Reteaching Activities
TO THE TEACHER

Reteaching Activities review the main concepts in each chapter of Economics Today and Tomorrow, providing reinforcement for students that need additional help. Each of the 20 reproducible worksheets begins with a brief introduction to the concepts to be reviewed, followed by worksheet directions. The worksheets present each concept in a way different from the narrative format of the text.

CREATING A CUSTOMIZED FILE

The individual booklets in the Teacher's Classroom Resources provide a wide variety of supplemental materials to help make economics meaningful to students. These resources appear as individual booklets in a carryall file box.

There are a variety of ways to organize Economics Today and Tomorrow classroom resources. Three alternatives are given here:

- Organize by category (all activities, all tests, etc.)
- Organize by category and chapter (all Chapter 1 activities, all Chapter 1 tests, etc.)
- Organize sequentially by lesson (activities, quizzes, and other materials for Chapter 1, Section 1; Chapter 1, Section 2, etc.)

Regardless of the organization you choose, you may pull out individual activity sheets from these booklets, or you may photocopy them directly from the booklets and file the photocopies. You will then be able to keep original booklets intact in a safe place.

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<td>21</td>
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</tbody>
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WHAT IS ECONOMICS?

Directions: Consider the following situation and, using the information you learned in the chapter, answer the questions below.

The town of Longford has a population of 2,959 and two factories. One factory produces wooden puzzles; the other produces ball bearings used in aircraft. Together these two companies employ 165 workers. Both factories would like to purchase the 30-acre Grove Woods, which is owned by the town, in order to expand their facilities. When the town decides which business to sell the land to, it will consider how the sale might affect the residents.

1. What is scarcity? Explain how scarcity is involved in the choice that the town must make.

2. If the puzzle factory purchases the land, its expansion would create 30 new jobs. The ball bearing factory would only create 20 new jobs, but it would set some of the land aside for a playground for the town. What is the trade-off involved in the choice that the town must make?

3. In the table below, list the four factors of production. For each factor, write a question that the town might ask before making its decision. The first one has been done as an example.

<table>
<thead>
<tr>
<th>Factor of Production</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Do the children in the town need a playground?</td>
</tr>
</tbody>
</table>
ECONOMIC SYSTEMS AND THE AMERICAN ECONOMY

The various types of economic systems answer the four basic economic questions in different ways. This exercise will help you review this information.

Directions: The following sentence fragments each complete the sentence started below. Beside each fragment, indicate whether that statement best describes a traditional, command, or market economy. Label it with a T, C, or M.

“In my country . . .

1. ______ the government controls the economy. It assigns jobs, sets production goals, and decides wages.”
2. ______ business is based on competition. Success comes from doing something better and cheaper than your competitors.”
3. ______ producers decide what and how much to make based on what people want to buy.”
4. ______ we have no need for money. By custom, some of us hunt, some fish, others farm, and we are all taken care of.”
5. ______ central planners decide when we should expand old factories or build new ones.”
6. ______ the government makes economic decisions.”
7. ______ the government has a very small role.”

Directions: List three of the six major characteristics of a market economic system and give an example of how each affects you personally.

8. __________________________________________________________
9. __________________________________________________________
10. __________________________________________________________

Directions: Compare the two major trends of socialism that developed in the twentieth century.

11. __________________________________________________________
12. __________________________________________________________
13. __________________________________________________________
YOUR ROLE AS A CONSUMER

When you purchase a good or service, you should consider several factors. Among them are the size of your income, the quality of the item, whether you should buy the item new or used, what sort of warranty is provided, and how friends and consumer magazines evaluate the item.

Directions: Mai is thinking of buying a pair of in-line skates. Use the information that follows to evaluate the choices that she must make. Then answer the questions.

The table below summarizes Mai’s weekly income after taxes. From this income, she has to buy her school lunch, which averages $15 per week. She also uses her income to buy other things she wants, such as CDs, cosmetics, and movie tickets.

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance</td>
<td>$20</td>
</tr>
<tr>
<td>Part-time job in drugstore</td>
<td>$90</td>
</tr>
<tr>
<td>Occasional babysitting jobs</td>
<td>$50 (average)</td>
</tr>
</tbody>
</table>

1. What is Mai’s disposable weekly income? ________________
2. What is her discretionary weekly income? ________________

Mai sees one pair of skates in a sporting goods store and another in a discount store. Mai’s friend Ginny is selling a pair of outgrown skates in Mai’s size. The table below compares these skates.

