Questions:

1. How does our economy help those that can't afford to live?
2. What type of business would you like to own one day? Could you handle the responsibility?
3. List five things that are scarce. How is shortage different from scarcity?
4. What are surplus and shortage important in determining the prices of goods?
5. What makes a Ferrari so expensive to purchase?
6. Would you ever consider going into business with someone else? List 3 advantages and disadvantages.
7. Before you're able to start your own business, list four things that you would have to do.
8. Why are supply and demand important when you own your own business?
9. How do businesses help consumers? How do consumers help businesses?
10. How does the government benefit from the people owning businesses?
11. What is going on in our economy today that would lead people to say that we're in a recession?
12. What causes businesses to have their ups and downs?
13. When the government spends money, what is the short-term goal?
14. What gives money its value? What are the benefits of using money? Problems?
15. What steps should the government take to help the economy today?
16. What does it mean to be productive? How have you been productive today?

# Unit 7 Vocabulary

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<u>Term</u>	<u>Description</u>
Economics	
Scarcity	
Supply	
Demand	
Goods	
Services	
Opportunity Cost	
Factors of Production	
Land (economics version)	
Labor (economics version)	
Capital (economics version)	
Entrepreneur	
Capitalism	
Free Market Economy	
Laissez Faire	

<u>Term</u>	<u>Description</u>
Merger	
Specialization	
Automation	
Salary	
Wage	
Incentive	
Innovation	
Blue Collar Worker	
White Collar Worker	
Keynesian Economics	
Consumer Price Index	
Law of Diminishing Returns	
Mass Production	
Fixed Costs	
Variable Costs	
Complimentary Goods	
Substitute Goods	
Interdependence	

# Unit 7 Sneak Peek

## Ch 17 Section 1 The Economic System at Work Pgs 408-416

1. How do different economic systems help satisfy people's needs?
2. What factors shape life in a market economy?
3. What is the U.S. economic system like?
4. How are scarcity and the laws of supply and demand connected?
5. How do monopolies harm free enterprise?
6. Why is the US described as a mixed economy?
7. How is capitalism linked to a market economy?

## Ch 17 Section 2 Business Organizations Pgs 438-

1. What are the different types of business organizations?
2. How do corporations function?
3. What advantages do corporations have when raising money or dealing with debts?
4. What are the advantages and disadvantages of operating a sole proprietorship?
5. What are the characteristics of a non-profit organization?

## Ch 17 Section 3 Making Business Decisions

1. What are the four factors of production?
2. What are three ways people get capital for their businesses?
3. What is the government's role in the economy?
4. Why does the government need to regulate businesses in the United States and how does it do so?

## Ch 18 Section 1 American Production

1. Why are goods and services and why are they important in the economy?
2. What are the main features of modern mass production?
3. What is the service sector of the economy?
4. How are profit, risk, and innovation related?
5. How is the GDP related to goods and services?
6. Why is mass production less effective in some foreign countries than in other countries?
7. Why are services becoming a larger and larger part of the US economy?
8. How can a person or a business offer both a good and a service at the same time? Give an example.
9. What is mass production?
10. How does mass marketing help the US economy?

Ch 18 Section 2 Distributing Goods

1. How are goods transported from manufacturers to consumers?
2. How are services delivered to consumers in the United States?
3. How are goods and services marketed to consumers?
4. What are two problems that consumers face when selecting a service provider?
5. What are the four main ways that goods are transported to consumers?

6. Why can services be delivered to consumers in so many ways?

Ch 18 Sect 3 You the Consumer

1. What are the keys to becoming a wise consumer?
2. What are some of the alternatives to paying for an item immediately?
3. What should a consumer consider in deciding to buy on credit?
4. What do independent organizations and the government do to protect consumers?
5. What can consumers do if they are dissatisfied with a product or service?

Ch 20 Section 1 The Business Cycle

1. What are the different parts of the business cycle?
2. What was the Great Depression?
3. What was the government's response to the Great Depression?

Section 2 Coping with Economic Challenges

1. What kinds of problems can occur in the economy and what causes them?
2. How can the government address these economic problems?
3. How can citizens help to improve the economy?

Section 3: Labor and Management

1. What led to the rise of factories in the 1800s?
2. What are labor unions?
3. What laws have been passed to ease relations between labor and management?
4. What is the status of labor unions and labor relations today?

# Unit 7: Decisions, Decisions

Concept: Scarcity

## Definition of Economics:

### Scarcity:

### Shortage:

→ GOAL OF ECONOMICS:

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### Economic decisions:

- \_\_\_\_\_ – an alternative we sacrifice when we make a decision
- \_\_\_\_\_ – the most desirable alternative given up as a result of a decision.

### The Three Economic Questions

- 1.
- 2.
- 3.

### Goods and Services

Good

Service

### Four Factors of Production: The resources necessary to produce goods and services.

	Definition	Examples
Land		
Labor		
Capital		
→ Physical Capital		
→ Human Capital		
Entrepreneurship		
Government Involvement:		

### On the Side Questions:

1. What is the difference between Shortage and Scarcity? Give an example.

2. Provide an example of a TRADE-OFF that you might have experienced

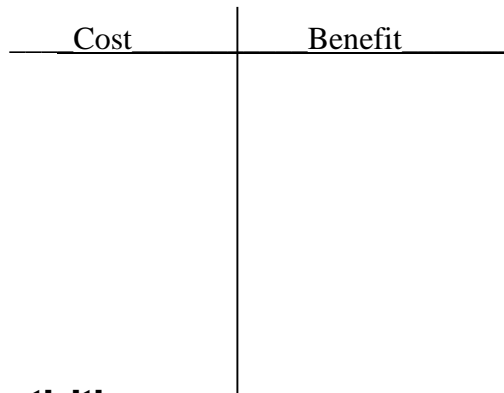
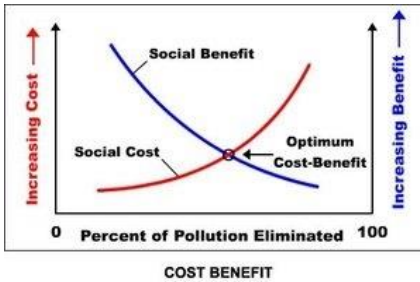
3. Provide an example of an OPPORTUNITY COST that you might have experienced

