

ECONOMICS *TODAY AND TOMORROW*

Guided Reading Activities



New York, New York Columbus, Ohio Woodland Hills, California Peoria, Illinois

TO THE TEACHER

Guided Reading Activities provide you with resources to help students focus on the key information and concepts in each chapter of *Economics Today and Tomorrow*. The reproducible activities follow the outlines of each section in the chapter. Answers to the Guided Reading Activity questions are in the back of the booklet.

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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GUIDED READING Activity 1-1

For use with textbook pages 2–8

T

HE BASIC PROBLEM IN ECONOMICS

RECALLING THE FACTS

Directions: Use the information in your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

factors of production	economics	scarcity
resources	land	technology
goods	want	labor
services	capital	entrepreneurship

Introduction

- 1** _____ is the study of how individuals, families, businesses, and societies use limited
2 _____ to fulfill their unlimited wants.

Wants Versus Needs

Economists consider everything other than basic survival needs to be a **3** _____. This includes TVs, VCRs, computers, and automobiles.

Choices/The Problem of Scarcity

People, businesses, and societies make choices that utilize resources and affect the production of **4** _____ and **5** _____. However, there exists a problem of **6** _____, in which people do not have enough income, time, and other resources to satisfy their every want.

Factors of Production

When economists refer to scarce resources, they are referring to the **7** _____, which are the resources necessary for the production of goods and services. There are four factors of production. **8** _____ is a natural resource present without human intervention. The work people do is **9** _____, often referred to as a human resource. People work to produce **10** _____, which are tangible items, and **11** _____, activities done for others for a fee. The third factor of production is **12** _____—manufactured goods used to produce goods and services. Individuals who take the initiative to start a new business or introduce a new product are demonstrating **13** _____, the fourth factor of production. Today, some economists consider **14** _____, or the use of science to produce goods and services, an additional factor of production.

GUIDED READING Activity 1-2

For use with textbook pages 12–16

TRADE-OFFS

RECALLING THE FACTS

Directions: Use the information in your text book to answer the questions.

1. What is a trade-off?

2. What kinds of trade-offs do you make as a student?

3. What does an opportunity cost cause a person to lose?

4. What is important to know before one makes a decision related to their available resources?

Production Possibilities Curve

5. What is a production possibilities curve?

6. The classic example for explaining the production possibilities curve shows the relationship between what two factors?

7. What benefit is there from a nation, business, or individual using the production possibilities curve?

GUIDED READING Activity 1-3

For Use with textbook pages 18–23

WHAT DO ECONOMISTS DO?

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer. Use another sheet of paper if necessary.

- I. Introduction—Describe the two large fields into which economics is divided.

- II. Economic Models—What is the purpose of an economic model?

A. What Models Show

1. What does a production possibilities curve reveal?

2. What is the most common economic model?

3. What do economic models assume?

B. Creating a Model

1. In what way are models helpful to economists?

2. What does an economist develop in order to test his or her theory or model?

C. Testing a Model—How does testing models help economists test their hypotheses?

D. Applying Models to Real Life—Why is it difficult for economists to apply the results of economic models?

- II. Schools of Economic Thought

A. Introduction—Why do economists disagree over economic theories?

B. Values and Economics

1. What are values?

2. What can the science of economics not help judge?

GUIDED READING Activity 2-1

For use with textbook pages 31–38

ECONOMIC SYSTEMS

FILLING IN THE BLANKS

Directions: Use the information in your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

resources goods and services mixed economy	economic system traditional economy circular flow of economic activity market	price system command economy market
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Introduction

An economic system is a way of determining how to use **1** _____ to satisfy people’s wants and needs.

Three Basic Questions

A nation must determine what **2** _____ to produce and how to produce them. The **3** _____ a nation has determines for whom goods and services will be produced. In the United States, most goods and services are distributed through a **4** _____.

Types of Economic Systems

The amount of involvement a society’s leaders have in allocating scarce **5** _____ helps determine its economic system. In limited parts of the world, a **6** _____, based on customs and beliefs, exists. Government leaders control the factors of production and make all economic decisions in a **7** _____. In contrast, individuals in a **8** _____ economy, control economic decisions. Under this system, the economy is based on information obtained from the **9** _____, where the voluntary exchange of **10** _____ takes place. Economists use a **11** _____ model to illustrate how the market system works. The last type of economic system combines the basic elements of the command and market economy. In a **12** _____ there is private ownership of property and individuals decisions are combined with government intervention.

GUIDED READING Activity 2-2

For use with the textbook pages 40–44

CHARACTERISTICS OF THE AMERICAN ECONOMY

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What are the six major characteristics of a pure market economy?

- | | |
|----------|----------|
| a. _____ | d. _____ |
| b. _____ | e. _____ |
| c. _____ | f. _____ |

2. What is a pure capitalistic system?

3. How can capitalism best be described in the United States today?

4. What do individuals own and control under a free enterprise system?

5. How does the government in the United States limit choices in order to protect buyers?

6. What is profit?

7. Why is the principal of private property important for capitalism?

8. What are the effects of competition?

GUIDED READING Activity 2-3

For use with textbook pages 46–49

THE GOALS OF THE NATION

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the headings to help you write each answer.

I. Goals of a Free Enterprise Economy

A. Introduction

1. The United States has what kind of economic system?

2. What are the national goals for the American economic system?

B. Economic Freedom

1. What is the goal of economic freedom?

2. What risk is involved in having economic freedom?

C. Economic Efficiency—What happens if the factors of production in an economic system are wasted?

D. Economic Equity—What are some policies the American government has passed to help create a fair and just economic system?

E. Economic Security—How does the government give security to the economy?

F. Economic Stability

1. What is the goal of economic stability?

2. How is the standard of living measured?

G. Economic Growth—What must the economy do in order to keep up with a growing population?

H. Trade-offs Among Goals—What must nations do in order to achieve their national goals?

II. Rights and Responsibilities—What are the rights and responsibilities of individuals in the American free enterprise system?

GUIDED READING Activity 3-1

For Use with textbook pages 59–64

CONSUMPTION, INCOME, AND DECISION MAKING

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What are the characteristics of a consumer?

Disposable and Discretionary Income

2. What are the two types of income?

a. _____ income

b. _____ income

3. How are the two types of income different from one another?

4. What factors help determine a person's potential earning power?

Decision Making as a Consumer

5. What are the three decisions consumers have to make?

a. _____

b. _____

c. _____

6. What scarce resources are involved in making a purchase?

7. What must a person decide if they choose to buy a higher-priced product over a lower-priced product?

8. How do economists define rational choice?

GUIDED READING Activity 3-2

For use with the textbook pages 66–70

B

UYING PRINCIPLES OR STRATEGIES

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

bait time comparison shopping price	switch competitive advertising brand name warranty	advertising informative advertising generic brands
--	---	--

Introduction/Gathering Information

The three basic principles of buying involve gathering information, using **1** _____ wisely, and **2** _____. A scarce resource involved in attaining information about a product is **3** _____.

Using Advertising Wisely

Advertising that tries to persuade a person that a product is different from and superior to others is **4** _____. In comparison, **5** _____ benefits consumers by informing them about various products. Unfortunately, advertising can also be deceiving, with such tactics as the bait and switch. The **6** _____ is an unrealistically priced item, that is no longer available when the consumer gets to the store. The salesperson will try to sell the consumer a higher-priced model, this is known as the **7** _____.

Comparison Shopping

The process of **8** _____ involves getting information on the types and prices of products available from different stores. When shopping for a product the most important factor will generally be the **9** _____. However, shoppers should also find out which store offers the best **10** _____, or promise to repair or replace a faulty product. A **11** _____ product has a word, picture of logo to help distinguish it from other brands. **12** _____ have no brand name, making it difficult to know who produced the product.

GUIDED READING Activity 3-3

For use with textbook pages 72–75

CONSUMERISM

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer. Use another sheet of paper if necessary.

I. Introduction—What is consumerism?

II. Consumer Rights

A. In 1962, what did President John F. Kennedy send to Congress?

B. What were President Kennedy's four basic consumer rights?

C. What is the right to redress?

III. Help for Consumers

A. What options do consumers have to help protect themselves?

B. What is the job of the Better Business Bureau?

C. What available sources might consumers use to gain information about different products?

D. What does the Federal Trade Commission promote?

E. Which agency of the federal government protects consumers against unsafe food, drugs, and cosmetics.

IV. Consumer Responsibilities

A. Which federal agency coordinates federal activities on behalf of the consumer?

B. What is the first step in solving a consumer problem?

C. How does a consumer exhibit ethical behavior?

GUIDED READING Activity 4-1

For Use with textbook pages 83–87

A AMERICANS AND CREDIT

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is credit?