<table>
<thead>
<tr>
<th>Skates</th>
<th>Price</th>
<th>Quality of Materials and Workmanship</th>
<th>Warranty</th>
<th>Evaluation in Consumer Magazine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sporting goods store</td>
<td>$85</td>
<td>excellent</td>
<td>2 years</td>
<td>excellent</td>
</tr>
<tr>
<td>Discount store</td>
<td>$29</td>
<td>poor</td>
<td>6 months</td>
<td>poor</td>
</tr>
<tr>
<td>Friend</td>
<td>$20</td>
<td>very good</td>
<td>none</td>
<td>very good</td>
</tr>
</tbody>
</table>

3. Evaluate the advantages and disadvantages of each pair of skates.

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

4. Think of at least two kinds of additional information and factors Mai might consider before making her decision.

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
GOING INTO DEBT

Directions: Three major sources of credit are financial institutions, such as savings banks, charge accounts, and credit cards. Use the following abbreviations to indicate the most likely source of each loan described below:

FI—financial institution   CA—charge account   CC—credit card

1. ______ It took Judy’s mom 36 months of equal installments to pay for the piano.
2. ______ It will take Celine three years to get out of debt if she pays only the minimum each month.
3. ______ The collateral for Ms. Swanson’s business loan was her company van.
4. ______ With his father’s help, Rashad paid off what he owed at the department store.

Directions: Write the letter of the item in Column B that correctly describes the services of the financial institution listed in Column A.

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>_____ 5. commercial bank</td>
<td>a. only accepts deposits and lends money</td>
</tr>
<tr>
<td>_____ 6. savings and loan</td>
<td>b. originally set up to serve small savers overlooked by commercial banks</td>
</tr>
<tr>
<td>_____ 7. savings bank</td>
<td>c. owned and operated by its members to provide savings accounts and low-interest loans only to its members</td>
</tr>
<tr>
<td>_____ 8. credit union</td>
<td>d. takes over contracts for installment debts and adds a fee for collecting debts</td>
</tr>
<tr>
<td>_____ 9. finance company</td>
<td>e. main functions are to accept deposits, lend money, and transfer funds among banks, individuals, and businesses</td>
</tr>
</tbody>
</table>

10. The three factors that decide a person’s personal credit rating are capacity to pay, character, and collateral. Rachel applied for a loan to buy a car, but she lost her job, and she was denied the loan. Which of those three factors most likely accounted for her inability to obtain a loan? Explain.
BUYING THE NECESSITIES

Directions: Suppose you live alone and shop for food only for yourself. You usually shop in the evening on the way home from work. During a recent shopping trip, you had to make some decisions about certain items. Use this information to answer the following questions.

1. You have narrowed your choice of dishwashing detergents to two. Rinsit costs $3.49 for a 22-oz bottle. The store brand costs $3.19 for a 25-oz bottle. What is the unit cost of each brand? Explain how you found your answer.

2. If you have a 25-cent coupon for Rinsit, which dishwashing detergent is the better buy?

3. Oranges are on sale for five for $1. The regular price is $0.25 each. Should you take advantage of the special? Why or why not?

4. The label on a box of instant mashed potatoes reads: “serving size: 1/2 cup; servings/container: 24.” The box costs $1.99. The directions say to prepare the potatoes with 2 tablespoons milk, 1 tablespoon butter, salt, and water. The cost of one serving of instant potatoes is about $0.12. Mashed potatoes from scratch cost $0.24 a serving. Would you buy instant potatoes or make mashed potatoes from scratch? Why?

5. As a single shopper, would you be most likely to shop in a convenience store, a supermarket, or a discount food store? Why?
SAVING AND INVESTING

You have many options of places and ways to invest your money. This exercise will help you review this information.

Directions: Below are descriptions of different investments. Beside each description, write the investment it describes. Choose from the following list:

- money market fund
- bond
- tax-exempt bond
- stock
- Keogh plan
- real estate
- certificate of deposit
- savings bond
- Treasury bill
- IRA
- mutual fund

1. A(n) __________________________ allows self-employed people to set aside a maximum of 15 percent of income up to a specified amount each year and deduct that amount from their yearly taxable income.

2. A(n) __________________________ is an investment company that pools the money of many individuals to buy stocks, bonds, or other investments.

3. A(n) __________________________ purchase entitles the buyer to a certain part of the assets and future profits of the corporation.

4. __________________________ is an investment in one’s own home, condominium, or co-op and has often proven to be wise.

5. A(n) __________________________ is a certificate a company or government issues in exchange for borrowed money. It promises to pay a stated rate of interest over a stated period of time, and then to repay the borrowed amount in full at the end of that time.

6. A(n) __________________________ states the amount of deposit, the maturity, and the rate of interest being paid. Savers must leave their money on deposit for a certain period.

7. A(n) __________________________ uses investors’ money to make short-term loans to businesses and banks. Investors can write checks against their account.

8. A(n) __________________________ is attractive to people with limited money to invest. The investor pays half the face value. The value increases every six months until full face value is reached.

9. A(n) __________________________ is sold by a local or state government. The interest is not taxed by the federal government. The interest earned within the city or state issuing it is also usually exempt from city and state taxes.

10. A(n) __________________________ is a large investment sold by the Treasury Department. It matures in a few days to 26 days. The minimum amount of investment is $10,000.

11. A(n) __________________________ allows a person earning less than $30,000 to contribute up to $5,000 a year and to deduct those contributions from taxable income.
DEMAND AND SUPPLY

Directions: In Chapter 7 you learned how the laws of demand and supply affect prices. You also learned that various factors affect supply and demand. In the following exercise, you will use the data in the table to construct a demand curve and a supply curve, and then answer questions.

