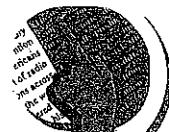


Section 1: Guided Reading and Review

Scarcity and the Factors of Production



A. As You Read

As you read Section 1, supply in the space provided an explanation an economist might give showing why each statement is true.

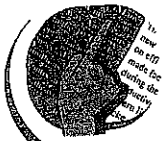
Statement	Explanation
1. People must make choices to satisfy their needs and wants.	1. _____ _____
2. Scarcity always exists.	2. _____ _____
3. Physical capital is an important factor of production.	3. _____ _____
4. All goods and services are scarce.	4. _____ _____
5. Entrepreneurs are important to the production of goods and services.	5. _____ _____

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

6. A CD player is a _____ rather than a need because it is not necessary to survival.
7. The study of how people seek to meet their needs and wants by making choices is _____.
8. Persons who perform such actions as cutting hair or teaching school are providing _____.
9. When producers will not or cannot offer goods and services at current prices, a _____ occurs.
10. Land, labor, and capital make up the _____.
11. When people make resources for producing other goods and services they are creating _____.
12. The term _____ refers to water, forests, and all other natural resources used to produce goods and services.
13. The two categories of capital are physical and _____.
14. Factories, machinery, and pencils are all examples of _____ capital.
15. Leaders who take risks to develop original ideas and start new industries are called _____.

© Pearson Education, Inc.



Section 2: Guided Reading and Review

Opportunity Cost

A. As You Read

As you read Section 2, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: Trade-offs are alternatives that people give up when they choose one course of action over another.

1. Who makes trade-offs? _____
2. Why do decisions involve trade-offs? _____

Main Idea: Opportunity cost is the most desirable alternative given up as the result of a decision.

3. How does opportunity cost vary? _____
4. Why does opportunity cost vary? _____

Main Idea: Deciding whether to do or use one more or one less unit of some resource is thinking at the margin.

5. What does thinking at the margin help with? _____
6. What does thinking at the margin help compare? _____

B. Reviewing Key Terms

Answer each of the following questions.

7. In what way are trade-offs and opportunity costs alike?

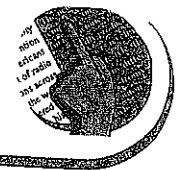
8. How does an opportunity cost differ from a trade-off?

9. What are "guns or butter" decisions?

10. How does thinking at the margin change the decision-making process?

Section 3: Guided Reading and Review

Production Possibilities Curves



A. As You Read

As you read Section 3, complete the chart by indicating where on a production possibilities curve the following information is shown.

Reading a Production Possibilities Curve

1. Categories or specific goods or services to be compared

2. Range of choices in the combination of goods or services produced

3. Production possibilities frontier

4. An economy working at its most efficient production levels

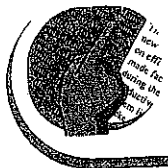
5. An economy working below its most efficient production levels

6. Future production possibilities frontier if more land, labor, or capital resources become available

B. Reviewing Key Terms

Define the following terms.

7. production possibilities curve _____
8. production possibilities frontier _____
9. efficiency _____
10. underutilization _____
11. cost _____
12. law of increasing costs _____



Section 1: Guided Reading and Review

Answering the Three Economic Questions

A. As You Read

As you read Section 1, supply the missing information about economic systems in the spaces provided.