2. What are the principal and interest of debt?
 - a. _____ principal
 - b. _____ interest

3. How does an individual repay installment debt?

4. What types of durable goods do people often pay off using installments?

5. Why is the length of an installment period important?

6. What is a mortgage?

7. Why do individuals use credit?

8. What must a person determine before they decide to buy on credit?

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GUIDED READING Activity 4-2

For use with textbook pages 88–94

SOURCES OF LOANS AND CREDIT

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

commercial banks	savings banks	credit
credit union	finance companies	charge account
regular	annual percentage rate	revolving
past due balance	previous balance	debit card
installments	loans	credit card
interest rate	finance charges	

Introduction/ Types of Financial Institutions

There are two main types of **1** _____—using credit cards and borrowing money from financial institutions. **2** _____ control the largest amount of money and offer the widest range of financial services. Savings and loans make many mortgages and typically offer a lower **3** _____ than larger banks. **4** _____ were established to serve small savers who were overlooked by commercial banks. Members of unions and company employees often can borrow money from a **5** _____. Retailers use **6** _____ to avoid the risks of lending money directly to consumers.

Charge Accounts/Debit Cards

A **7** _____ allows a customer to buy goods or services from a company and pay them later, with interest. With a **8** _____ charge account, consumers must pay off their bill at the end of a 30-day period. **9** _____ charge accounts allow consumers to continue to purchase items even if their debt is not paid in full. Consumers may also pay off charge accounts in equal payments or **10** _____.

Credit Cards

Unlike a charge account, a **11** _____ may be used at a variety of stores, restaurants, hotels, and other businesses. Credit cards usually charge consumers a high **12** _____. Competition has brought some credit interest rates down; however, bad **13** _____ by credit card companies still keeps rates relatively high.

Finance Charges and Annual Percentage Rates/Debit Cards

14 _____ take into account interest costs plus other charges related to credit. The four basic methods to compute finance charges are **15** _____, adjusted balance, average daily balance, and **16** _____. The **17** _____ is the cost of credit expressed as a yearly percentage. Unlike a credit card, a **18** _____ electronically transfers money directly from a person's bank account to the business where they are purchasing goods.

GUIDED READING Activity 4-3

For Use with textbook pages 96–100

A PPLYING FOR CREDIT

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is a credit check?

2. How does a credit rating rank individuals?

3. What factors besides past credit history does a creditor use to determine a person's creditworthiness?

4. What factors contribute to an individual's capacity to pay a loan?

5. What is collateral?

6. What is a secured loan?

7. How is an unsecured loan different from a secured loan?

8. What are the negative results of not paying debts off in time?

GUIDED READING Activity 4-4

For use with textbook pages 101–105

GOVERNMENT REGULATION OF CREDIT

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

- I. The Truth in Lending Act—What is the main purpose of the Truth and Lending Act of 1968?

- II. The Equal Credit Opportunity Act

- A. What does the Equal Credit Opportunity Act prevent?

- B. Historically, who used to be hurt by credit discrimination?

- III. State Usury Laws

- A. What is a usury law?

- B. What problems did usury laws create in the 1970s ?

- IV. Personal Bankruptcy

- A. Why does bankruptcy occur?

- B. What are the negative effects of personal bankruptcy?

GUIDED READING Activity 5-1

For Use with textbook pages 111–115

SHOPPING FOR FOOD

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is involved in comparison shopping for food?

2. Why is time an opportunity cost when one is comparison shopping?

3. What are the benefits and trade-offs of shopping at a club warehouse store?
Benefit: _____
Trade-Off: _____
4. What is the trade-off involved with shopping at a convenience store?

5. How does the brand-name of a product affect the price?

6. What is the trade-off between price and quality?

7. How might a person's time be effected by using cents-off coupons?

GUIDED READING Activity 5-2

For Use with textbook pages 117–120

CLOTHING CHOICES

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

durability bargain fanatics cost of care service flow	variety clothing style sale	trade-off work-time decreased spending
--	--------------------------------------	---

Introduction/ Comparing Clothing Value

Americans spend billions of dollars per year on **1** _____. For most Americans, **2** _____ is a motivating factor involved in clothing choices. A person may be able to buy a minimum amount of clothing at a low cost, yet probably will sacrifice **3** _____. A person is faced with a **4** _____ when choosing between cheap clothes and stylish clothes. **5** _____ is the ability of a clothing item to last. While **6** _____ is the amount of time one gets to use a product and the value one places on its use. The **7** _____, such as dry cleaning, is another factor in assessing the value of clothing.

More for Less in Today's Clothing Market

The cost of clothing has **8** _____ over the years. **9** _____ is the amount of time an individual must work in order to purchase an item. A smaller percentage of one's budget goes to purchasing clothing now than in the past, yet wise consumers buy clothing on **10** _____. Because clothing sales are so common, some people become **11** _____. Having a prepared shopping list will help consumers keep their **12** _____ within limits.

GUIDED READING Activity 5-3

For Use with textbook pages 121–127

TO RENT OR BUY

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

- 1. What are some advantages and disadvantages of home ownership?
Advantages: _____
Disadvantages: _____
- 2. What are some advantages and disadvantages of renting a home?
Advantages: _____
Disadvantages: _____
- 3. When buying a home, what are possible closing costs?

- 4. What are points?

- 5. Besides the standard fixed-rate and flexible rate mortgage, what other types of mortgages exist?

- 6. What is a lease?

- 7. What are the rights and responsibilities of a tenant?

Rights: _____
Responsibilities: _____
- 8. Why do landlords require security deposits?

- 9. What are the responsibilities of a landlord?

GUIDED READING Activity 5-4

For Use with textbook pages 129–133

BUYING AND OPERATING A VEHICLE

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Introduction

A. What are the benefits of having an automobile with a small engine?

B. What is a disadvantage of owning a smaller automobile?

II. Buying and Operating a Vehicle

A. Introduction —What are the opportunity costs involved in buying a car?

B. Registration Fee—What is a registration fee?

C. Normal Maintenance and Major Repairs

1. What are some examples of normal car maintenance?

2. How can a person help avoid major automotive repairs?

D. Extended Warranty—How can an individual guard against paying for major repairs?

E. Depreciation

1. What is depreciation?

2. What causes the depreciation of a car?

F. Insurance

1. What is liability insurance ?

2. How do insurance companies classify drivers?

GUIDED READING Activity 6-1

For use with the textbook pages 141–144

WHY SAVE?

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

interest	saving	trade-offs
FDIC	time deposits	certificates of deposit
retirement	money market	deposit
account statement	savings account	economy
passbook savings account	maturity	

Introduction/Deciding to Save

Economists define **1** _____ as the setting aside of income for a period of time so that it can be used later. In addition to saving money for future purchases, one may save money for emergencies or for **2** _____. When individuals save money, the **3** _____ as a whole benefits. People earn **4** _____ on their money when they save it in a financial institution. In comparison shopping for the best saving plan, one must consider all of the **5** _____ involved.

Savings Accounts

With a **6** _____, a depositor receives a booklet in which deposits, withdrawals, and **7** _____ are recorded. Depositors with a **8** _____ receive a monthly statement showing all their transactions. The interest paid on passbook and statement accounts are low compared to other **9** _____ plans. A **10** _____ that pays a higher rate of interest allows immediate access to money through checks.

Time Deposits

The term **11** _____ refers to savings plans that require a saver to deposit money for a certain period of time. The time period is called the **12** _____. Time deposits are often referred to as **13** _____. CD's state the amount of deposit, the **14** _____, and the rate of interest being paid. **15** _____ offer higher interest rates than regular saving accounts. The federal government created the **16** _____ to help insure banks against financial failure.

GUIDED READING Activity 6-2

For use with textbook pages 146–153

I NVESTING: TAKING RISKS WITH YOUR SAVINGS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What are the benefits of being a stockholder in a company?

2. What are the two methods in which one makes money from stocks?
 - a. _____
 - b. _____
3. What are a capital gain and capital loss? _____
4. How is a bond different than a stock?