4. Name a scenario that you have had to consider the three economic questions.

5. Why is Entrepreneurship important as a factor of production?

## Types of Costs:

- Fixed Cost
- Variable Cost
- Marginal Cost
- Marginal Benefit
- Cost Benefit Analysis:



## Circular flow of economic activities

The circular flow model (sketch picture)

- Factor Market
- Product Market

Consumer:

Producer:

Private Property:

Examples of Government Involvement:

9. Explain the difference between MARGINAL and VARIABLE COST

10. How effective is a Cost Benefit Analysis in making a business decision? Why do you think so?

11. Give an example of how you see Circular Flow occurring in your life.

12. Why is private property such an important part of the flow of resources and products?

13. How is government involvement important for circular flow?

**Economic Systems:** Different ways that countries can address the basic economic questions (\_\_\_\_\_ to produce, \_\_\_\_\_, and FOR \_\_\_\_\_.)

	<b>Free Market</b>	<b>Command</b>	<b>Mixed</b>	<b>Traditional</b>
Also called...				
Definition				
Who/What controls the economy?				
Concepts				
Examples				
Promote Growth?				
Economist And works/the ory				

14. How would a free market economy be beneficial to the people?

15. How would a Command economy be good for the people?



## **Adam Smith and Karl Marx**

Adam Smith-

Capitalism-

Free Market-

Invisible Hand-

Laissez Faire-

Competition

Karl Marx-

Communism-

Socialism-

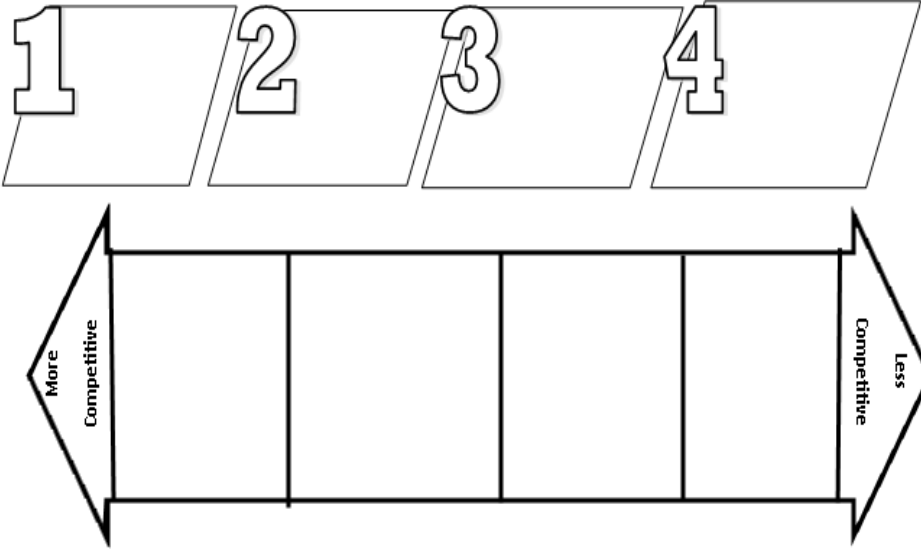
16. Do you think that the idea of Laissez Faire would actually work? Why or why not?

17. Why do you think people believe socialism is NOT good?

## Types of Markets:

- Competitive Market
- Monopoly
- Oligopoly

Market Structure:



## Measures of Productivity

Productivity

Inputs v Outputs

Service Sector/Economies- Stronger than industrial markets because...

Commodities

## Specialization/Division of Labor

- Productivity
- Specialization
- Division of Labor
- Investment in Capital
- Automation
- Mechanization

18. When might a monopoly be a good thing?

19. How is automation/mechanization good for society? Bad?

## Mergers

Why do companies merge?

Horizontal Merger

Example: XM and Sirius (government can prevent the merger if they consider it a monopoly).

Vertical Merger

Examples: McDonalds sells hamburgers. They merge with the companies that supply the beef, make the paper products, and make kitchen equipment.

## Monopoly v Oligopoly

Monopolies

Natural monopoly

Ex: Duke Power

Government

Ex: Water and sewage

Oligopolies

Ex: American car industry

Conglomerate

**Example: GE owns NBC Television**

Government intervention

Anti-Trust Laws

Example: Microsoft had monopoly power over operating systems (everyone used them). Microsoft told computer manufactures if they wanted the OS on their computers they also had to use their Internet browser (Explorer). The government deemed this a monopoly and sold off portions of the company to make it more equitable.

20. How do mergers affect consumers?

21. How can a monopoly or oligopoly negatively affect consumers?

22. Do you think that the government should get involved with business? Why or why not?

## SUPPLY AND DEMAND

### Demand

- \_\_\_\_\_: the desire to own something and the ability to pay for it
- \_\_\_\_\_ states that, when all other things are held equal, as price decreases people are willing to buy \_\_\_\_\_. As price increases people are willing to buy \_\_\_\_\_. (Inverse relationship)

ELASTICITY of DEMAND: How much the quantity demanded will \_\_\_\_\_ if the price rises or falls.

- \_\_\_\_\_ DEMAND: Demand that is very sensitive to a change in price
- Goods that one might stop buying or cut back on as price increased
- \_\_\_\_\_ DEMAND: Demand that is not very sensitive to a change in price
- Goods that you would buy at any price; there are few if any substitutes for these goods.

### Supply

- \_\_\_\_\_: The amount of goods and services that businesses are willing and able to sell
- \_\_\_\_\_ states that, all other things held equal, businesses are willing to produce more at \_\_\_\_\_ prices, and less at \_\_\_\_\_ prices (direct relationship.)

