

# UNIT 6

## THE AMERICAN ECONOMY

### CHAPTER 17

The Economic System

### CHAPTER 18

Goods and Services

### CHAPTER 19

Personal Finances

### CHAPTER 20

Economic Challenges

### CHAPTER 21

The U.S. Economy and the World



The government encouraged Americans to suggest improvements to the American economy with this World War II-era poster.





# FLORIDA...

## The Story Continues

### CHAPTER 17, The Economic System

#### EVENTS

**Trains and cars open the Miami area to economic development.** Julia Tuttle is called the “Mother of Miami.” In the 1890s, people had trouble getting to the city. Mrs. Tuttle solved that during the Great Freeze of 1894–1895. She sent Henry Flagler a branch of orange blossoms to show him that it was warm in Miami. That convinced him to build a train line to the city. Twenty years later, Carl Fisher built the Dixie Highway, which ran from Indiana to Miami. As a result, the road brought flocks of tourists to Miami from the north.

#### PEOPLE

**Hispanic businesses benefit from federal and state programs.** Small businesses have many similar problems. Access to money is a significant problem for minority-owned businesses. Both the federal and the state government offer grants and programs for business support and mentorship. They want to encourage Hispanic residents in Florida to start new businesses. In addition, various profit and non-profit Hispanic organizations provide counseling, training workshops, help with business plans, and financial aid.

#### PEOPLE

**1936: Wallace “Famous” Amos is born in Tallahassee, Florida.** When he was 12, Amos moved to his Aunt Della’s home. She taught him how to bake cookies. He did not know then how important those cookies would become. In 1962, he became a talent agent with the William Morris Agency. He was its first African-American agent, working with Diana Ross and Marvin Gaye. After moving to California, he started a talent agency, which failed. So he baked cookies to cheer himself up. That was the beginning of Famous Amos Cookies.

**EVENTS****1920s: Florida has a land boom.**

The economy everywhere was good in the early 1920s. People had money to spend. They were also discovering that Florida was warm and easy to get to. So people started buying Florida property. Some cities built horse and dog tracks to attract the wealthy. The Florida state legislators passed laws to attract residents and investors. Notably, they prohibited state income and inheritance taxes.

**PLACES****Most of Florida's Space Coast is in Brevard County.**

Before World War II, Brevard County had many small industries. There was commercial fishing. There was also tourism, along with groves of citrus trees. After the war, the U.S. government opened its missile-testing site at Cape Canaveral. That became the home base for the U.S. space program, which brought government money, jobs, and technology to the area.

**PEOPLE****Charles Ringling's dream was to help Sarasota grow.**

In 1912, he visited his brother John's home in Sarasota. He thought the area would be the perfect place for a planned subdivision. The Ringlings owned the Ringling Brothers Circus and were wealthy. Charles bought land, including an old golf course. He donated some of the land to Sarasota for the courthouse. He also built a bank and a large hotel. Ringling worked hard to promote Sarasota business, and was serving as president of the Sarasota Chamber of Commerce at the time of his death.



## Unpacking the Florida Standards <...>

Read the following to learn what this standard says and what it means. See FL8-FL20 to unpack all the other standards related to this chapter.

**Benchmark SS.7.E.2.4** Identify entrepreneurs from various gender, social, and ethnic backgrounds who started a business seeking to make a profit.

**What does it mean?**

Discuss the successes of entrepreneurs from different gender, social, and ethnic backgrounds. Go to Chapter 17, The Economic System, for help.



## CHAPTER 17

# THE ECONOMIC SYSTEM

### Essential Question

What fundamental concepts help explain the U.S. economic system?