5. How is a tax-exempt bond different than a bond sold by a company?

6. What larger types of investments does the federal government offer?

7. Who is a broker?

8. How is the stock exchange different from the over-the-counter markets that sell stocks?

9. How does a mutual fund benefit an investor?

10. What is a money market fund?

11. Who regulates the stock market?

12. What does the Securities Act require?

GUIDED READING Activity 6-3

For use with textbook pages 155–159

SPECIAL SAVINGS PLANS AND GOALS

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Investing for Retirement

A. Introduction

1. What is a pension plan?

2. What is a major benefit of having a private pension plan?

B. Individual Pension Plans

1. What does the Keogh Plan allow?

2. What is the difference between a regular IRA and a Roth IRA?

C. Real Estate as an Investment

1. What happened to the resale value of real estate during the late 1970s and the late 1990s?

2. Why is it difficult to get cash quickly from real estate investments?

II. How Much to Save and Invest

A. Introduction—What is the trade-off with saving money?

B. Amount of Risk—How are risk and investment related?

C. Spreading Out Your Investments

1. What is diversification?

2. Where should one invest if they have a small income and cannot afford a loss?

D. Values—How do one's values determine where they invest?

GUIDED READING Activity 7-1

For use with the textbook pages 169–175

D

DEMAND

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

voluntary exchange	market economy	supply
market	demand	law of diminishing marginal utility
buyer	law of demand	utility
quantity demanded	marginal utility	real income effect
substitution effect		

Introduction/ The “Marketplace”

1 _____ includes only those people who are willing and able to pay for a product or service. In a **2** _____, consumers have a great influence on the price of all goods and services. **3** _____ is what people want to buy and how much they will pay for it, while **4** _____ is the amount of goods and services that producers are able and willing to sell at a particular price. A **5** _____ represents the freely chosen actions between buyers and sellers of goods and services.

Voluntary Exchange

6 _____ involves a buyer and seller working toward satisfactory terms of exchange. In order to make an exchange both the **7** _____ and seller must believe they will be better off than before.

The Law of Demand

The **8** _____ states that there is an inverse or opposite relationship between quantity demanded and price. Different factors explain the inverse relationship between price and **9** _____, or how much people will buy of any item at a particular price. If a person’s income stays the same while prices rise, they will not be able to buy the same quantity of goods. This concept is known as the **10** _____. The **11** _____ states that if two items satisfy the same need and the price of one rises, people will buy the cheaper product. Economists use the term **12** _____ to describe the amount of satisfaction a product brings. The amount of additional satisfaction one gets from a purchase is known as **13** _____. However, with each additional purchase the amount of satisfaction lessens, this is called the **14** _____.

GUIDED READING Activity 7-2

For use with textbook pages 177–185

THE DEMAND CURVE AND THE ELASTICITY OF DEMAND

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is shown on a demand schedule?

2. What is a demand curve?

3. How is a change in quantity demanded similar to and different from a change in demand?
Similar: _____
Different: _____
4. What three changes can affect the demand for a specific product?
Change in _____
Change in _____
Change in _____
5. What is a complementary product?

6. What do economists call elasticity?

7. What is the measure of how much consumers will respond to price changes?

8. What is the difference between elastic and inelastic demand?

9. What three factors determine the price elasticity of demand?
 - a. _____
 - b. _____
 - c. _____

GUIDED READING Activity 7-3

For use with textbook pages 186–192

THE LAW OF SUPPLY AND THE SUPPLY CURVE

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. The Law of Supply

A. Introduction—What is the law of supply?

II. The Incentive of Greater Profits

A. Introduction—In the case of supply, what does a higher price do for a producer?

B. You Must Charge a Higher Price—How is the price of a product affected if production is expanded?

C. Higher Prices Attract More Producers—How do higher prices attract more producers into an industry?

III. The Supply Curve—What does a supply curve show?

IV. Quantity Supplied versus Supply

A. What causes a change in the quantity supplied?

B. Why would the entire supply curve move?

V. The Determinants of Supply

A. The Price of Inputs—How does the supply curve shift, if the price of inputs drops?

B. The Number of Firms in the Industry—If more firms enter an industry, what happens to supply?

C. Technology—How does an improvement in technology affect supply?

VI. The Law of Diminishing Returns—What is the law of diminishing returns?

GUIDED READING Activity 7-4

For use with textbook pages 194–199

PUTTING DEMAND AND SUPPLY TOGETHER

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What happens as the price of a good decreases?

2. What is the equilibrium price?

3. How can economists visualize equilibrium price?

4. How do prices serve as signals to producers and consumers?

Producers: _____

Consumers: _____

5. When do a shortage or surplus of products occur?

Shortage: _____

Surplus: _____

6. How does the government control prices?

7. What are price ceilings?

8. What are two nonmarket ways of distributing goods and services?

9. Why is rationing expensive?

10. Why does the government set price floors?

GUIDED READING Activity 8-1

For use with the textbook pages 207–211

STARTING A BUSINESS

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Getting Started

A. Introduction

1. What is an entrepreneur?

2. After deciding to start a business, what must entrepreneurs do?

B. Help from Government

1. Which government agency helps small businesses get started?

2. What is a small business incubator?

C. Help From the Internet—How might one use the Internet to help start a business?

II. Elements of Business Operation

A. Expenses

1. What types of expenses do businesses have?

2. How does an inventory help a business?

3. How does a business calculate profit?

B. Advertising—What reduces profits substantially at the startup of a business?

C. Record Keeping—Why must receipts be saved?

D. Risk—What types of risks are involved in a business?

GUIDED READING Activity 8-2

For use with textbook pages 213–217

SOLE PROPRIETORSHIPS AND PARTNERSHIPS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

- 1. What is a sole proprietorship?

- 2. Who is a proprietor?

- 3. What is the biggest advantage and disadvantage of a sole proprietorship?
Advantage: _____
Disadvantage: _____

- 4. Why can it be difficult to finance growth under a sole proprietorship?

- 5. What is a partnership ?

- 6. What are the advantages and disadvantages of management under a partnership?
Advantages: _____
Disadvantages: _____

- 7. How is a limited partnership different from a general partnership?

- 8. What is a joint venture?

GUIDED READING Activity 8-3

For use with the textbook pages 219–225

THE CORPORATE WORLD AND FRANCHISES

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

corporation articles of incorporation franchise partnership	stock corporate charter dividend taxes board of directors	limited liability stock fee sole proprietorship
--	--	---

Introduction/ Why Form a Corporation?

As a **1** _____, one keeps all the profits. In a **2** _____ the profits are shared with one or several people. In a **3** _____ profits are shared among thousands of shareholders.

What is a Corporation?

A **4** _____ is an organization owned by many people but treated by law as though it were a person. **5** _____ represents ownership rights to a certain portion of the profits and assets of the company issuing the stock. One of the major advantages of a corporation is **6** _____, which limits the responsibilities for the owner of the company. A major disadvantage of corporations is that they pay more **7** _____ than other businesses.

Corporate Structure

Corporations must register with the government, sell **8** _____, and elect a board of directors. When registering the corporation, one must file **9** _____, which lists the basic information of the company. If the articles are agreed to by the state, the state will issue the corporation a **10** _____—a license to operate from that state. Common **11** _____ gives an investor part ownership in a corporation. Yet, it does not guarantee a **12** _____—a money return on the investment. Preferred **13** _____ does not give one voting rights in a corporation, but it guarantees a certain amount of dividend each year. To become incorporated, a company must elect a **14** _____. The board is responsible for general supervision and control of the **15** _____.

Franchises

A **16** _____ is a contract in which a franchiser sells to another business the rights to use its name and sell its products. The person who buys these rights pays a **17** _____ that may include a percentage of all money taken in.

GUIDED READING Activity 9-1

For use with the textbook pages 233–237

STARTING A BUSINESS

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Market Structure

A. What is market structure? _____

B. What are the four basic market structures in the American economy?

II. Conditions of Perfect Competition

A. Introduction

1. What is perfect competition?

2. What are the five conditions that must exist for perfect competition?

B. No Control Over Price

1. When the conditions of perfect competition are working, what controls the price of goods and services?

2. In a perfectly competitive market, what is the market price?

C. Information Is Key—How has the Internet changed availability of information?

III. Agriculture as an Example

A. Introduction—In the United States, what industry comes close to perfect competition?

B. No Control Over Wheat Prices—Where is the equilibrium price of wheat set?

C. Unique Situation—Why is the supply of most agricultural markets unique?

IV. Benefits to Society—Why are perfectly competitive industries so efficient?

GUIDED READING Activity 9-2

For use with the textbook pages 239–246

MONOPOLY, OLIGOPOLY, AND MONOPOLISTIC COMPETITION

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

market price	barriers to entry	competition
copyright	oligopoly	monopoly
nonprice competition	cartel	patent
product differentiation	monopolistic competition	government
economies of scale		

Imperfect Competition

Perfect **1** _____ is the ideal type of market structure. However, most market structures represent imperfect competition. There are three types: **2** _____, oligopoly, and **3** _____.