ELASTICITY of SUPPLY is a measure of the way suppliers respond to a change in price

- \_\_\_\_\_ SUPPLY – a small increase in price has a big effect on supply
- \_\_\_\_\_ SUPPLY – a small increase in price has a small effect on supply

23. Why is it important to understand the law of demand?

24. Why is it important to understand the law of supply?

## Equilibrium

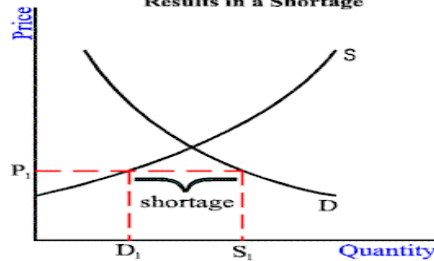
\_\_\_\_\_ : the point at which quantity demanded and quantity supplied meet.

At a point of equilibrium....

- the price and quantity are balanced
- the market for a good/service is stable

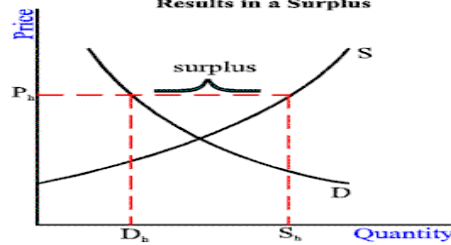
Excess Demand: when quantity demanded is more than quantity supplied  
aka \_\_\_\_\_!!!!

**Figure 3-10 A Price Below Equilibrium Results in a Shortage**



Excess Supply: when quantity supplied is more than quantity demanded  
aka \_\_\_\_\_!!!!

**Figure 3-8 A Price Above Equilibrium Results in a Surplus**

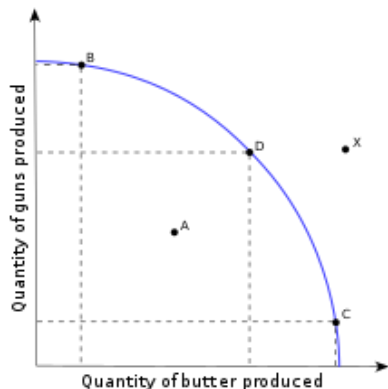


## Law of Diminishing Returns:

### Government can affect the equilibrium

- Price Ceiling: a \_\_\_\_\_ price that can be legally charged for a good or service (example: \_\_\_\_\_)
- Price Floor: a \_\_\_\_\_ price for a good or service (example: \_\_\_\_\_)

### Production Possibilities Curve



25. Understanding the equilibrium point can help producers/businesses plan in what ways?

26. Why are price ceiling and floors important for consumers?

27. Why do producers need to understand the Production possibilities curve?

## Measuring the Economy

GDP

Unemployment Rate

Price Stability

### Inflation and Deflation

- \_\_\_\_\_: a general increase in prices (over the years, rise and fall, but in the American economy, they have mostly risen)
- \_\_\_\_\_: A substantial drop in the prices

Consumer Price Index

### Stock Market

- I. Financing Corporations
  - A. Stock
    1. Dividends
    2. Securities & Exchange Commission
  - B. Bonds
  - C. Interest

### GDP

What does it stand for?

What is and is not included in GDP?

What does it mean?

What about per capita GDP?

	GDP (dollars)	Per Capita GDP (dollars / person)	Standard of living (describe)
United States			
China			
Somalia			

28. Which of the economic indicators do you think is MOST likely to show people if the economy is good or bad?

prices

29. How can the stock market show what consumers are doing in the economy?

30. What does GDP really show consumers are doing?

# The Business Cycle

31. Why do the indicators move in cycles?

32. How is a recession different from a depression?

What would be happening during ...

A contraction?	A trough?	Expansion?	Peak?

33. How does the business cycle influence consumers?

# Government Taxes and Spending

Taxes are how the government makes its money. This is called \_\_\_\_\_

34. How do changes in taxes change how consumers act?

Different types:

Taxes:

Fees:

Fines:

Tariffs:

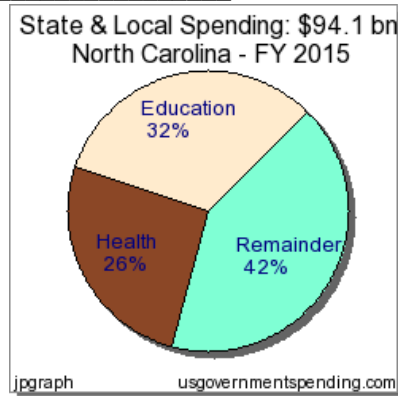
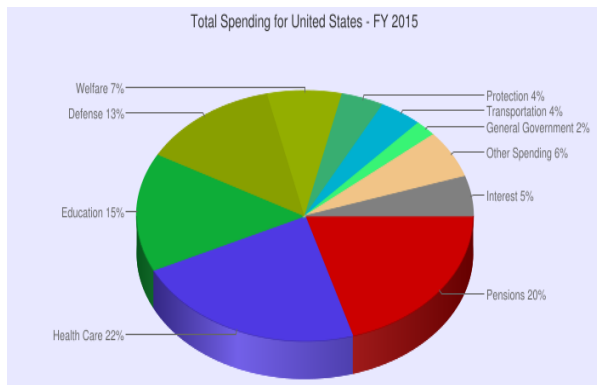
Progressive Tax	Regressive Tax	Direct Tax	Indirect Tax

Excise Tax	Sales Tax	Inheritance Tax	Payroll Tax	Income Tax	Property Tax

35. Why are taxes so important for the government?

## Expenditures

The money the government spends is called \_\_\_\_\_



List examples of what it is spent on:

What are subsidies?

Pros	Cons



## **Labor Unions**

White Collar Worker –

Blue Collar Worker –

What is a labor union?

Types of Labor Unions:

Craft

Trade Unions

Closed Shop

Open Shop

Industrial Unions:

Purpose:

II. Workers' Rights

A. Labor Unions

1. Collective Bargaining

a. Taft-Hartley Act

2. Settling Disputes

a. strikes

b. lockouts

c. mediation

d. arbitration

e. Collective Bargaining

36. What type of jobs do you think a blue collar worker would do?

A white collar worker?