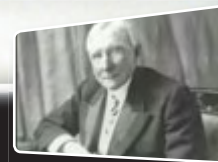
### Florida Next Generation Sunshine State Standards

**SS.7.C.1.1** Recognize how Enlightenment ideas including Montesquieu's view

of separation of power and John Locke's theories related to natural law and how Locke's social contract influenced the Founding Fathers. **SS.7.E.1.1** Explain how the principles of a market and mixed economy helped to develop the United States into a democratic nation. **SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit. **SS.7.E.1.3** Review the concepts of supply and demand, choice, scarcity, and opportunity cost as they relate to the development of the mixed market economy in the United States. **SS.7.E.1.4** Discuss the function of financial institutions in the development of a market economy. **SS.7.E.1.5** Assess how profits, incentives, and competition motivate individuals, households, and businesses in a free market economy. **SS.7.E.2.3** Identify and describe United States laws and regulations adopted to promote economic competition. **SS.7.E.2.4** Identify entrepreneurs from various gender, social, and ethnic backgrounds who started a business seeking to make a profit. **SS.7.E.3.3** Compare and contrast a single resource economy with a diversified economy. **LA.7.1.6.1** The student will use new vocabulary that is introduced and taught directly. **LA.7.1.7.1** The student will use background knowledge of subject and related content areas, prereading strategies, graphic representations, and knowledge of text structure to make and confirm complex predictions of content, purpose, and organization of a reading selection.







John D. Rockefeller:  
The Standard Oil  
Trust

[hmhsocialstudies.com](http://hmhsocialstudies.com) VIDEO

# WHY CIVICS Matters

Some of your rights as an American citizen are economic rights. For example, you have the right to own property, to start a business, and to make a profit. Rights such as these are the foundation of our economic system in the United States.

PROJECT **Citizen**



## STUDENTS TAKE ACTION

### PROVIDING EMERGENCY HEALTH CARE

Many people in the United States live in communities that do not have a hospital to provide emergency health care. If you lived in one of these areas, what could you do to build support for a critical care facility? As you read this chapter, think about the steps you might take.

## FOCUS ON WRITING

**NEWSPAPER ADVERTISEMENT** Going into business for yourself is one of the economic freedoms that you enjoy in this country. Imagine you own a business that sells an innovative new lighting system. Write a newspaper advertisement that highlights the features of your product and persuades people to buy your new lighting system.



# Reading Skills

In this chapter you will learn about economics. You will study the U.S. economy and the role that the government plays in the economic system. You will also discover the many different ways that American businesses can be organized,

including how corporations are set up and run. Lastly, you will learn about how business success depends on decisions regarding the four factors of production.

## Interpreting Basic Indicators of Economic Performance

### FOCUS ON READING

The government uses some key indicators to judge the overall health of the economy. These indicators can help the government, businesses, and consumers make financial decisions.

**Economic Indicators** The Consumer Price Index (CPI) measures how much it would cost to buy a typical basket of goods and services. The higher the number, the more things cost. The unemployment rate measures how many people who do not have a job are looking for work. When the rate drops, fewer people are out of work. The prime interest rate shows how much interest, or money, banks charge people to borrow money. The higher the rate, the more it costs to borrow.

### Consumer Price Index

The basic cost of the basket of goods used in the CPI was set at \$100 for the base years 1982–1984. The base years are used as a benchmark. At the end of each year, the price of the basket of goods—compared to \$100—is given. Then the government compares how much the price has changed from the year before. The higher the change, the more prices are increasing. That means things cost you more.

Year	Consumer Price Index	Change from previous year
2000	\$172.20	3.4%
2001	\$177.10	2.8%
2002	\$179.90	1.6%
2003	\$184.00	2.3%
2004	\$188.90	2.7%

**Interpreting the CPI:** As you can see from the chart, prices have been rising since the year 2000. However, some years the prices have risen faster than others. The biggest change came in 2000, when prices changed 3.4 percent. The smallest change came in 2002, when prices went up just 1.6 percent.

### Helpful Hints for Interpreting Economic Indicators

1. Look for trends. For example, are the numbers mostly going up or going down?
2. Compare information from several months or years to determine if the change is a big one or small one.
3. Make sure you understand the data. Look for information that explains what the data means.