Monopoly

The most extreme example of imperfect competition is the pure **4** _____, in which a single seller controls the supply of the goods and services. Characteristics of a monopoly include a single seller, no substitutes, no entry, and almost complete control of **5** _____. A monopoly is protected by **6** _____—obstacles that prevent others from entering the market. There are four types of monopolies: natural, geographical, technological, and **7** _____. The large size of most natural monopolies seem to give a company **8** _____—in which it can produce the largest amount for the lowest cost. A government **9** _____ gives one exclusive rights to manufacture, rent, or sell an invention for a specific period of time. A **10** _____ helps protect art, literature, song lyrics, and other works for 70 years.

Oligopoly

An **11** _____ is an industry dominated by several suppliers who exercise some control over the price. An oligopoly engages in **12** _____ in which advertising emphasizes minor differences and tries to build customer loyalty. **13** _____ is the real or perceived differences in the good or service that make it more valuable in the customer’s opinion. An international form of collusion is the **14** _____, in which businesses from different countries try to reduce international competition by controlling prices, productions, and distribution.

Monopolistic Competition

The most common form of market structure in the United States is **15** _____, where a large number of sellers offer similar but slightly different products.

GUIDED READING Activity 9-3

For use with textbook pages 248–253

GOVERNMENT POLICIES TOWARD COMPETITION

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What are interlocking directorates?

2. Why is the Sherman Antitrust Act important?

3. What is antitrust legislation?

4. What is the purpose of the Clayton Act?

5. What subjective decision must the federal government make related to the Clayton Act?

6. What are horizontal and vertical mergers?
 - a. horizontal merger:

 - b. vertical merger:

7. How is a conglomerate merger different than other mergers?

8. Why did the government begin to deregulate business activity in 1980s and 1990s?

GUIDED READING Activity 10-1

For use with the textbook pages 263–268

I NVESTING IN THE FREE ENTERPRISE SYSTEM

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is financing?

2. What do financial institutions do with money that depositors invest?

3. How does a cost-benefit analysis work?

4. How do profit and revenue differ?

5. What are examples of people intentionally and unintentionally financing investments?

Intentional:

Unintentional:

6. Why are financial resources scarce resources?

7. What are some methods in which one might pursue investment financing?

GUIDED READING Activity 10-2

For use with the textbook pages 270–275

TYPES OF FINANCING FOR BUSINESS OPERATIONS

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Three Kinds of Financing

A. Introduction—What are the three categories of debt-financing?

B. Short-term Financing

1. What is short-term financing?

2. Why do companies seek short-term financing?

C. Intermediate-Term Financing

1. How long is the borrowing period for intermediate-term financing?

2. What is a disadvantage of taking a long-term lease instead of a loan?

D. Long-Term Financing

1. How do companies finance debt that lasts from 10 to 15 years?

2. How can larger companies issues bonds more easily than smaller companies?

II. Choosing the Right Financing

A. Interest Costs—How do companies deal with high interest rates?

B. Financial Condition of the Company—What do financial managers use to determine if potential profits will cover the cost of financing expansion?

C. Market Climate—How might investors deal with a slow market economy?

D. Control of the Company—What is a large benefit of owning common stock?

GUIDED READING Activity 10-3

For use with the textbook pages 277–281

THE PRODUCTION PROCESS

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

inventory
scheduling
assembly line
technology
division of labor

capital goods
robotics
production
mechanization

automation
purchasing
quality control
consumer goods

Introduction/ Steps in Production Operations

1 _____ is the process of changing resources into goods that satisfy the needs and wants of individuals and other businesses. Companies may produce **2** _____, or goods sold directly to individuals to be used as they are. **3** _____ are goods used to make other goods. Planning or **4** _____ helps ensure that work will be finished on time. **5** _____ involves buying the necessary materials, machines, office supplies, and so on that businesses need to function. After goods are produced they must go through **6** _____ to inspect the quality of the product. The more **7** _____ a business has the less capital it has for other activities.

Technology and Methods of Production

8 _____ is the use of science to develop new products and new methods of producing and distributing goods. The five main advances that have most affected production are mechanization, **9** _____, division of labor, automation, and robotics. **10** _____ combines the labor of people and large power-driven machines. The **11** _____ is a production system in which the good being produced moves on a conveyor belt past workers who perform specialized tasks. With the **12** _____, each worker performs a different task. **13** _____ involves machines doing the work, while people oversee them. An assembly line controlled by a sophisticated computer is an example of **14** _____.

GUIDED READING Activity 11-1

For use with the textbook pages 289–294

T

HE CHANGING ROLE OF MARKETING

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

consumer sovereignty form utility test marketing	time utility advertising market survey	market research marketing utility product
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Introduction/The Development of Marketing

1 _____ involves all of the activities needed to move goods and services from the producer to the consumer. These activities include **2** _____, advertising and promotion, and distribution. The development of marketing can be traced by analyzing what it has focused on: production, sales, **3** _____, and consumer sovereignty. The recognition that the consumer is the ruler of the market is **4** _____. The ability of any good or service to satisfy consumer wants is its **5** _____. There are four major types of utility: **6** _____, place utility, **7** _____, and ownership utility.

Market Research

Through **8** _____ a company gathers, records, and analyzes data about the types of goods and services that people want. Some companies test their **9** _____ to make sure it is attracting the market segment for which the product is designed. Market research can be done at different stages of **10** _____ development. The first step in market research is performing a **11** _____, in which researchers gather information about who might be possible users of the product. By offering a product for sale in a small area before it goes national, companies are **12** _____ their product.

GUIDED READING Activity 11-2

For use with the textbook pages 296–300

THE MARKETING MIX

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Product

A. What does market research help determine?

B. Why is packaging important for selling a product?

C. What is the purpose of product identification?

II. Price

A. What is price leadership? _____

B. What is penetration pricing? _____

III. Place—Where are various places in which products can be sold?

IV. Promotion

A. Introduction—Why do companies use promotion?

B. Types of Promotion

1. The type of promotion a producer uses is based on what three factors?

2. What is direct-mail advertising?

V. Product Life Cycle

A. What is a product life cycle?

B. How do producers try to extend the life of old products?

GUIDED READING Activity 11-3

For use with the textbook pages 302–305

DISTRIBUTION CHANNELS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. How are most clothing and farm products sold?

2. Who are wholesalers?

3. What are three types of wholesalers?

- a. _____ wholesalers
- b. _____ wholesalers
- c. _____ wholesalers

4. How are drop shippers different from full-service wholesalers?

5. To whom do retailers sell products?

6. Where do e-commerce retailers do business?

7. What are normal qualifications to be a part of a club warehouse store?

8. How is most direct marketing done?

9. What can be the advantage of buying products through direct marketing?

GUIDED READING Activity 12-1

For use with the textbook pages 313–319

A AMERICANS AT WORK

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

civilian labor force service workers unskilled workers minimum wage law labor market	blue-collar workers white-collar workers semiskilled workers labor skill	professionals location skilled workers supply and demand market failure
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Introduction/The Civilian Labor Force

Everyone belongs to the productive resource known as **1** _____. The **2** _____ is the total number of people 16 years old or older who are either employed or actively seeking work.

Categories of Workers

3 _____ are employed in craft, manufacturing, and nonfarm labor. Office workers, salespeople, and doctors are examples of the largest sector of the labor force— **4** _____. **5** _____ are those who provide services directly to individuals. Jobs are also categorized by skill level. **6** _____ are workers with no specialized training. Those whose jobs require some training, often using modern technology, are known as **7** _____. Those with the most education and training are called **8** _____.