37. How do labor unions protect their members?

38. Why might some states not allow labor unions? How can this end up being beneficial for workers?

39. Which form of dispute do you think would be most successful? Why?

## Scarcity, Economic Decision Making, and Opportunity Costs

**For each of the following situations, identify (a) what is scarce (b) what is the opportunity cost.**

1. Sally is invited by her friends to join them for pizza and a movie. Sally only has five dollars. Her share of the pizza will be three dollars and the movie costs four dollars. Sally really want to see the movie, so she decides to go to the movies.
  - a.
  - b.
2. Ted has been looking forward to camping in the mountains with his friend Billy since last summer. His friend Nick asks him to join him at the beach the same weekend. Ted decides to go to the beach.
  - a.
  - b.
3. Several weeks ago, Nancy agreed to baby-sit Mrs. Adams' daughter on Saturday, so that Mr. and Mrs. Adams could attend an award dinner. Mrs. Adams will pay her \$7.00 an hour. Nancy is saving for a new CD player. Nancy has been hoping that Jay would ask her out sometime. Yesterday he finally asked her out...on Saturday night. Nancy accepted Jay's invitation and cancelled on Mrs. Adams.
  - a.
  - b.
4. Kelly has a big Math test on Thursday. She is really struggling in her math class. All of her friends are going to the basketball game tonight and Kelly decides to go along with them.
  - a.
  - b.
5. Cassy is hoping to go to college, but her grades are not very good. She also wants some money to buy new clothes. She decides to take a job three days a week after school and on the weekends.
  - a.
  - b.
6. Tommy is an excellent shortstop and wants to play on the recreation league baseball team. Tommy will need to come to practice every Wednesday afternoon. He is being tutored in science on Wednesdays, and that is the only day that Mrs. Gallis has free to tutor him. Mom leaves the decision up to Tommy, and he decides to play baseball.
  - a.
  - b.
7. Jo's mother tells her to take her little sister to the park from 1:00-2:00 and then she can go to the pool with her friends at 3:00. Allison comes just before Jo is leaving to take her sister to the park and stays until 2:45. Jo never makes it to the park with her sister.
  - a.
  - b.
8. Bill Gates sees a hundred-dollar bill on the sidewalk on his way to work. In order to stop and pick it up he would have to be 30 seconds later to work. The value of the 30 seconds at work is the \_\_\_\_\_ of him picking up the money. For Mr. Gates the benefit of \_\_\_\_\_ is greater than the \$100. Who might value the \$100 more? \_\_\_\_\_

**JOSLIN'S COSTS OF DOING BUSINESS**

After Joslin moved her business to a larger store in the mall, Jane (her lawyer and largest stockholder) asked her to list all the costs she had to pay for one month. Joslin's list appears below. Study the list and indicate which costs are fixed and which are variable by writing an **F** or **V** in the answer space. If you think an item is a combination of fixed and variable costs, write **F/V** in the space.

Illustration 20b

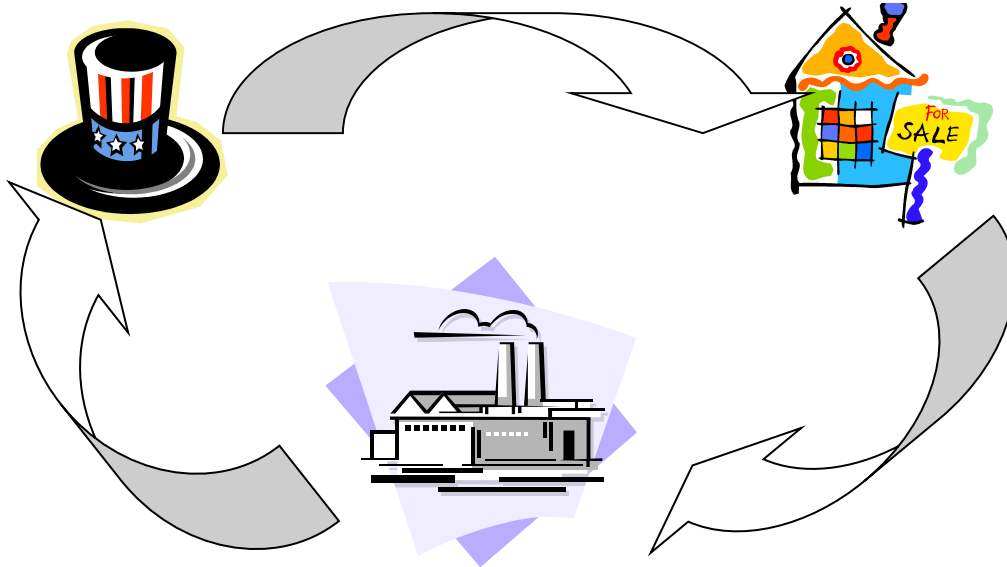
Fixed or Variable?	Item	Costs for One Month
	Rent	\$ 1,600.00
	Utilities (electricity, phone, and so forth)	\$ 453.56
	Insurance	\$ 342.00
	Lease payment for cash register	\$ 88.50
	Cost of goods sold	\$ 8,600.00
	Advertising fee paid to the mall	\$ 200.00
	Joslin's salary (she has hired no help)	\$ 1,450.00
	Cost of cleaning service paid to the mall	\$ 240.00
	Paper, postage, and other supplies	\$ 143.39
	Depreciation on investment in equipment	\$ 245.00
		\$ 13,362.45

Answer the following questions about Joslin's costs.

1. Are most of Joslin's costs fixed or variable? \_\_\_\_\_
2. Joslin sold 1,200 bags at \$10 each. How much money did she earn from sales? \_\_\_\_\_
3. Did the business earn a profit or suffer a loss for the month? \_\_\_\_\_
4. How large was the profit or loss? \_\_\_\_\_
5. Do you think the business will have larger costs in the future? Explain why or why not.  
\_\_\_\_\_
6. Should Joslin consider offering a wider line of products in the store? Explain why or why not.  
\_\_\_\_\_
7. What else might Joslin do to improve her profit?  
\_\_\_\_\_  
\_\_\_\_\_

# Another look at Circular Flow

In a free market economy, economic decisions are based on exchange, or trade. Households supply land, labor and capital to firms in exchange for payment. Firms supply households with good and services in exchange for payment. -LABEL AND DESCRIBE the different markets, what is flowing for each arrow. and the sources that provide the flow.



Answer the questions using your knowledge and the chart from above. Use additional paper if you need more space.