1. Build a demand curve on the grid to the right using the information on prices and quantity of basketballs demanded (first two columns in the table). Plot price on the vertical axis and quantity on the horizontal axis.

<table>
<thead>
<tr>
<th>Price per Basketball</th>
<th>Quantity Demanded (in millions)</th>
<th>Quantity Supplied (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>$6</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>$8</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>$10</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>$12</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>$14</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>$16</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>$18</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>$20</td>
<td>1</td>
<td>18</td>
</tr>
</tbody>
</table>

2. At which of the following price ranges was demand highest? $4 to $10, $12 to $16, or $18 to $20? Explain why.

3. How would a big increase in the population of 12- to 18-year-olds change the demand for basketballs? Explain your answer.

4. On the same grid as the demand curve, construct a supply curve. Use the data in the first and third columns of the table. Use dashes or a different color to draw this line, so you can tell it from the demand curve.

5. The equilibrium price is the price at which the supply of an item equals the demand for the item. Draw a circle around that point on the graph. What is the price? What is the number of basketballs demanded?
BUSINESS ORGANIZATIONS

Most business organizations fit into one of three groups: sole proprietorships, partnerships, or corporations. Once you are familiar with the different features of these three types of businesses, you will be able to see how each has its own special advantages and disadvantages.

Directions: In the space to the left of each entry below, write S if the fact describes a sole proprietorship; P, if partnership; C, if corporation. In some cases, answers might have more than one letter.

1. _____ Decision making can be slow and complicated because so many levels of management are involved.
2. _____ It is the most common form of business organization.
3. _____ In amount of business done, it is the most important type of business organization in the United States today.
4. _____ Two or more individuals own and operate this type of business for their own profit.
5. _____ In this type of business, the owner receives all the profits but also takes all the risks and suffers all the losses.
6. _____ Many doctors, lawyers, and accountants are in this type of business.
7. _____ Owners who do not enjoy the responsibility of running a business will find this type of business a burden.
8. _____ Although many people are involved, it is treated by the law as though it were one person.
9. _____ An owner who cannot pay bills may be forced to sell personal assets, as well as those of the business, to pay debts.
10. _____ Limited liability is the major advantage of this type of business.

Directions: List three other types of businesses and describe each in the space provided.

11. ____________________________________________________

12. ____________________________________________________

13. ____________________________________________________
COMPETITION AND MONOPOLIES

Competition and monopoly are the key words in Chapter 9. The statements below describe four ways that industries are organized in the United States economy.

Directions: If the statement describes perfect competition, write PC; if monopolistic competition, write MC; if oligopoly, write O; if pure monopoly, write PM.

1. ______ The American industry that comes closest to it is agriculture before 1930.
2. ______ The U.S. Postal Service is an example (first-class mail only).
3. ______ It has four categories: natural, geographic, technological, government.
4. ______ This occurs when several large firms produce more than 80 percent of the total industry output.
5. ______ Numerous sellers offer similar but slightly different products.
6. ______ A single seller controls the supply of a good or service.
7. ______ The airline industry is a good example.
8. ______ There is nonprice competition, but businesses compete by product differentiation and advertising.
9. ______ For this to take place, these five conditions must be met: a large market, nearly identical products, easy entry and exit, easily obtainable information, and independence.

Directions: Review Figure 9.9, Federal Regulatory Agencies. Then decide which agency would control the following situations. Use the initials for each agency in the space provided.

10. ______ A disaster occurs at a nuclear power plant.
11. ______ A European drug company wants to market a product in the United States.
12. ______ A television station applies for a license.
13. ______ A factory is inspected because of reports of safety violations.
14. ______ Suspected irregularities in the sale of stocks are investigated.
15. ______ Claims of false advertising about a television set are investigated.
16. ______ Complaints about unfair hiring practices are filed.
FINANCING AND PRODUCING GOODS

President Calvin Coolidge said, “The business of America is business.” Management decisions determine the success or failure of any business.

Directions: The table below shows the production process for blue jeans. The labels for each part of the process are missing in the left-hand column. Fill them in from the list below. Then answer the questions that follow.

<table>
<thead>
<tr>
<th>Inventory Control • Purchasing • Planning • Product Design • Quality Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. ______________________ Style: Basic style for jeans has remained relatively constant; any changes have been in response to changes in consumer tastes and preferences, and to establish fashion trends such as stone-washed jeans.</td>
</tr>
<tr>
<td>2. ______________________ Location: Original Levi Strauss and Company (1853) was founded in San Francisco, where there was a high demand for durable pants, especially among prospectors; company remains in San Francisco, where modern transportation methods provide channels for input and distribution. Scheduling: Mechanization permits mass production.</td>
</tr>
<tr>
<td>3. ______________________ Raw materials: Denim is purchased from manufacturers across the South and Southeast. Capital: Textile mills and jeans producers like Levi Strauss are capital intensive: that is, they rely on machines and mechanization. Regular maintenance and capital improvement are required to enable such companies to remain competitive.</td>
</tr>
<tr>
<td>5. ______________________ Testing: Denim is tested at textile mill for color, defects, weight; producer checks denim before processing, tests the production line with a test run, and spot checks during production.</td>
</tr>
</tbody>
</table>

6. What factor that underlies quantity demanded has influenced the kinds of jeans that are manufactured?

   ____________________________________________________________
   ____________________________________________________________

7. Why do you think a jeans manufacturer might not test every pair of jeans produced?

   ____________________________________________________________
   ____________________________________________________________
MARKETING AND DISTRIBUTION

Whenever you buy a new cereal or soap, remember that it is for sale because the manufacturer has researched and tested it to be sure there is a potential market for it.