Supply and Demand in the Labor Market

The labor market, like other markets, is affected by the law of **9** _____. Three major factors affect how supply and demand determine wages in the **10** _____. The first is **11** _____, which is the ability a person brings to a job. The type of job and the **12** _____ of both the job and worker also help determine wages. Economists call a lack of information about wages a **13** _____. The **14** _____ sets the lowest legal hourly wage rate that may be paid to certain types of workers.

GUIDED READING Activity 12-2

For use with the textbook pages 321–326

ORGANIZED LABOR

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. Why do workers organize into labor unions?

2. What idea are labor unions based on?

3. In the 1800s, how did businesses try to stop labor unions?

4. What is the purpose of a strike?

5. How are craft and industrial unions organized?

Craft unions:

Industrial Unions:

6. Why did the AFL and CIO merge in the mid-1950s?

7. In 1947, what did the Taft-Hartley Act outlaw?

8. How are a union shop and agency shop different?

9. How do right-to-work laws weaken the power of unions?

GUIDED READING Activity 12-3

For use with the textbook pages 328–333

COLLECTIVE BARGAINING

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Negotiations

A. Introduction

1. When do negotiations take place?

2. What types of things do labor and management negotiate?

B. Mediation—Why is mediation sometimes necessary in negotiations?

C. Arbitration—How does arbitration work?

II. Strikes and Management

A. Introduction

1. What is the purpose of picketing?

2. What is a boycott?

B. Lockouts—How do companies use lockouts?

C. Injunctions—What is an injunction?

III. Decline of Unions

A. Introduction—Why has collective bargaining decreased over the years?

B. Critics—What have been the criticisms of the labor movement?

GUIDED READING Activity 13-1

For use with the textbook pages 343–348

NATIONAL INCOME ACCOUNTING

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

national income accounting	gross domestic product (GDP)	net exports
depreciation	net domestic product (NDP)	national income (NI)
personal income (PI)	transfer payments	disposable personal income (DI)
dollar	double counting	consumer sector

Introduction/National Income Accounting

1 _____ is a way of measuring the economy's overall output and income. Five major factors measure the economy including **2** _____, net domestic product, national income, personal income, and **3** _____.

Measuring Gross Domestic Product

4 _____ is the total dollar value of all final goods and services produced in the nation during a single year. Economists always use the **5** _____ to measure GDP. Measuring the economy's performance means that only the final value of goods and services is counted to avoid **6** _____. To compute the total amount of GDP, economists add the expenditures of four categories: the **7** _____, the investment sector, the government sector, and **8** _____, or the difference between what the nation exports and imports.

Net Domestic Product

The loss of value because of wear and tear to durable goods is called **9** _____. **10** _____ takes GDP and subtracts the total loss in value of capital goods caused by depreciation.

Measurements of Income

The total amount of income earned by everyone in the economy is called **11** _____, while the amount of income individuals receive before personal taxes is known as **12** _____. PI can be derived from NI by subtracting corporate income taxes, profits that businesses reinvest, and Social Security contributions. Next, **13** _____ such as welfare payments and other assistance payments are added to PI. The income that people have left after taxes, including Social Security contributions, is called **14** _____.

GUIDED READING Activity 13-2

For use with the textbook pages 350–354

CORRECTING STATISTICS FOR INFLATION

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is inflation?

2. What is a dollar's purchasing power?

3. How does a drop in the dollar's purchasing power affect GDP?

4. How are deflation and inflation similar and different?

Similarities:

Differences:

5. What does the consumer price index (CPI) measure?

6. What categories are included in the market basket?

7. Why is it important to measure CPI using a base year?

8. How does the producer price index (PPI) differ from CPI?

9. How is real GDP calculated?

10. Why are there problems with using indexes to measure the economy?

GUIDED READING Activity 13-3

For use with the textbook pages 356–359

AGGREGATE SUPPLY AND DEMAND

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. When economists look at the economy as a whole, what are they looking at?

2. What is aggregate demand?

3. Why does aggregate demand have to be related to the price level, or the total average of all the prices as measured by a price index?

4. How are the aggregate demand curve and individual demand curve similar?

5. What are the two reasons there is an inverse relation shown on the aggregate demand curve?
 - a. _____
 - b. _____
6. What is aggregate supply?

7. What does the aggregate supply curve graph?

8. What happens at the intersection of the aggregate demand and aggregate supply curves?

GUIDED READING Activity 13-4

For use with the textbook pages 360–363

B BUSINESS FLUCTUATIONS

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

recession business cycle contraction recovery	business fluctuations trough peak	boom expansion depression
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Introduction/Model of the Business Cycle

The ups and downs in an economy are known as **1** _____. These ups and downs can be associated with the **2** _____—changes in the level of total output measured by real GDP.

Model of the Business Cycle

A business cycle begins with growth leading to an economic **3** _____ or **4** _____—a period of prosperity. When real GDP levels off, a decline or **5** _____ of the economy begins to happen. If a contraction lasts long enough, the economy can fall into a **6** _____, where the real GDP does not grow for at least six months. If a recession becomes extremely bad, it may lead to a **7** _____, which leads to millions of people out of work, numerous business failures, and an economy operating far below capacity. However, the downward movement of the economy levels off in a **8** _____—the lowest point in the business cycle. Increased economic activity that follows is called an **9** _____ or **10** _____. The recovery happens until the economy hits another **11** _____ and a new cycle occurs.

Ups and Downs of Business

In the real world, the **12** _____ is not regular. The largest drop in the economy resulted in a **13** _____, following the stock market crash in October 1929. The stock market crash in 1929 caused a serious **14** _____, leading to the layoffs of millions of workers and numerous business and bank failings. A general rise in the economy climaxed with a **15** _____ after World War II. Since World War II, the United States has gone through recessions, but no serious **16** _____ has occurred.

GUIDED READING Activity 13-5

For use with the textbook pages 364–367

CAUSES AND INDICATORS OF BUSINESS FLUCTUATIONS

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Causes of Business Fluctuations

A. Introduction—Today, to what do economists link business fluctuations?

B. Business Investment

1. What do businesses and producers do when there is anticipated downturn in the economy?

a. business: _____

b. producers: _____

2. How do innovations affect the economy?

C. Government Activity—How does the government affect business activity?

D. External Factors—What external factors can influence the nation's economy?

E. Psychological Factors—How do psychological factors affect spending and saving?

II. Economic Indicators

A. Introduction

1. What are economic indicators?

2. Why do economists use economic indicators?

B. Leading Indicators—What are leading indicators?

C. Coincident Indicators—What does the downswing in coincident indicators signal?

D. Lagging Indicators—What purpose do lagging indicators serve?

GUIDED READING Activity 14-1

For use with the textbook pages 375–379

THE FUNCTIONS AND CHARACTERISTICS OF MONEY

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

fiat money	money	exchange
barter	unit of accounting	store of value
commodity money	representative money	legal tender
transaction	dollar	

Introduction/The Functions of Money

In the American economy, **1** _____ usually involves money in return for goods and services. Anything that is used as a medium of exchange, a **2** _____, and a store of value is considered **3** _____. Money is a medium of **4** _____ because a seller will accept it in exchange for a good or service. If money did not exist, people would have to **5** _____, or exchange goods and services for other goods and services. For bartering to work, each party to a **6** _____ must want exactly what the other person has to offer. Money that is used to compare the values of goods and services in relation to one another is a **7** _____. In the United States, the base unit of value is the **8** _____. Money also serves as a **9** _____, where it is held for later purchases.

Characteristics of Money

Anything that people are willing to accept in exchange for goods and services can be considered **10** _____. Cattle, salt, gems, and even tobacco have served as mediums of **11** _____ during various times in history.

Types of Money

Mediums of exchange that have value as a commodity or good, aside from their value as money are called **12** _____. In the past, the United States government issued **13** _____, which was redeemable for silver and gold certificates. In today's society all money is **14** _____, meaning that its face value occurs through a government order. This makes it **15** _____ — money that by law must be accepted for payment of public or private debts.

GUIDED READING Activity 14-2

For use with the textbook pages 381–385

HISTORY OF AMERICAN MONEY AND BANKING

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. History of American Banking

A. Introduction

1. How were ways in which colonial Americans conducted business?

2. Why did Continentals become worthless?

3. In order to establish a stable currency, what did the Constitution give Congress the power to do?

II. Banking Services

A. Introduction

1. What types of banking services do banks and savings institutions offer?

2. What does overdraft checking allow?

III. Electronic Banking

A. Introduction

1. What type of system is the electronic funds transfer (EFT)?

2. Why is the automated teller machine so useful?

B. EFT Concerns

1. What is the danger of EFT?

2. What government law gives customers who use EFT some protection?

GUIDED READING Activity 14-3

For use with textbook pages 387–391

TYPES OF MONEY IN THE UNITED STATES

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What are token coins?