1. What is a product market?
2. Name two goods that can be being bought and sold in a product market
3. What is a factor market?
4. What is monetary flow?
5. What is physical flow?
6. How does money spent by businesses in one market end up being earned by households in another market?
7. What are the objectives of businesses and households in a market economy?
8. Why did some households end up with more goods and services than other households?
9. Why did some businesses end up with more profit than others?
10. What role does self-interest play in a market economy?
11. What role does money play in a market economy?
12. What would happen to the prices of resources and products if in the next round, the amount of money businesses started with doubled?
13. What would happen if the amount of money were reduced by half?
14. What is the importance of private property in circular flow?
15. How does government involvement influence the flow of goods and money?

## Factors of Production

Identify how you see these factors of production in these episodes. You should have one thing in each box, and may have more than one for several boxes.

<http://www.youtube.com/watch?v=J-SzdlsjM8M>

<http://www.youtube.com/watch?v=CxEIZJvay8o&feature=related>

<http://www.youtube.com/watch?v=DHvi6RoQaxQ&feature=related>

	"Unwrapped" Kettle Cooked Potato Chips	"Unwrapped" Nerds	"How It's Made" Footballs
<b>Land</b>			
<b>Labor</b>			
<b>Physical Capital</b>			
<b>Human Capital</b>			
<b>Entrepreneurship</b>			
<b>Total examples (minimum: 5 each)</b>			

# Understanding Supply and Demand

Name \_\_\_\_\_

Below is the demand schedule for jelly-filled doughnuts people are willing and able to buy at various prices.

Below is the supply schedule for jelly-filled doughnuts producers are willing to sell at various prices a given period of time.

### DEMAND SCHEDULE 1

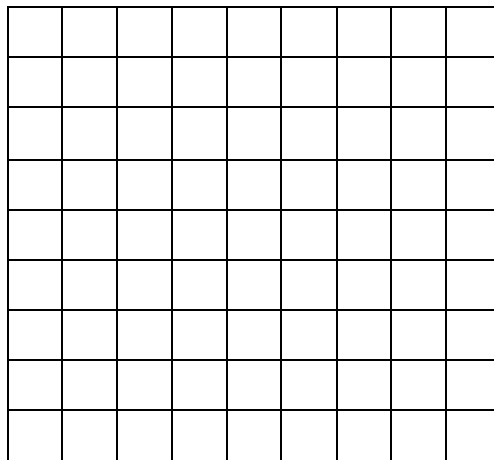
Price Per Doughnut	Quantity Demanded
\$.60	100
.50	150
.40	200
.30	250
.20	300

### SUPPLY SCHEDULE 1

Price Per Doughnut	Quantity Supplied
\$.60	300
.50	250
.40	200
.30	150
.20	100

Study these two schedules and answer the questions below. Circle the correct answer.

- As prices decrease, what happens to the quantity demanded? Increase / Decrease
- As prices increase, what happens to the quantity demanded? Increase / Decrease
- As prices decrease, what happens to the quantity supplied? Increase / Decrease
- As prices increase, what happens to the quantity supplied? Increase / Decrease
- At what price will the quantity people are willing to buy (quantity demanded) be equal to the quantity that producers are willing to sell (quantity supplied)? \_\_\_\_\_
- The price where quantity demanded meets quantity supplied is called \_\_\_\_\_.
- Graph the supply and demand for jelly-filled doughnuts.
  - Label Qty. Demanded = d
  - Label Qty. Supplied = s
  - Correctly label y and x axis



- If the price of a doughnut is \$.50 will there be a shortage or surplus? Explain.
- If the price of a doughnut is \$.20 will there be a shortage or surplus? Explain.

10. Based on the following circumstances, will there be an increase in demand for jelly-filled doughnuts or a decrease in the demand for jelly-filled doughnuts? Circle the correct answer.

<b>Circumstance</b>	<b>Demand for Jelly-filled Doughnuts</b>
a. The number of consumers increases.	Increase / Decrease
b. The consumers' income decreases.	Increase / Decrease
c. Jelly-filled doughnuts become the most popular snack.	Increase / Decrease
d. The cost of a fruit pastry increases.	Increase / Decrease
e. The cost of coffee served with the doughnuts increases drastically - \$10.00 a cup	Increase / Decrease
f. The number of consumers decreases.	Increase / Decrease
g. The cost of a cherry strudel decreases.	Increase / Decrease

11. All of the examples above will result in (circle the correct answer)

- a. a movement along the demand curve
- b. a shift in the demand curve

12. Based on the following circumstances, will there be an increase in the supply of jelly-filled doughnuts or a decrease in the supply of jelly-filled doughnuts? Circle the correct answer.

<b>Circumstance</b>	<b>Supply of Jelly-filled Doughnuts</b>
a. The cost of sugar, flour, and jelly increases	Increase / Decrease
b. A new machine is invented to produce doughnuts faster.	Increase / Decrease
c. The workers in the doughnut factory become less productive.	Increase / Decrease
d. The government passes a policy that states that all doughnuts must meet certain health regulations.	Increase / Decrease
e. All doughnut factories must pay more taxes.	Increase / Decrease
f. The factory workers become more productive.	Increase / Decrease
g. Doughnut factories are given a subsidy from the government.	Increase / Decrease

13. All of the examples above will result in (circle the correct answer)

- a. a movement along the supply curve
- b. a shift in the supply curve

14. There is an increase in consumer income, thus a change in the demand for jelly-filled doughnuts. Graph the new demand for doughnuts on the graph from #7.

A. Label the new demand =  $d_1$

**DEMAND SCHEDULE 2**

Price Per Doughnut    Quantity Demanded

\$.60	150
.50	200
.40	250
.30	300
.20	350

15. Because of this rise in the consumers' income, there is a shift of the demand curve. The demand curve has shifted to the

- a. right
- b. left

16. There is a decrease in the productivity at the jelly-filled doughnut factory, thus a change in the supply of jelly-filled doughnuts. Graph the new supply of doughnuts on the graph from #7.