1. Three economic questions answered:

- (a) _____
- (b) _____
- (c) _____

2. Economic concept necessitating choices and priorities in any society:

3. Economic question answered by basic social values and goals:

4. Five basic economic goals guiding society's choice of systems:

- (a) _____
- (b) _____
- (c) _____
- (d) _____
- (e) _____

5. Four main kinds of economies:

- (a) _____ (c) _____
- (b) _____ (d) _____

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

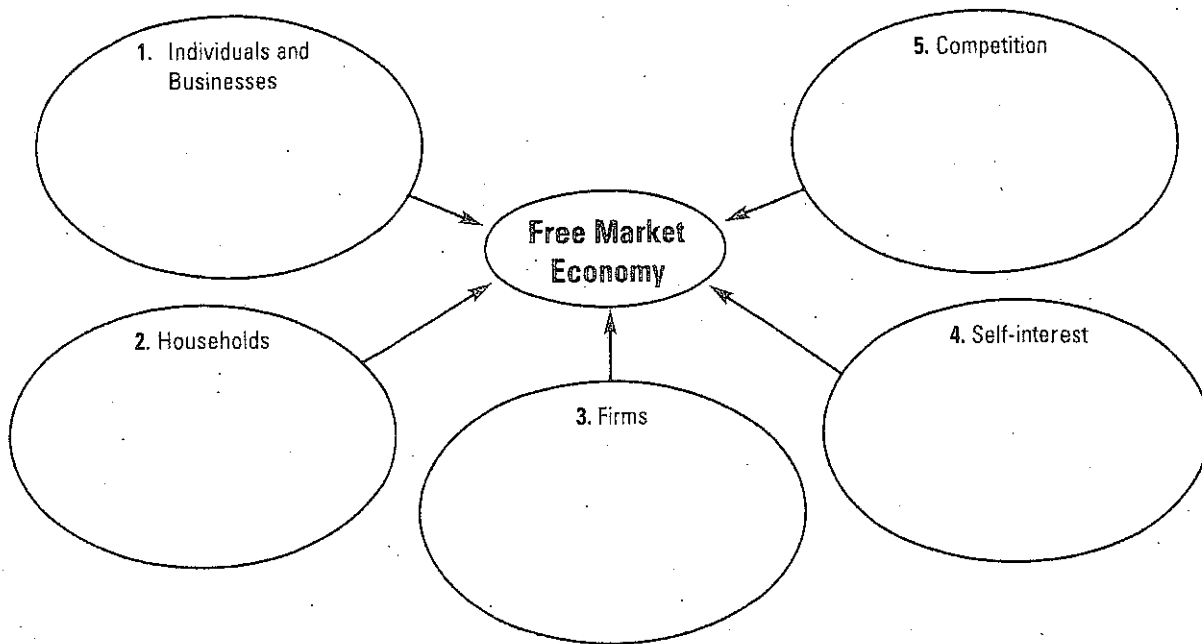
6. An economic system that relies on habit, custom, or ritual to decide questions of production and consumption of goods and services is a _____.
7. An encyclopedia entry illustrating how a hunter-gatherer group collects and shares food resources is describing that society's _____.
8. When voluntary exchanges in the markets determine decisions on production and consumption, the society's economic system is a _____.
9. When people earn income for supplying land, labor, capital, or entrepreneurship, they receive _____.
10. An economic system in which the central government makes all decisions on production and consumption of goods and services is a _____.
11. People who receive disaster relief from the government after a flood are benefiting from an economic system that provides a _____.



A. As You Read

As you read Section 2, list the role or roles played in a free market economy by each factor in the diagram below.

Roles and Functions in a Free Market Economy



B. Reviewing Key Terms

Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided. You will not use all of the terms.

Column I

- ___ 6. market in which households purchase the goods and services that firms produce
- ___ 7. an expectation that encourages people to behave in a certain way
- ___ 8. power of consumers to decide what gets produced
- ___ 9. market in which firms purchase the factors of production from households
- ___ 10. financial gain made in a transaction
- ___ 11. concentration of productive efforts of individuals and firms on a limited number of activities
- ___ 12. an arrangement that allows for exchange among buyers and sellers

Column II

- a. profit
- b. competition
- c. product market
- d. market
- e. incentive
- f. self-interest
- g. specialization
- h. factor market
- i. consumer sovereignty

© Pearson Education, Inc.



Section 3: Guided Reading and Review

Centrally Planned Economies

A. As You Read

As you read Section 3, supply the missing information in the chart below.

Central Economic Planning in the Former Soviet Union

1. Main goal: _____

2. Role of central government:
 - (a) _____
 - (b) _____
3. Effects on agriculture:
 - (a) *Positive* _____
 - (b) *Negative* _____
4. Effects on industry:
 - (a) *Positive* _____
 - (b) *Negative* _____
5. Effects on consumers:
 - (a) *Positive* _____
 - (b) *Negative* _____

B. Reviewing Key Terms

Define the following terms.

6. socialism _____

7. communism _____

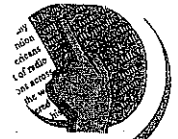
8. authoritarian _____

9. collective _____

10. heavy industry _____

Section 4: Guided Reading and Review

Modern Economies



A. As You Read

As you read Section 4, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: Government intervenes in market economies because some needs and wants of modern societies are hard to answer in the marketplace or may be answered more fairly for all members of society with government involvement.