2. Which bureau is responsible for minting coins?

3. Which section of the Treasury Department prints Federal Reserve notes?

4. Why did the Treasury Department stop printing bills larger than \$100?

5. What is a checking account?

6. Why did checkable deposits used to be called demand deposits?

7. What are some examples of thrift institutions?

8. What is the difference between a credit and debit card?

Credit card:

Debit card:

9. What are near moneys?

10. In calculating the money supply of the United States, what are M1 and M2?

M1: _____

M2: _____

GUIDED READING Activity 15-1

For use with the textbook pages 399–405

ORGANIZATION AND FUNCTIONS OF THE FEDERAL RESERVE SYSTEM

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Organization of the Federal Reserve System

A. Introduction

1. What is the Federal Reserve System?

2. What is the Fed?

3. How does monetary policy affect businesses?

B. Board of Governors—Whom does the Board of Governors supervise and regulate?

C. Federal Advisory Council—What is the responsibility of the Federal Advisory Council?

D. Federal Open Market Committee—What large economic decision does the Federal Open Market Committee make?

E. Federal Reserve Banks—How are the Federal Reserve Banks organized?

F. Member Banks—Who is required to become a member of the Federal Reserve System?

II. The Functions of the Federal Reserve System

A. Introduction—What are some of the main functions of the Federal Reserve?

B. Consumer Protection—How does the Fed protect consumers?

GUIDED READING Activity 15-2

For use with the textbook pages 407–410

MONEY SUPPLY AND THE ECONOMY

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is monetary policy?

2. What happens to the quantity demanded for credit if the cost of borrowing increases or decreases?

Increases:

Decreases:

3. What happens if the Fed has a loose money policy?

4. What happens if the Fed has a tight money policy?

5. Why would a nation implement a loose money policy or a tight money policy?

Loose money policy:

Tight money policy:

6. What are reserve requirements for banks?

7. How do banks make new money with the money left over after the reserve requirement is met?

GUIDED READING Activity 15-3

For use with textbook pages 412–417

R

EGULATING THE MONEY SUPPLY

FILLING IN THE BLANKS

Directions Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

discount rate	prime rate	securities
federal funds rate	open-market operations	money supply
economy	Federal Reserve	deposits
reserve requirement	interest rates	loans
Treasury bills	M1	
economy		

Introduction/Changing Reserve Requirements

The main goal of the Federal Reserve is to keep the **1** _____ growing steadily and the **2** _____ running smoothly without inflation. The **3** _____ can control the money supply by changing the reserve requirements of financial institutions. The lower the percentage of **4** _____ that must be kept in reserve the more dollars available to loan. The Fed may also raise the **5** _____ for individual banks.

Changing the Discount Rate

If a bank finds itself without enough reserves to meet its reserve requirements, it can make a loan from a **6** _____ district bank. The rate of interest the Fed charges its member banks is called the **7** _____. If the discount rate is high member banks may pass along the increased costs to its customers in the form of higher **8** _____. For example, it might raise its **9** _____—the interest rate it charges its best business customers. The interest rate the Fed changes to regulate monetary policy is the **10** _____, or the interest rate that banks charge each other. If the Fed lowers the federal funds rate, banks will borrow more, making more **11** _____.

Open-Market Operations

The Fed buys and sells government securities, called **12** _____, in order to control the money supply. The term open market is used because these **13** _____ are bought and sold in the open market through dealers who specialize in buying and selling government securities. If the Fed buys **14** _____ for example, it pays for them by making a deposit to the reserve account of the security's dealer's bank. This deposit increases the bank's reserves and thus the amount of money it can lend, increasing the **15** _____. When the Fed sells securities, the dealer's banks must use its reserves to purchase the **16** _____. This leaves less money available for lending, decreasing the money supply.

Difficulties of Monetary Policy

One difficulty in regulating monetary policy is gathering and evaluating information about **17** _____ and M2. The Fed has often been criticized for its **18** _____.

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GUIDED READING Activity 16-1

For use with the textbook pages 423–427

GROWTH IN THE SIZE OF GOVERNMENT

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. At what levels is the government involved in the economy?

2. Why has the number of government workers grown so much over the years?

3. What are some areas of the economy on which the government has an affect?

4. What are public-works projects?

5. Why has the government continued to grow since World War II?

6. How can one figure total government outlays?

7. What is Medicare?

8. How does increased government activity affect private economic decisions?

GUIDED READING Activity 16-2

For use with the textbook pages 429–433

THE FUNCTIONS OF GOVERNMENT

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

merit goods	market solutions	social insurance programs
income redistribution	public goods	welfare
Supplemental Security Income	demerit goods	goods and services
workers' compensation	Temporary Assistance for Needy Families	Social Security
externalities	Medicaid	recessions
unemployment	redistribution	

Introduction/Providing Public Goods

1 _____, such as national defense and state parks, are a special type of goods or services that government tries to supply to its citizens. **2** _____ are those that are deemed socially desirable by government leaders. However, things such as gambling are considered **3** _____.

Redistributing Income

The task of making certain that everyone in the nation has a minimum level of income or health-care support is called **4** _____. Some money we earn goes to **5** _____—programs that pay benefits to retired and disabled workers, their families, and the unemployed. For example, **6** _____ provides monthly payments to people who are retired or unable to work. **7** _____, a state program provides payments for medical care to workers injured on the job. Public-assistance programs, or **8** _____, make payments based on need, regardless of whether a person has paid taxes. **9** _____ is a federal financed and administered program that makes payments to the aged, blind, and disabled, while **10** _____ is a state-operated program for needy families raising young children. **11** _____ is a state and federal program that helps pay health-care costs for low-income or disabled persons.

Regulating Economic Activity/Ensuring Economic Stability

The federal government stopping steel mills from polluting the air is an example of government trying to avoid negative **12** _____. The government intervenes to maintain economic stability by attempting to protect citizens from business fluctuations, such as **13** _____, high inflation, **14** _____, and even depressions.

Critics of Government Involvement

Opponents of **15** _____ programs think that most government assistance programs discourage personal initiative, and affect incentives and self-development. They also argue that most government regulations raise the prices of **16** _____. Some believe that the government should allow **17** _____ to solve problems in the economy.

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GUIDED READING Activity 16-3

For use with the textbook pages 435–439

THE FEDERAL BUDGET AND THE NATIONAL DEBT

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. The Budget Making Process

A. Introduction—Where does the budget-making process happen?

B. The Federal Budget

1. Who prepares the tentative budget for each fiscal year?

2. How does the budget flow through Congress?

3. How does the government operate if the budget is not passed on time?

II. Deficit Spending and the National Debt

A. Introduction

1. What is a budget deficit?

2. How does the government operate with a budget deficit?

B. Government Borrowing

1. How does the government borrow money?

2. What is the national debt?

3. What is a budget surplus?

GUIDED READING Activity 16-4

For use with the textbook pages 440–443

TAXATION

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. Under what two principles are taxes usually justified?
 - a. _____
 - b. _____
2. What is the benefits-received principle?

3. What is the ability-to-pay-principle?

4. What is a proportional tax?

5. How is a progressive tax calculated? What principle is it based on?

6. What is a good example of a progressive tax?

7. What is a regressive tax? What do some economists consider a regressive tax?

GUIDED READING Activity 17-1

For use with the textbook pages 451–455

U

NEMPLOYMENT AND INFLATION

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

stabilization policies	unemployment rate	full employment
underground economy	demand-pull inflation	stagflation
cost-push inflation	fiscal	policies
inflation	frictional unemployment	interest rates

Introduction/ Measuring Unemployment

To keep the economy stable and healthy, the federal government uses monetary and **1** _____. Together these force are known as **2** _____; however, they are not always successful in solving the economy's problems. Two of the biggest threats to the nation's economy are high unemployment and **3** _____. Economists use statistics such as the **4** _____, or the percentage of civilian laborers without a job but looking for work, to judge the economy. Maintaining a low unemployment rate is a major goal in stabilizing the **5** _____. There are different types of unemployment including cyclical, structural, seasonal, and **6** _____. Most economists consider the economy at **7** _____ when less than 5 percent of the population is unemployed. Survey results of unemployment can be wrong due to many factors including the **8** _____, when people do not follow federal and state laws with respect to reporting earnings.