**Directions:** The following activity will help you to recall some of the terms you learned in Chapter 11. If you fill in all the words and terms correctly, you will spell the word for an important concept in the boxed letters.

1. This is the fourth stage in the development of marketing.
2. Companies began to do this to promote their goods and to attract customers.
3. This is the first marketing strategy in the “Four Ps.”
4. Product identification can involve a certain type of this.
5. Offering a product for sale in a small area to see how well it sells before selling it nationally.
6. They sell consumer goods directly to the public.
7. Supply and demand plays a large part in determining the ________________ of a good or service.
8. The routes by which goods are moved are known as the ________________ of distribution.
9. Direct marketing is done mainly through ________________ or the Internet.

1. ____________
2. ____________
3. ____________
4. ____________
5. ____________
6. ____________
7. ____________
8. ____________
9. ____________

**Directions:** The following flow chart shows the channels of distribution for consumer goods. Fill in the empty boxes with the missing labels.

**Consumer Goods**

10. Manufacturer → ____________
11. ____________ → Retailer → ____________
12. Manufacturer → ____________ → ____________ → ____________

**Raw Materials and Producer Goods**

13. ____________ → Business
14. ____________ → Wholesaler → ____________
THE AMERICAN LABOR FORCE

In Chapter 12 you learned about the various ways that employers negotiate with the civilian labor force for terms of employment.

Directions: Using the following key, label each example below according to how employers are attracting workers in a tight labor market.

\[ W = \text{wages} \quad WC = \text{working conditions} \quad FB = \text{fringe benefits} \]

1. ______ Lightworks, a lamp manufacturer, offers an annual cost-of-living adjustment (COLA) in addition to raises based on merit and experience.

2. ______ Fabu-Duds, a manufacturer of children's clothing, hired semiskilled workers from as far as 35 miles away. Fabu-Duds provides a free employee van ride from a convenient train stop.

3. ______ The owners of Stevarino, Inc., makers of a popular brand of ice cream, encourage their workers to stay fit by providing 20-minute breaks during which workers may walk or run on an indoor track rented by the company.

4. ______ Checker's, a fast-food restaurant, pays the full cost for an employee pension and health plan.

Directions: Read the question and fill in the table below.

5. Contract negotiations at Boswell Beepers have broken down. The table below shows a list of friendly and unfriendly steps that the company and workers might take to reach a resolution. Complete the table by indicating if the action is friendly (F) or unfriendly (U) and which party can initiate the action—the company (C), the workers (W), or both (B).

<table>
<thead>
<tr>
<th>Possible Action</th>
<th>Friendly or Unfriendly</th>
<th>Company, Workers or Both</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arbitration</td>
<td>F</td>
<td>B</td>
</tr>
<tr>
<td>Boycott</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collective bargaining</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Injunction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lockout</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mediation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Picketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strike</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Measuring the Economy’s Performance

In Chapter 13, you learned the five major statistics used for measuring the economy.

**Directions:** Match each of the major statistics to how it is calculated.

<table>
<thead>
<tr>
<th>Statistic</th>
<th>How It Is Calculated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net domestic product (NDP)</td>
<td>A. Consumer sector plus investment sector plus government sector plus net exports</td>
</tr>
<tr>
<td>2. Disposable personal income (DI)</td>
<td>B. GDP minus depreciation</td>
</tr>
<tr>
<td>3. Personal income (PI)</td>
<td>C. Sum of all wages and salaries, income of self-employed, rental income, corporate profits, and savings and investment interest</td>
</tr>
<tr>
<td>4. Gross domestic product (GDP)</td>
<td>D. NI minus corporate income taxes, reinvested profits, employer Social Security contributions plus transfer payments to individuals</td>
</tr>
<tr>
<td>5. National income (NI)</td>
<td>E. PI minus personal taxes</td>
</tr>
</tbody>
</table>

**Directions:** For each statement, write **T** for true or **F** for false.

1. The consumer price index is measured by averaging the prices of 80,000 specific goods and services under general categories.
   - **T**

2. Statistics that point to what will happen in the economy are known as coincident indicators.
   - **T**

3. A business cycle includes the irregular changes in the level of total output measured by real GDP.
   - **T**

4. Economists link fluctuations in business cycles to four main forces.
   - **T**

5. The point at which the aggregate demand curve crosses the individual demand curve is the equilibrium price.
   - **T**

6. The increase in economic activity that follows a trough is called an expansion or recovery.
   - **T**

7. When inflation occurs, the purchasing power of the dollar goes up.
   - **F**

8. As the price of a specific product goes up, and if all other prices stay the same, producers of that product find it profitable to produce more.
   - **T**
**MONEY AND BANKING**

In the fictional coastal country of Potapova, people grow plenty of corn and rice. They also grow sugar cane, from which they make molasses. Almost all citizens have livestock, from which they get milk, meat, and leather. The favorite hunting season is fall, when the only birds ever seen fly through on their way south. Salt has to be imported and is used to make meat jerky. The government is stable. At different times, all of the items in the table below have been used as money in Potapova.