A. Label the new supply =  $s_1$

**SUPPLY SCHEDULE 2**

Price Per Doughnut    Quantity Supplied

\$.60	250
.50	200
.40	150
.30	100
.20	50

17. Because of this decrease in factory productivity, there is a shift of the supply curve. The supply curve has shifted to the

- a. right
- b. left

18. At the new supply and demand ( $s_1$  and  $d_1$ ) the jelly-filled doughnuts will efficiently sell for \_\_\_\_\_ (dollar amount).

19. At the new supply and demand of jelly filled doughnuts, if the price is set at \$.60 there will be

- a. shortage
- b. surplus
- c. equilibrium

20. At the new supply and demand of jelly filled doughnuts, if the price is set at \$.40 there will be a

- a. shortage
- b. surplus
- c. equilibrium





# Measuring the Economy

Read the letter below and answer the questions that follow.

Greensboro, NC  
February 12, 1938

Dear Mrs. Ransavelt,

My January 1st. I was laid off from my work, leaving my brother the whole support of our family. Just recently he was out down to 3 days a week with a cut in salary. With seven of us in the family it is just about impossible for us to live on this amount...

I am 18 years of age the oldest girl in the family, and it just seems impossible for me to get a job anywhere. I have been to mills, stores, and farms of all sorts. I am willing and able to work. Can furnish excellent references but at this time of the year it just seems impossible to find work.

We are so in debt and each week the bills are piling higher and higher that it seems as if there is no way out.

We must make a payment on our furniture bill, and if it isn't paid soon they will be out any day for our furniture. And on top of this we are behind on our rent.

It would be a big help if we could get some of our bills paid on as they are already in arrears for the money...

If you could help us out with \$35 to \$50 I believe we would be the happiest family in the world...

Just as soon as I get back to work and the family is on their feet again I will pay you back as much as possible until your kind favor has been fully repaid.

My father's work has been very poor for the past year. He is an advertising salesman, and his work right now is practically nothing...

Please grant me this favor and I will ever be gratefully yours.

1. What does this letter reveal about the young woman's life?
2. During what time period was this letter written? How do you know?
3. Based on this letter, what do you think was happening to consumer spending and business during the Great Depression? To people's jobs? To prices and wages?
4. After reading this letter, what details can you share about the health of the U.S. economy during the Great Depression?

## How Do Economists Measure the Size of an Economy?

\_\_\_\_\_ are \_\_\_\_\_ that help economists \_\_\_\_\_ the \_\_\_\_\_ of an economy. \_\_\_\_\_ (the market \_\_\_\_\_ of all \_\_\_\_\_ produced within a country during a given period of \_\_\_\_\_) measures a country's total \_\_\_\_\_. A steadily \_\_\_\_\_ GDP is generally a sign of a \_\_\_\_\_ economy.

Economists calculate GDP by adding the \_\_\_\_\_ from the four sectors of the economy: household consumption, business investment, government \_\_\_\_\_, and net of exports \_\_\_\_\_ dollars. Real GDP is calculated in constant dollars to compensate for the effects of \_\_\_\_\_.

## What Does the Unemployment Rate Tell Us About an Economy's Health?

The \_\_\_\_\_ is an economic \_\_\_\_\_ that measures the \_\_\_\_\_ of the population that is \_\_\_\_\_ and seeking work. A \_\_\_\_\_ unemployment rate is generally a sign of a \_\_\_\_\_ economy.

Economists calculate the unemployment rate using a \_\_\_\_\_. Eligible workers are classified as employed, unemployed, or not in the labor force. \_\_\_\_\_ employment does not mean \_\_\_\_\_ of workers are \_\_\_\_\_ but that all available labor resources are being used effectively. An economy with full employment is said to have a \_\_\_\_\_ of unemployment.

## What Does the Inflation Rate Reveal About an Economy's Health?

\_\_\_\_\_ is the increase in the average \_\_\_\_\_ level of goods and services in an economy. The \_\_\_\_\_ is an economic indicator that \_\_\_\_\_ the percentage increase in inflation from \_\_\_\_\_ to another.

Economists track inflation using the \_\_\_\_\_. The \_\_\_\_\_ is a price index for a market basket of goods and services. \_\_\_\_\_ in the average prices of these items \_\_\_\_\_ the change in overall prices paid by consumers. Like GDP, prices can be measured in nominal and \_\_\_\_\_ dollars.

## How Does the Business Cycle Relate to Economic Health?

All economies experience periods of \_\_\_\_\_ and \_\_\_\_\_ in economic activity known as the \_\_\_\_\_. Economists use the key economic indicators to determine an economy's position in the \_\_\_\_\_ at any given time.

The business cycle has \_\_\_\_\_ phases: expansion, \_\_\_\_\_, decline, and \_\_\_\_\_ When economic activity reaches a trough, a new \_\_\_\_\_ begins.

A \_\_\_\_\_ is a decline across an economy lasting at least \_\_\_\_\_. A depression is a prolonged economic downturn with plunging real GDP and \_\_\_\_\_.

### GDP During the Great Depression:

1. What do you see in the picture?
2. What does it mean for a store to go bankrupt?
3. Which year had the highest GDP?
4. Which year had the lowest?
5. What do you think happened in 1937 to finally make the GDP higher than it was in 1929?

### Unemployment During the Great Depression:

1. What do you see in the picture?
2. Why are there no women?
3. Which year was the unemployment rate the highest?
4. Which year was the unemployment rate the lowest?
5. What made the unemployment rate so low by 1942?

### Inflation During the Great Depression:

1. Why would the restaurant in the picture offer its buffet for such a low price?
2. Which year was the dollar the weakest?
3. What does it mean for the dollar to be weak?
4. Which year was the dollar the strongest?
5. What does it mean for the dollar to be strong?

### US Economy During the Great Depression:

1. What year did the Great Depression start?
2. How would you describe the GDP during the Great Depression?
3. How would you describe the Unemployment Rate during the Great Depression?
4. How would you describe the Inflation rate during the Great Depression?
5. What finally pulled America out of the Great Depression?

ECONOMY	GDP	Unemployment Rate	Inflation Rate	Picture
A				
B				
C				

**Your  
Turn:**

# Stock Market Game

Team Name: \_\_\_\_\_

Team Members: \_\_\_\_\_

Goal: The team with the most MONEY in the bank wins.