Inflation

A second major problem with the economy can be **9** _____ or the unpredictable rising of prices. Consumers and businesses will often borrow less during times of inflation, because of high **10** _____. The theory of **11** _____ states that prices rise as the result of excessive business and consumer demand. The theory of **12** _____ also indicates that inflation usually happens only when there is full employment in the economy. However, rising prices and unemployment can happen at the same time. This leads to **13** _____—the combination of inflation and low economic activity. The theory of **14** _____ states that the wage demands of labor unions and the excessive profit motive of large corporations pushes prices up. During periods of cost-push inflation, **15** _____ can also remain high.

GUIDED READING Activity 17-2

For use with the textbook pages 457–460

THE FISCAL POLICY APPROACH TO STABILIZATION

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. John Maynard Keynes

A. Introduction

1. What is fiscal policy?

2. What did John Maynard Keynes believe about serious recessions?

II. The Circular Flow of Income

A. Introduction

1. How does the circular flow of income work?

2. What are examples of economics leakages and injections of the economy?

a. Leakages:

b. Injections:

III. Fiscal Policy and Unemployment

A. Introduction

1. How do some public officials propose to reduce unemployment?

2. How can the government use taxes to help the economy?

IV. Fiscal Policy and Inflation

A. Introduction—How do fiscal-policy supporters believe inflation can be controlled?

GUIDED READING Activity 17-3

For use with the textbook pages 462–465

MONETARISM AND THE ECONOMY

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is monetarism?

2. What do monetarists such as Milton Friedman believe the Fed should do each year?

3. How do monetarists view the government's use of fiscal policy?

4. Why do monetarists believe the government should balance the federal budget?

5. What is the monetary rule?

6. What two reasons account for monetarists believing that the theory of fiscal policy never matches the reality of fiscal policy?
 - a. _____
 - b. _____

GUIDED READING Activity 18-1

For use with the textbook pages 473–477

THE BENEFITS OF WORLD TRADE

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. How important are imports and exports to the United States economy?

Imports:

Exports:

2. Why do nations benefit from world trade?

3. What factors support the high-tech economy of the United States?

4. What is absolute advantage?

5. How does specialization work to determine imports and exports?

6. What is a comparative advantage?

7. When does the principle of comparative advantage benefit two trading countries?

GUIDED READING Activity 18-2

For use with the textbook pages 479–484

FINANCING WORLD TRADE

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Introduction

A. What is the exchange rate?

B. What is the purpose of foreign exchange markets?

II. Fixed Exchange Rates

A. What is a fixed rate of exchange?

B. What were the advantages of a fixed rate of exchange?

C. What is devaluation?

D. Why did fixed exchange rates prove to be impractical?

III. Flexible Exchange Rates

A. What forces are at work to set the price of various currencies today?

B. What is depreciation of a nation's currency?

C. How does political or economic instability affect a nation's currency?

IV. Balance of Trade

A. What is a balance of trade? _____

B. When does a positive trade balance exist? _____

C. What is a trade deficit? _____

D. How has the trade deficit benefited the United States?

GUIDED READING Activity 18-3

For use with the textbook pages 486–489

R

RESTRICTIONS ON WORLD TRADE

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

embargo	revenue tariff	protectionists
protective tariff	General Agreement on Tariffs and Trade (GATT)	tariff
barriers	import quota	World Trade Organization (WTO)
quota system	national economic security	imports and exports
comparative advantage	North American Free Trade Agreement (NAFTA)	European Union (EU)

Introduction/Three Ways to Restrict Imports

There are three major barriers to world trade: the **1** _____, the quota, and the embargo. A **2** _____ is used primarily to raise income without restricting imports. While a **3** _____ is designed to raise the cost of imported goods and thereby protect domestic products. An alternative method for restricting imports is the **4** _____. An **5** _____ restricts the number of units of a particular good that can be brought into the country. An **6** _____ is a complete restriction on the import or export of a particular good.

Arguments Against Free Trade

Since World War II, the trend has been to relax **7** _____ to world trade. However, **8** _____ want trade restrictions, based on the arguments of job security, **9** _____, and the protection of new industries.

Arguments for Free Trade

People who want free trade believe that **10** _____ should not be restricted. The three main arguments for free trade are improved products, export industries, and specialization and **11** _____.

Trade Agreements

Under the **12** _____, countries met to negotiate tariff reductions that were advantageous to all members. The **13** _____ replaced GATT; it constitutes the most far-reaching global trade agreement in history. The **14** _____ increased trade between the United States, Mexico, and Canada. Yet, under the **15** _____, many countries in Europe eliminated most restrictions on trade and began putting into place a common currency.

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GUIDED READING Activity 19-1

For use with the textbook pages 497–501

COMPARING CAPITALISM AND SOCIALISM

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Pure Market Capitalism

A. In its purest form, what is the basis of capitalism?

B. What types of services are provided by government in a pure capitalist system?

II. Pure Socialism

A. Introduction—What is pure socialism?

B. The Marxian View of Socialism

1. How did Marx view history? _____

2. How were workers exploited according to Marx's theories?

3. According to the Marxian view, what is communism?

C. Socialism Since Marx—What are democratic and authoritarian socialism?

democratic socialism: _____

authoritarian socialism: _____

III. The Benefits of Capitalism

A. Introduction

1. What ideals do people who favor capitalism believe in?

2. What do supporters of capitalism believe the system accounts for?

B. All Economies Are Planned

1. Who does the economic planning under capitalism and socialism?

a. capitalism: _____

b. socialism: _____

2. What problems does capitalism have according to its critics?

GUIDED READING Activity 19-2

For use with the textbook pages 503–506

CHANGING AUTHORITARIAN SOCIALISM— THE CASE OF CHINA

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. How did China change its economic system in 1957?

2. How did overall farm production increase from 1979 to 1984 in China?

3. What changes occurred in production during the mid-1980s?

4. What problems still exist in China today?

5. How are farmers limited by incomplete property rights?

6. How do the army and government seek to control foreign investors?

7. How has the Chinese government dealt with the issue of piracy?

8. What is the World Trade Organization (WTO)?

9. In general, how did China’s membership in the WTO help its society?

GUIDED READING Activity 19-3

For use with the textbook pages 508–511

NATIONS MOVE TOWARD THE MARKET SYSTEM

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is the meaning of privatization?

2. Who owns newly privatized businesses?

3. Why do some workers resist privatization?

4. How are prices in Russia currently set?

5. Why did Russia fall into a serious decline in 1998?
 - a. _____
 - b. _____
 - c. _____
6. Why is Sweden labeled a welfare state?

7. What laws has Sweden passed to ensure full employment?
 - a. _____
 - b. _____
8. How do most economic systems operate in Latin America?

9. What factor has made privatization difficult in many Latin American countries?

GUIDED READING Activity 20-1

For use with the textbook pages 517–521

CHARACTERISTICS OF DEVELOPING NATIONS

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

- I. Developed vs. Developing Nations
 - A. What constitutes a developed nation?

 - B. How would one describe a developing nation?

- II. Economic Characteristics
 - A. Introduction—What do economists use as a rough measure of a nation’s prosperity?

 - B. Low GDP—What do developing nations most often lack?

 - C. Agricultural Economy—What is subsistence farming?

 - D. Poor Health Conditions—Why is the infant mortality rate so high in developing countries?

 - E. Low Literacy Rate—What factors contribute to the low literacy rate among developing nations?

 - F. Rapid Population Growth—What additional problems can rapid population growth cause?

- III. Weak Property Rights—How do governments in developing nations often deal with property rights?

GUIDED READING Activity 20-2

For use with the textbook pages 522–528

THE PROCESS OF ECONOMIC DEVELOPMENT

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

nationalization	military assistance	foreign aid
economic assistance	technical assistance	agricultural stage
manufacturing stage	service sector	developing nations
capital	raw materials	industrial nations
U.S. Agency for International Development	United Nations	humanitarianism
national security		

Introduction/ Financing Economic Development

Most nations pass through three stages of economic development; the first stage is the

1 _____, when most of the population is farming. The second stage is the **2** _____, when much of the population works for companies and factories. The last stage is when a nation shifts to the **3** _____—sales, food service, repair work, and computer and Internet services. Most **4** _____ are still in the agricultural phase of economic development. Many developing nations look for outside sources for investment **5** _____. Two major sources of outside financing are investment by foreign businesses and **6** _____. Investors are attracted to developing countries because of low wages, few regulations, and **7** _____. There are risks involved as well, such as political instability and **8** _____, where a firm’s owner is forced out of the country. **9** _____ is the money, goods, and services given by governments and private organizations to help other nations. Loans and outright grants of money compose **10** _____. **11** _____ includes providing professionals such as engineers, teachers, technicians, and consultants to teach skills. The last type of assistance is **12** _____ in which economic or technical assistance is given to a nation’s armed forces.