**Directions:** Use the table to rate each item according to its usefulness as money in the country of Potapova. For each characteristic, as identified by the column heads, write “very,” “not very,” or “somewhat.” Then answer the question below the table.

<table>
<thead>
<tr>
<th>Item</th>
<th>Durable</th>
<th>Portable</th>
<th>Divisible</th>
<th>Stable in value</th>
<th>Scarce</th>
</tr>
</thead>
<tbody>
<tr>
<td>seashells</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>molasses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>rice</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>salt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>feathers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cows</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>paper money issued by government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>metal coins</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>gold bars</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the table above, choose a form of money that you would recommend for the country of Potapova. Explain why you think this form would work well.
The Federal Reserve System and Monetary Policy

Money, to remain valuable, must remain scarce. In Chapter 15 you learned that the Federal Reserve, or the Fed, is the institution given the responsibility of controlling just how scarce money will be. You also learned that the Fed has a number of tools for changing the rate of growth of the money supply.

Directions: Indicate what effect each of the actions below has on the growth of the money supply. Beside each action, mark I for Increase or D for Decrease.

1. _______ raising reserve requirements
2. _______ selling Treasury securities
3. _______ lowering the discount rate
4. _______ buying Treasury securities
5. _______ raising the discount rate
6. _______ reducing reserve requirements

Directions: Put an X beside each item below that is a function of the Federal Reserve System.

7. _______ sets prices for farm commodities
8. _______ clears checks
9. _______ regulates nationally chartered banks
10. ______ insures deposits up to $250,000
11. ______ regulates all aspects of credit unions
12. ______ holds a checking account for the U.S. Treasury
13. ______ mints coins
14. ______ gives financial advice to the federal government
15. ______ sets standards for truth-in-lending laws
16. ______ sets reserve requirements for all depository institutions
17. ______ supplies paper money
18. ______ regulates the money supply
19. ______ issues benefits to veterans
20. ______ keeps track of federal deposits of tax revenues
GOVERNMENT SPENDS, COLLECTS, AND OWES

Understanding how and why the government acts can help you, as a future voter, to better participate in the election of government decision makers.

Directions: Indicate whether each of the following taxes is progressive, regressive, or proportional.

1. ___________________________ income tax of $500 on all persons
2. ___________________________ tax of $3 on every $10 earned
3. ___________________________ 50 cent sales tax each time a person buys food in a grocery store, regardless of the amount of the purchase
4. ___________________________ income tax of 10 percent on incomes of less than $15,000, 20 percent on incomes between $15,000 and $30,000, and 30 percent on incomes over $30,000
5. ___________________________ 12 percent tax on all income

Directions: Study the following pie graphs to answer questions 6 through 10. Use the space below to compute your answers.

Revenue of the Federal Government, 1932 and 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual Income Tax</th>
<th>Corporate Income Tax</th>
<th>Excise Taxes</th>
<th>Estate and Gift Taxes</th>
<th>Customs Duties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>22%</td>
<td>33%</td>
<td>4%</td>
<td>2%</td>
<td>17%</td>
</tr>
<tr>
<td>2005</td>
<td>43%</td>
<td>37%</td>
<td>3%</td>
<td>1%</td>
<td>13%</td>
</tr>
</tbody>
</table>


Rank in order the three taxes that brought in the largest amounts of revenue in:

6. 1932

7. 2005

8. Which tax was important in 2005 but brought in no revenue in 1932?

9. Besides this tax, which tax had the greatest increase in percentage of total revenue between 1932 and 2005?

10. Which two taxes had decreased the most by 2005? By how much had they decreased?
Government policies are rarely based on a single economic viewpoint. Rather, they are usually shaped by debate over competing ideas. In this chapter, you learned about two groups of economists: the Keynesians and the monetarists.

**Directions:** Each of the statements below is a characteristic of one of these groups. If the statement reflects the point of view of a Keynesian, write **K**. If it reflects the viewpoint of a monetarist, write **M**.

1. ______ “The government should keep its hands off the economy. Just keep the money supply under control, and everything will take care of itself.”
2. ______ “Unemployment is the highest it has been in 40 years. The government has to start putting people back to work with a jobs program.”
3. ______ “The recession is just a temporary lack of aggregate demand. We would have a recovery if the government would step in and create more demand by cutting taxes and increasing spending.”
4. ______ “Aggregate demand is growing too fast. Naturally, the result is high inflation. We need to bring demand down by raising taxes and reducing government spending.”
5. ______ “Of course money’s not worth what it used to be. There’s too much of it around. We’ve got to get the Fed to tighten the money supply.”

**Directions:** Keynesians pay particular attention to how money is injected into and leaked from the economy. Indicate with an **I** or an **L** whether each of the following is an example of an injection into or leakage from the economy.