1. What needs and wants are hard to answer? _____

2. What needs and wants are answered more fairly with government involvement? _____

Main Idea: Government intervention dominates in some mixed economies.

3. How does government intervene in North Korea's economy? _____

4. How is government intervention less extreme in China's economy? _____

Main Idea: The market system dominates in some mixed economies.

5. Where is the world's freest market located? _____

6. Why is it one of the freest? _____

B. Reviewing Key Terms

Answer each of the following questions.

7. How does *free enterprise* differ from *laissez faire*? _____

8. Why is China said to have a *transition* economy? _____

9. What does it mean to *privatize* an industry? _____

10. Why do the world's national economies fall inside a *continuum*? _____



Section 1: Guided Reading and Review

Benefits of Free Enterprise

A. As You Read

As you read Section 1, supply the missing information about the American market system in the spaces provided.

Free Enterprise

Basic principles:

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____

Consumer

Basic Roles:

8. _____
9. _____

Government

Basic Roles:

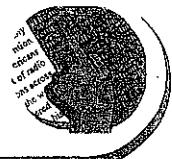
10. _____
11. _____
12. _____
13. _____

B. Reviewing Key Terms

Complete each sentence by writing the correct key term in the blank.

14. When individuals decide to put their house up for sale, they are exercising their _____.
15. Farmers who feel they need a private organization to influence public policy in their behalf might form a/an _____.
16. Nutritional values printed on candy wrappers or milk cartons are required under _____.
17. The concerns of the public as a whole make up the _____.

Section 2: Guided Reading and Review
Promoting Growth and Stability



A. As You Read

As you read Section 2, supply the requested information in the spaces provided.

1. Usual length of the business cycle: _____

2. Three main outcomes of public policy aimed at economic stability: _____

3. Requirement for raising living standards for new generations: _____

4. Two indicators of economic stability: _____

5. Government-provided incentives for innovation: _____

B. Reviewing Key Terms

Define the following terms.

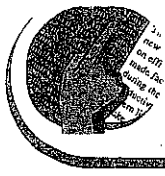
6. macroeconomics _____

7. microeconomics _____

8. business cycle _____

9. gross domestic product _____

10. technology _____



Section 3: Guided Reading and Review

Providing Public Goods

A. As You Read

As you read Section 3, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: In some situations, the free market does not efficiently distribute resources.

1. What is an example of something that self-interest would not motivate consumers to provide?

2. Why might this public good be unreasonable to expect from private providers?

Main Idea: Cost is an important factor in determining whether a good or service is produced as a public good.

3. How does this factor relate to the individual? _____

4. How does this factor relate to society? _____

Main Idea: A good or service can generate positive or negative side effects for people who do not pay for or produce them.

5. What is an example of a positive side effect? _____

6. What is an example of a negative side effect? _____

B. Reviewing Key Terms

Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

- ___ 7. shared good or service for which it would be impractical to make consumers pay individually and to exclude nonpayers
- ___ 8. situation in which the free market does not distribute resources efficiently
- ___ 9. part of the economy that involves the transactions of the government
- ___ 10. part of the economy involving transactions of individuals and businesses
- ___ 11. economic side effect of a good or service that generates unintended benefits or costs to someone other than the person deciding how much to produce or consume
- ___ 12. someone who would not choose to pay for a certain good or service, but who can still reap the benefits of it anyway if it is a public good

Column II

- a. externality
- b. public sector
- c. market failure
- d. public good
- e. free rider
- f. private sector

Section 4: Guided Reading and Review
Providing a Safety Net



A. As You Read

As you read Section 4, supply the missing information in the chart below.

Tax-Supported Safety Nets		
Program or Program Area	Form of Aid	Recipients
1. TANF		
2. Social Security		
3.		Workers who are laid off or lose their jobs
4. Worker's Compensation		
5.	Health insurance	
6. Education		

B. Reviewing Key Terms

Rewrite each statement below to make it agree with the italicized key term.

- The most common *in-kind benefits* include food giveaways, food stamps, subsidized housing, and farm aid. _____

- The government institutes *welfare* programs to improve transportation routes. _____

- A nation's *standard of living* indicates its level of income distribution. _____

- The *poverty threshold* is the income level below that which is needed to provide the needs and wants of families or households. _____