**Everyone will be forced to sell any remaining stock the last day the stock market is open**

**Rules:**

1. You may buy and sell whatever you want
2. You may only buy and sell in lots of 100 shares. So you can buy or sell 100, 200, 300, 400 etc. shares
3. Everyday there is a risk so of losing it all so be careful in your choices.

Beginning Balance: \$4,000

	Cash in the Bank	Shares of Stock	Value of Stock
Day 1			
Day 2			
Day 3			
Day 4			
Day 5			
Day 6			
Day 7			
Day 8			
Day 9			
Day 10			
Day 11			
Day 12			
Day 13			
Day 14			
Day 15			

# Market Place: Explaining the Stock Market

## Video Questions

1. In what year did the US experience its worst Stock Market crash in history? \_\_\_\_\_
2. This crash triggered a 10 year long crisis of economic collapse and unemployment called the \_\_\_\_\_
3. What type of business mainly existed before the 1800s? \_\_\_\_\_
4. Name two things that sparked the Industrial Revolution
5. What type of business sells stock to raise money to run their company? \_\_\_\_\_
6. What are “public” corporations?
7. Who is a “broker”?
8. Where is the NYSE located? (be specific)
9. Most brokers recommend buying \_\_\_\_\_ and selling \_\_\_\_\_.
10. If you sell stock at a higher price than you paid for it, the money you earned is called \_\_\_\_\_.
11. A corporation may divide profits among the stockholders. These divided-up stocks are called \_\_\_\_\_
12. Bull market means stock prices are \_\_\_\_\_  
Bear market means stock prices are \_\_\_\_\_
13. The \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ \_\_\_\_\_ shows the trend of stock prices of 30 large industrial companies.
14. The Securities and Exchange Commission or \_\_\_\_\_, now watches over the daily activities of the stock market.
15. What do the stock holders of corporations actually do?



"It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."

Summarize what Adam Smith's quote means

Adam Smith was born in Scotland and studied moral philosophy at the University of Glasgow at a young age. He became a professor as a young man. He was known to students as being "absent minded" but brilliant. Once engaged in an intellectual discussion, he walked right into a tanning pit!

Smith wrote his landmark book, *An Inquiry into the Nature and Causes of the Wealth of Nations* the same year American declared its independence from Great Britain. Smith's ideas stemmed from his belief in the nature of man. He argued that each individual behaves in a predictable pattern in that each man takes actions that would support his own best interest ("looking out for number one"). Smith called this the "invisible hand." Significantly, if each man looked out for his best interest, the economy would run efficiently and the amount of wealth would grow. This was a very new idea, considering the quality of life during Smith's time was meager — items such as spoons and nails were luxury items! Smith's explanation helped expand the quality of life (defined as access to material goods) for many people.

The principle behind the invisible hand was a "dance" of sorts between buyers and sellers of goods. The more people wanted to buy a particular good (such as spoons), the more sellers would make spoons because in the short term the price would be high. Over time, the price of spoons would fall, until the number of people who wanted spoons would decrease. In this way, the forces of supply and demand would dictate what would be produced and sold—and what the price would be. Smith's ideas became an open invitation for "capitalists" to use money to make more money—by becoming sellers of goods and acquiring "capital" in return. Capitalists would then employ others, and labor would become a commodity for sale. By dividing up tasks, workers would produce larger and large quantities of goods. The more goods were made and sold in a society, the greater the quality of life. Smith's "capitalism" changed economic thought from a more traditional system, where land and bloodlines dictated worth.



"The history of all hitherto existing society is the history of class struggle. Workers of all lands unite."

Summarize what Karl Marx's quote means.

Karl Marx was born in Prussia (modern day Germany). He grew up in a wealthy, educated family. Marx had an early career in journalism, but was removed from his job due to his radical ideas. Marx eventually went to England, where he could see the outgrowth of Smith's capitalist society. The Industrial Revolution had occurred in England, and Marx viewed industrial capitalism with a critical eye, rather than a positive one.

Where Smith saw growth and an increased quality of life for everyone, Marx saw inequality between two classes of individuals including the capitalist class (the bourgeoisie) and the working class (proletarians). There are significantly more proletarians than bourgeoisie.

Marx believed that the capital owning class was exploiting the workers by paying low wages and not enabling workers to share directly in profits. Basically, Marx noted that the profit mechanism of businesses did grow wealth, but that the very people who created the products (workers) were not able to experience any new wealth. Thus, the "surplus value" made by a business was placed in the hands of capitalists. To Marx, Marx believed all humans need to work and to feel respected for their work. Low wages did not send the right message, and the division of labor caused workers to become completely alienated from the production process. As a result, Marxism became very tied to the struggle for workers' rights. In fact, *The Communist Manifesto*, written by Marx in 1848 was adapted from a labor speech.

Marx suggested that capitalists would make a profit, but they would continuously place profits in technology—not into labor. The cycle of growth, though, would boom and bust, as Marx noted capitalism would be susceptible to recessions and depressions. Marx's solution was to have the proletarians claim the factors of production so that they could distribute profits more equitably, essentially taking out the capitalist class. Since the ruling class would not give up power without a fight, Marx predicted a revolution would be necessary.

1. Highlight 4 words you don't know from the reading. Define those 4 words in the space below.

•

•

•

•

9. List 2 Pros of Capitalism and 2 cons of Capitalism.

Pros:

Cons:

10. List 2 Pros of Communism and two Cons of Communism

Pros:

Cons:

11. Fill in the blanks with the best form of government:

\_\_\_\_\_ is to Capitalism as \_\_\_\_\_ is to Communism.

3. What book is Marx known for? When did he write it?

4. What kind of economy does each man believe in?

Smith:

Marx:

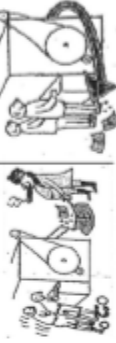
5. How did Smith define quality of life?

6. Why did Marx believe that Smith's definition of quality of life was wrong?

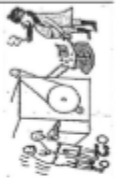
7. Explain Smith's "invisible hand" theory in 10 words or less.