6. ______ Chrysler replaces an outdated assembly line with modern equipment.
7. ______ Sears increases its inventories in anticipation of high December sales.
8. ______ Congress raises the amount deducted from wages for Social Security.
9. ______ USX sells bonds and uses the money to finance a new steel mill.
10. ______ Consumers reduce spending and increase savings because of concern over a growing recession.
11. ______ The federal government starts a new jobs program and hires 50,000 workers to clean up the highways.
12. ______ The state of Massachusetts increases payments to families with dependent children.
13. ______ Consumers respond to high interest rates by purchasing more certificates of deposit.
14. ______ The excise tax on gasoline is raised by $.05 per gallon.
15. ______ A hydroelectric dam project is started by the federal government.
TRADING WITH OTHER NATIONS

A country’s exports and imports are determined by the relative cost of production of different items. A country has an absolute advantage for an item if, using the same amount of resources, it can produce the item at less cost than another country. A comparative advantage is the ability of a country to produce a product at lower opportunity cost than another country.

Directions: Read each description of a trade situation below. Then answer the questions.

Country A is underpopulated compared to Country B. However, its vast expanse of land to the north is covered with forests, allowing Country A to export great quantities of lumber. Country B has a large population of unskilled workers. However, with its drier, warmer climate, Country B has only enough lumber to supply its own people.

1. Explain why Country A has an absolute advantage over Country B in trading lumber.

2. In what situations can a large population of unskilled workers be a trade advantage?

Both Country C and Country D have the ideal climate, soil, and workforce for producing cotton. However, Country C is a developing country with a large population. The majority of its workers are unskilled. Country D is a developed country with many industries and opportunities for upward mobility. Unskilled workers are in short supply. The production of cotton involves mostly unskilled labor. Country C exports 50 percent more cotton than Country D.

3. In your own words, explain why Country C does not have an absolute advantage, but rather a comparative advantage over Country D in producing cotton.

Countries E and F both manufacture shoes and cars. Country E produces about 3 million pairs of shoes in a year, while Country F produces about 2.5 million pairs. Country E manufactures 1 million new cars in a year, and in the same year, Country F manufactures 500,000 cars.

4. In the manufacture of cars, does Country E have an absolute or a comparative advantage? Explain.

5. Even though Country E produces more shoes each year than Country F, it would not make sense for Country E to abandon its production of cars and produce only shoes instead. Explain why.
ECONOMIC GROWTH IN DEVELOPING NATIONS

The economies of developing nations may be at different stages, but they share certain characteristics that identify them. In Chapter 19 you learned what characterizes a developed country and a developing country.

Directions: Write developed or developing beside each characteristic listed below.

1. ________________ Has a low Gross Domestic Product (GDP)
2. ________________ Requires a great deal of foreign aid
3. ________________ Heavily industrialized
4. ________________ High standard of living
5. ________________ Lacks the equipment to put its many natural resources to use
6. ________________ Per capita GDP is low
7. ________________ Rapid population growth
8. ________________ Economy is based on more than agriculture
9. ________________ Has a low adult literacy rate
10. ________________ Provides economic, technical, and military assistance
11. ________________ Much of its population exists through subsistence agriculture
12. ________________ Donates money for distribution to poorer countries
13. ________________ Health conditions for its population are poor
14. ________________ Property rights may be weak
15. ________________ Receives assistance from such organizations as the International Development Association and the International Monetary Fund
16. ________________ Has a relatively low infant mortality rate
THE GLOBAL ECONOMY

In the world today, the economies of different countries are interdependent. The United States and other countries in the world are now part of a global economy.

Directions: In a panel discussion, several speakers each explain a different aspect of one general topic. Imagine that you are organizing a panel discussion about the global economy. The specific topics of each speaker are identified below. In the spaces provided, briefly summarize the main points that each speaker should make.

First speaker: Defines global integration and briefly explains how advances in telecommunications have affected global integration.

Second speaker: Describes the growth of direct foreign investment in the United States, and explains why some people want to restrict its growth.

Third speaker: Explains why many economists believe that direct foreign investment may have a good, rather than bad, effect on the economy and culture of the United States.

Fourth speaker: Explains what multinationals are and how they affect the global economy.

Fifth speaker: Addresses the social and cultural aspects of the global economy and the need for tolerance.
ANSWER KEY

Activity 1

1. Scarcity is a lack of resources. The town has a limited amount of land to sell.

2. The trade-off is between extra jobs and a playground.

3. Answers will vary but may include the following:
   - **Labor**—Will the town’s population supply this labor, or will the labor have to come from the outside?
   - **Capital**—Which company’s expansion will require more capital goods? Can the companies afford to purchase these goods?
   - **Entrepreneurship**—How risky is the expansion of each of these enterprises? Might one of them be more likely to be in business 10 years from now? fifty years from now?

Activity 2

1. C
2. M
3. M
4. T
5. C
6. C
7. M

8–10. Characteristics chosen and the order for answers 8–10 may vary. Students must choose three of the major characteristics. The six major characteristics and examples of each are given below.