Who Supplies Foreign Aid?/ Reasons for Giving Foreign Aid

Many **13** _____ give foreign aid including the United States, France, Great Britain, Germany, and Japan. The United States gives much of its foreign aid through the **14** _____. Funds are also channeled through the **15** _____ agencies, such as the World Bank. **16** _____, or the relief of human suffering, is the basis for some foreign aid. Yet, nations also give aid for their own self interest as well, including economic, political, and **17** _____ reasons.

GUIDED READING Activity 20-3

For use with the textbook pages 529–532

OBSTACLES TO GROWTH IN DEVELOPING NATIONS

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Four Obstacles to Growth

A. Introduction—What is a government bureaucracy?

B. Attitudes and Beliefs—How might innovations be viewed by people in developing nations?

C. Continued Rapid Population Growth—How is per capita GDP affected by population growth?

D. Misuse of Resources—What is capital flight?

E. Trade Restrictions—How have trade restrictions hurt developing nations?

II. Case Study: Indonesia

A. Introduction—What hindered Indonesia’s economic development?

a. _____

b. _____

c. _____

B. Lessons Learned—What lessons can be learned from Indonesia’s failure?

a. _____

b. _____

c. _____

GUIDED READING Activity 20-4

For use with the textbook pages 534–537

I INDUSTRIALIZATION AND THE FUTURE

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What is the normal cause of a high standard of living?

2. What are the four main problems with rapid industrialization?
 - a. _____
 - b. _____
 - c. _____
 - d. _____

3. What types of investments are unwise for nations to make?

4. Why is it important not to rush through the stages of industrialization?

5. What are some factors that influence economic development?
 - a. _____
 - b. _____
 - c. _____

6. How can a vicious cycle of poverty be described?

7. Why might entrepreneurs not take risks in a developing nation?

8. What is the purpose of developed and developing nations cooperating?

9. What suggestions have been made to make global wealth more equal?

GUIDED READING Activity 21-1

For use with the textbook pages 543–546

REASONS FOR AND RESULTS OF GLOBAL INTEGRATION

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Improved Telecommunications

A. What is global integration?

B. What is telecommunications?

C. What devices have helped improve telecommunications around the world?

D. How has telecommunications affected product sales?

II. The Globalization of Financial Markets

A. Introduction

1. What has resulted due to the power of computers and the affordability of telecommunications?

2. What happened after globalization began in the 1970s and 1980s?

3. What types of assets are sold worldwide?

B. Problems with the Worldwide Stock Market

1. What are some primary and secondary problems that can arise when the stock market is linked worldwide?

Primary:

a. _____

Secondary:

a. _____

b. _____

GUIDED READING Activity 21-2

For use with the textbook pages 548–551

DIRECT FOREIGN INVESTMENT—SHOULD WE BE WORRIED?

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. Who was the largest investor in the American railroads in the late 1800s?

2. Which country owed the most money to foreign lenders at the start of World War I?

3. What is direct foreign investment?

4. How do political problems around the world affect foreign investment in the United States? Why?

5. Why are some people worried about direct foreign investment in the United States?
 - a. _____
 - b. _____
6. Why do economists not worry about foreign investors taking control of the United States?

7. How does the United States government have control over foreign investors?

8. What is economic imperialism?

9. Why do some believe that the United States should encourage direct investment and debt purchases by foreigners?

GUIDED READING Activity 21-3

For use with the textbook pages 553–557

M

ULTINATIONALS AND ECONOMIC COMPETITION

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

domestic sales multinationals alliances multicultural geographical	Europe Great Britain foreign affiliates globalization	productive assets joint ventures regional diversity
--	--	--

Introduction/ The Size and Number of Multinationals

Much international investing is undertaken by **1** _____, firms that do business or have offices or factories in many countries. Multinationals usually set up operations on a regional basis, often forming **2** _____ in the process. By the late 1990s, there were nearly 63,000 multinationals with about 690,000 **3** _____, or branches of their firms. The top 100 multinationals account for about 15 percent of all **4** _____. Today many countries have multinational companies, it is no longer dominated by the United States and **5** _____.

Regional Cross-Border Investments

Most multinational companies do not invest all over the world, but at the **6** _____ level. The most appropriate way to look at patterns of direct investment is to include **7** _____ as a part of regional sales. For example, European firms principally invest in western **8** _____.

Beyond Multinationals—Alliances

In addition to multinational direct investments in other countries, firms in different countries are forming **9** _____. These might be **10** _____ or licensing deals. Alliances can be seen as each firm’s acceptance of its own limitations, such as financial, technological, or **11** _____.

The Global Village and Tolerance

One of the results of **12** _____ is increased immigration. The United States has truly become a **13** _____ society because of immigration. This **14** _____ means the need for more tolerance and open-mindedness in today’s society is more important than it ever has been.

GUIDED READING Activity 22-1

For use with the textbook pages 565–569

THE GROWTH OF E-COMMERCE

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

Web site	e-commerce	frequency marketing
Microchip	cybernomics	Internet
World Wide Web	competition	buyer
market	comparison shopping	virtual communities
digital age	consumers	

Introduction/ Business on the Internet

The invention that brought us the **1** _____ helps institutions manage information. The **2** _____, or integrated circuit, is one of the most remarkable inventions of our lifetime. Some economists believe that we have entered the age of **3** _____—economics driven by a huge digital machine, the **4** _____. Today, many business transactions are done on the **5** _____—a network of computers that enables people everywhere to access and exchange information. The store of information on the **6** _____—the most popular use of the Internet—has grown immensely in the amount of information available. The number of **7** _____, or electronic locations on the World Wide Web has also grown rapidly in recent years. The Internet provides businesses in particular with the opportunity to directly reach suppliers and **8** _____. Some are calling **9** _____ the most sweeping transformation of the corporate landscape in years. **10** _____ involving e-commerce is fierce because the **11** _____ and the competitors encompass the whole world.

The Customer Wins/A Marketing Revolution

Customers using e-commerce can easily do **12** _____ without having to drive from place to place. Today, the **13** _____ not the seller, is empowered to save time and money. Computers help serve consumers through **14** _____, or marketing directed by stored information about the frequency of a customer’s use of a product. People around the world are also assembling in **15** _____. This allows businesses to serve the interests and needs of consumers more effectively and with a personal touch.

GUIDED READING Activity 22-2

For use with textbook pages 571–574

A NEW ECONOMY?

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions.

1. What are four inventions in telecommunications?

2. What is the Information Age?

3. How would one describe the “knowledge economy” and “weightless economy”?

4. What are the differences between knowledge products and other products?
 - a. _____
 - b. _____
 - c. _____
5. Why do some leading economists not consider the Information Age to be revolutionary?

6. How do economists traditionally explain the output of an economy?

7. Why did Joseph Shumpeter suggest that a normal economy would never be in equilibrium?

GUIDED READING Activity 22-3

For use with textbook pages 576–579

I SSUES IN CYBERNOMICS

OUTLINING

Directions: Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

I. Ensuring Safe Internet Trade

A. Introduction—How has the Internet reduced the entry cost for companies willing to sell goods online?

B. Securities Online

1. How has the Internet made buying and selling securities more accessible?

C. Day Trading

1. What is day trading?

2. In relation to buying and selling online, what must the federal government keep in balance?

II. Protecting Intellectual Property

A. Introduction—What is intellectual property? _____

B. Digital Rights Movement—What is being done to stop illegal copies of material from being published on the Internet?

III. Protecting Consumer Privacy

A. How has the computer invaded people’s privacy? _____

B. What are consumer-credit laws?

IV. Developing Nations

A. What type of nation has the advantage in cybernomics?

B. Why is distance education important to developing nations?

C. In relation to our cybernomic future, what does the Information Age provide us with?