8. What two classes did Marx identify? Which class did he believe deserved all of the power? Why?

## CAPITALISM



## COMMUNISM



12.

What is this cartoon saying about Capitalism and Communism? Which type of economy do you think the artist prefers? Why?

13. After reviewing the pros and cons of each system, I believe \_\_\_\_\_ is best because... (Answer in 2-3 sentences.)

## Cost Analysis for the Peterson Pizza Factory

Lesson: Students will participate in a pizza production simulation to determine the effects of specialization, division of labor, and investment on productivity.

Directions: Use a calculator to determine the costs of your inputs to see if you are increasing productivity.

Outputs:	Round One	Round Two	Round Three
# of accepted pizzas			

Inputs:	Round One	Round Two	Round Three
Rent (.25 per desk)			
Paper plates (.2 each)			
Markers (.5 each)			
Ruler (.5)			
Labor (1.00 per worker)			
Total Costs:			

Productivity:

Reflection: How well did your group do?

1. Did you increase your productivity in successive rounds?
  - a. If yes, what did you do to increase productivity?

- b. If no, what caused you problems?

2. What are the fixed and variable costs in the scenario above?

Fixed:

Variable:

3. What are the advantages and disadvantages of specialization and division of labor?

4. What other things could the pizza factory do to increase productivity?

## Analyze the impact of specialization and division of labor on productivity.

\_\_\_\_\_ : having unlimited wants and needs for limited resources. It always exists. How do people and businesses make the most of their resources and still increase productivity?

\_\_\_\_\_ is described as efficiency. The higher your productivity, the more efficient you (or your business) are / is. Productivity is determined as a ratio between your inputs and your outputs.

- \_\_\_\_\_ are those productive resources you put into production
- \_\_\_\_\_ are the final outcomes or products

So productivity measures your outputs / inputs. Consider the example below:

$$\begin{array}{l} \text{(divided by)} \end{array} \left( \begin{array}{l} \text{Outputs:} \\ \text{Total number of pizzas} \\ \text{produced} \\ \hline \text{Inputs:} \\ \text{Total hours of labor} \end{array} \right) = \begin{array}{l} \text{Productivity:} \\ \text{Number of pizzas} \\ \hline \text{per hour} \end{array}$$

\*Goal is to \_\_\_\_\_ your outputs and \_\_\_\_\_ your inputs.

Ways to increase productivity:

Examples:

1. \_\_\_\_\_
  - Break up one large task into several smaller tasks
  - Each worker is responsible for a specific small task
2. \_\_\_\_\_
  - Workers assigned to the job they do best
  - Everyone has a different task
3. \_\_\_\_\_
  - Workers handle one part of a product
  - Often the product moves while the workers stay put
4. \_\_\_\_\_
  - Use of machines to produce multiple similar items
  - Usually involves unskilled workers
5. \_\_\_\_\_
  - Helps you decide what to specialize in
  - Opportunity cost is less to produce one product than another
6. \_\_\_\_\_
  - Something that improves and changes the way things are done
7. \_\_\_\_\_
  - Move to the use of machines instead of humans to complete tasks

Issue: What are the problems associated with division of labor?

## Types of Business

Give an example of each of the different types of businesses.

What type of business is non-profit?

What is a franchise?

Why are partnerships usually more successful than sole proprietorships?

What is the difference between limited and unlimited liability?

## US Economy

1. Give an example of ways that the US is involved in each of these economic features:

- A. Service industry
- B. Manufacturing Industry
- C. Finance Industry
- D. Agriculture Industry

## Markets

1. List and explain the 3 types of monopolies.

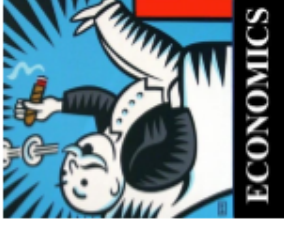
2. What is an oligopoly?

3. Competition has what effect on price?

4. List and explain the 3 types of mergers.

## Units 7 Review

This is only a guide to the test. Questions may appear that are not covered in this review. Students are responsible for all material covered in class.



## Economic Decision Making

1. What is economics?
2. What is the difference between a need and a want?
3. How is scarcity different from shortage?
4. How is opportunity cost different from a trade off?
5. What are the three factors of production? Give an example of each.
  - 
  - 
  -
6. What does an entrepreneur do?

## North Carolina Economy

1. Give an example of ways that NC is involved in each of these economic features:

- A. Service industry
- B. Manufacturing Industry
- C. Finance Industry
- D. Agriculture Industry



### Economic Systems

1. List and describe the four types of economies:
  - 
  - 
  - 
  -
2. What is the goal of a command economy?
3. What is the goal of a market economy?
4. What did Adam Smith in the *Wealth of Nations* say was the role of government in economic systems?
5. What is the invisible hand?
6. What does "laissez-faire" mean?
7. Who wrote the *Communist Manifesto*? What inspired him to write it?
8. What kind of economy does the United States have?
9. Complete the analogy with the best form of gov:  
----- is to Capitalism as  
----- is to Communism.

### Circular Flow

1. Draw the circular flow model in the space below. Draw arrows to represent what moves in the model.
2. What is the goal of the businesses in the circular flow model?
3. What is the goal of the households in the circular flow model?
4. What is the goal of government in the circular flow model?
5. What two things flow in the circular flow model?
  - 
  -
6. Why will money and resources always be traded?
7. How many Americans are in Labor Unions? Why do they join?

### Supply and Demand

1. Draw a supply and demand curve. Label the equilibrium, the supply curve, the demand curve, shortage, and surplus.



2. What does the equilibrium point tell us?
3. The law of demand states that: as price increases, quantity demanded \_\_\_\_\_, and as price decreases, quantity demanded \_\_\_\_\_.  
Why does this happen?
4. The law of supply states that: as price increases, quantity supplied \_\_\_\_\_, and as price decreases, quantity supplied \_\_\_\_\_.  
Why does this happen?
5. What is the difference between a complementary good and a substitute good?
  - 
  -
6. What is one thing that can affect demand?
7. What is one thing that can affect supply?
8. Why is the supply of some goods inelastic (same supply no matter the price)?
9. Why is the demand for some goods inelastic (same demand no matter the price)?