   - **little or no government control**—examples: The type of work I do is my own decision; the government does not prevent me from starting my own business. An answer could also be negative: resources are wasted because there is no central plan.

   - **freedom of enterprise**—examples: I am free to start my own business; there is also the freedom to fail in business; I can take my ideas about new and better ways of doing things and put them to work making money.

   - **freedom of choice**—examples: I am free to choose what I want to do in the marketplace because no central authority is limiting my choice; I have a wide range of items available for purchase.

   - **private property**—examples: I can buy and own whatever I can afford; if one of my possessions becomes valuable, such as land, I can sell it and make a profit.

   - **profit incentive**—examples: When I take a higher-paying job over a lower-paying one, I am participating in an economy based on profit incentive.

   - **competition**—examples: The prices I charge for the goods I produce have to be low enough to attract buyers away from competitors; I can enter or exit any industry I choose; as an employer, I must compete with other employers for workers by offering good wages, working conditions, and benefits.

11. Democratic socialism is a system that works within the constitutional framework of a nation to elect socialists to office. The government usually controls only some areas of the economy. In contrast, authoritarian socialism is a system that supports revolution as a means to overthrow capitalism and bring about socialist goals. The entire economy is controlled by a central government. This system is also known as communism.

Activity 3

1. $160
2. $145
3. Sample answers:
   - **Sporting goods store**: advantages—quality; long warranty; and evaluation in consumer magazine; disadvantage—price.
   - **Discount store**: advantages—price; have warranty, while used skates do not; disadvantages—quality; short warranty; evaluation.
   - **Friend’s skates**: advantages—low price but good quality and evaluation; disadvantages: no warranty; have been used, so they may not last long; probably can’t be returned

4. Sample answers: what friends and acquaintances say about each brand of skates; for the new skates, what the stores’ return policies are; how long Mai expects to use the skates; how long it will take her to save for the expensive skates; how long her friend has had the used skates, and the condition they are in; what other things Mai wants to purchase with her discretionary income; how frequently she will use the skates.

Activity 4

1. CA
2. CC
3. FI
4. CA
5. e
6. a
7. b
8. c
9. d
10. Capacity to pay: since Rachel has lost her job, she probably cannot make the loan payments.

Activity 5

1. Rinse: $0.16 per oz ($3.49 ÷ 22 = $0.16); store brand: $0.13 per oz ($3.19 ÷ 25 = $0.13)
2. Store brand; Rinse would then be $0.15 per oz ($3.24 ÷ 22 = $0.15) but the store brand is still cheaper.
**ANSWER KEY**

3. Probably, because this is a 20 percent savings. However, the oranges might spoil before you could eat all five.

4. Answers will vary but should note that instant potatoes are less expensive and require less preparation, whereas mashed potatoes made from scratch may be more nutritious and may taste better.

5. Answers will vary, but the best answer is a supermarket. A single person would not need large quantities sold by discount food stores; convenience markets are the most expensive to shop in and offer a limited selection.

**Activity 6**

1. Keogh plan
2. mutual fund
3. stock
4. real estate
5. bond
6. certificates of deposit
7. money market fund
8. savings bond
9. tax-exempt bond
10. Treasury bill
11. IRA

**Activity 7**

1. See solid line on graph.

**Basketball Demand and Supply**

<table>
<thead>
<tr>
<th>Price</th>
<th>Number of Basketballs (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$22</td>
<td>0</td>
</tr>
<tr>
<td>$20</td>
<td>2</td>
</tr>
<tr>
<td>$18</td>
<td>4</td>
</tr>
<tr>
<td>$16</td>
<td>6</td>
</tr>
<tr>
<td>$14</td>
<td>8</td>
</tr>
<tr>
<td>$12</td>
<td>10</td>
</tr>
<tr>
<td>$10</td>
<td>12</td>
</tr>
<tr>
<td>$8</td>
<td>14</td>
</tr>
<tr>
<td>$6</td>
<td>16</td>
</tr>
<tr>
<td>$4</td>
<td>18</td>
</tr>
<tr>
<td>$2</td>
<td>20</td>
</tr>
</tbody>
</table>

Point of Equilibrium

2. $4 to $10. As price goes down, quantity demanded goes up.

3. The demand would increase, because there would be more potential buyers.

4. See dashed line on graph.

5. Equilibrium point is eight million balls at a price of $10 (see graph).

**Activity 8**

1. C  
2. S  
3. C  
4. P  
5. S  
6. S, P  
7. S  
8. C  
9. S  
10. C  

11. Limited partnership: consists of partners who are not equal. The general partner manages the business and assumes responsibility for all debts of the partnership. The other partners contribute funds or property but do not make decisions or manage the business.

12. Joint venture: a temporary partnership set up for a specific purpose for a short period of time. Once the task is completed, the joint venture is ended.

13. Franchise: a contract in which a franchisor sells to another business, the franchisee, and the right to use its name and sell its products. The franchisee pays a fee that may include a percentage of all revenues.

**Activity 9**

1. PC  
2. PM  
3. PM  
4. O  
5. MC  
6. PM  
7. O  
8. MC  
9. PC  
10. NRC  
11. FDA  
12. FCC  
13. OSHA  
14. SEC  
15. FTC  
16. EEOC

**Activity 10**

1. product design
2. planning
3. purchasing
4. inventory control
5. quality control
6. consumer tastes and preferences
7. Answers will vary, but the students may say that the opportunity cost would be too great; jeans are inexpensive enough that the manufacturer could afford to replace defective pairs.

Activity 11
1. consumer sovereignty
2. advertise
3. product
4. packaging
5. test-marketing
6. retailers
7. price
8. channels
9. catalogs
10. Manufacturer → Consumer
11. Manufacturer → Retailer → Consumer
12. Manufacturer → Wholesaler → Retailer → Consumer
13. Producer → Business
14. Producer → Wholesaler → Business

Activity 12
1. W
2. FB
3. WC
4. FB

<table>
<thead>
<tr>
<th>Possible Action</th>
<th>Friendly or Unfriendly</th>
<th>Company, Workers or Both</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arbitration</td>
<td>F</td>
<td>B</td>
</tr>
<tr>
<td>Boycott</td>
<td>U</td>
<td>W</td>
</tr>
<tr>
<td>Collective bargaining</td>
<td>F</td>
<td>B</td>
</tr>
<tr>
<td>Injection</td>
<td>U</td>
<td>C</td>
</tr>
<tr>
<td>Lockout</td>
<td>U</td>
<td>C</td>
</tr>
<tr>
<td>Mediation</td>
<td>F</td>
<td>B</td>
</tr>
<tr>
<td>Picketing</td>
<td>U</td>
<td>W</td>
</tr>
<tr>
<td>Strike</td>
<td>U</td>
<td>W</td>
</tr>
</tbody>
</table>

Activity 13
1. B
2. E
3. D
4. A
5. C
6. T
7. F
8. T
9. T
10. F
11. T
12. F
13. T

Activity 14
Tables may vary. Sample provided.

<table>
<thead>
<tr>
<th>Currency recommendations will vary. Check for a logical analysis of the pros and cons of the form of currency that the student chooses.</th>
</tr>
</thead>
</table>

Activity 15
1. D
2. D
3. I
4. I
5. D
6. I

The following items have an X: 8, 9, 11, 12, 14–18, and 20.

Activity 16
1. regressive
2. proportional
3. regressive
4. progressive
5. proportional
6. corporate income tax, excise taxes, individual income taxes
7. individual income tax, social insurance taxes and contributions, corporate income tax
8. social insurance taxes and contributions
9. individual income tax
10. excise taxes down by 21%, corporate income tax down by 20%
Activity 17

1. M 2. K
5. M 6. I
7. I 8. L
9. I 10. L
11. I 12. I
13. L 14. L
15. I

Activity 18

1. Because of its natural resources, including land and climate, Country A can grow many more trees and therefore produce much more lumber than Country B.
2. A large population of unskilled workers can be an advantage to a country that is competing with countries that have many skilled workers but relatively few unskilled workers. The country with an abundance of unskilled workers can probably manufacture certain kinds of products more cheaply and therefore sell those products cheaply.
3. Country C does not have an absolute advantage because Countries C and D both have the natural resources and necessary workforce. Country C has a comparative advantage because, relatively speaking, it has a larger pool of unskilled labor. Since unskilled workers in Country D are relatively scarce, they can probably command higher salaries than can workers in Country C. Therefore Country C can probably produce and sell cotton at lower cost.
4. Country E has a comparative rather than absolute advantage, since both countries have the capacity for manufacturing large numbers of cars.
5. Compared to Country F, Country E produces far more cars percentage-wise than it does shoes. It would make little sense to take resources away from the production of cars and use those resources on the production of shoes.

Activity 19

Numbers 3, 4, 8, 10, 12 and 16 are characteristics of developed countries.

Numbers 1, 2, 5, 6, 7, 9, 11, 13, 14, and 15 are characteristics of developing countries.

Activity 20

Students’ responses will vary. The following are sample answers.

First speaker: Global integration, which consists of the interdependency of countries, has increased greatly. Advances in telecommunications, such as communication via computer and satellite, have enabled business deals among all parts of the world to be transacted rapidly and accurately.

Second speaker: Direct foreign investment has grown to the point where foreign investors annually buy billions of dollars worth of United States real estate and businesses. Some people fear that this will enable foreigners to gain too much control over the American economy, government, and social life.

Third speaker: Foreign investors want to make a profit. Therefore, they gear their business toward the needs and values of their American customers. Also, foreign investors have a stake in helping to strengthen and stabilize the American economy, society, and government.

Fourth speaker: Multinationals are companies that do business in many countries. While multinationals invest all over the world, they strengthen regional economies by investing closest to home. Multinationals often form alliances that benefit local economies by providing goods, services, and jobs.

Fifth speaker: Globalization has resulted in increased immigration and the presence of many cultures in the United States. With increased diversity comes a greater need for tolerance and open-mindedness. In order for globalization to work for the benefit of all, people need to learn to accept and benefit from each other's differences.
Teacher Notes