LA.7.1.6.2

21<sup>ST</sup>  
CENTURY

## You Try It!

The following charts track the U.S. unemployment rate over several years. Study these charts and then answer the questions that follow.

**U.S. Unemployment Rate, 2004–2008**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004	5.7	5.6	5.7	5.5	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4
2005	5.2	5.4	5.2	5.2	5.1	5.1	5.0	4.9	5.0	5.0	5.0	4.8
2006	4.7	4.8	4.7	4.7	4.7	4.6	4.7	4.7	4.5	4.4	4.5	4.4
2007	4.6	4.5	4.4	4.5	4.5	4.6	4.7	4.7	4.7	4.8	4.7	4.9
2008	4.9	4.8	5.1	5.0	5.5	5.6	5.8	6.2	6.2	6.6	6.8	7.2

**Annual Unemployment Rate**

2004	5.5
2005	5.1
2006	4.6
2007	4.6
2008	5.8

**After you have studied the tables, answer the following questions.**

1. Which month in 2008 had the highest unemployment?
2. Which month in 2005 had the lowest unemployment?
3. Which year had the highest unemployment rate?
4. Which years had the lowest unemployment rate?
5. What general trend did the unemployment rate show during this period?

**As you read Chapter 17, look for ways that economic indicators can help businesses make decisions.**

## KEY TERMS

### CHAPTER 17

#### Section 1

market economy (p. 452)  
free market (p. 452)  
profit (p. 453)  
scarcity (p. 453)  
law of supply (p. 453)  
law of demand (p. 453)  
free enterprise (p. 455)  
capitalism (p. 455)  
monopoly (p. 455)

#### Section 2

sole proprietorship (p. 460)  
partnership (p. 461)  
corporation (p. 461)  
stock (p. 463)  
stockholders (p. 463)  
dividends (p. 463)  
nonprofit organizations (p. 464)

#### Section 3

natural resources (p. 466)  
capital (p. 467)  
labor (p. 467)  
entrepreneur (p. 468)

#### Academic Vocabulary

Success in school is related to knowing academic vocabulary—the words that are frequently used in school assignments and discussions. In this chapter, you will learn the following academic word:  
structure (p. 463)





# The Economic System at Work

## BEFORE YOU READ

### The Main Idea


Countries form many types of economic systems to meet their citizens' needs and wants. The United States has a market economy.

### Reading Focus

1. How do different economic systems help satisfy people's needs?
2. What factors shape life in a market economy?
3. What is the U.S. economic system like?

### Key Terms

market economy, *p. 452*  
 free market, *p. 452*  
 profit, *p. 453*  
 scarcity, *p. 453*  
 law of supply, *p. 453*  
 law of demand, *p. 453*  
 free enterprise, *p. 455*  
 capitalism, *p. 455*  
 monopoly, *p. 456*

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**TAKING NOTES**  
 Use the graphic organizer online to take notes on economic systems, life in a market economy, and the U.S. economic system.



Our society is based on principles of individual freedom. Those same principles of freedom apply to the U.S. economic system. We have what is called a free market economy. This means that if you want to start a business, you can. Your success will be determined by your business ability and the market, not by a government agency.

## Economic Systems

Suppose you wanted to make a sandwich but you discovered that you had no bread. How could you get more? Would you have to grind wheat into flour so that you could bake a new loaf? Might you have to stand in a long line for hours before someone gave you a few slices? Of course you wouldn't. With a quick trip to the store, you could buy as many loaves of bread as you wanted.

In other parts of the world, however, getting items like bread is not as simple. How people get the things they want is determined by a country's economic system. The nature of economic systems varies widely from place to place. However, they all help people create and obtain the goods and services they need.

## The Need for Economic Systems

All around the world, people need certain things to survive. People cannot live without food and water, shelter, and clothing. These basic materials that people cannot live without are called needs.

In addition to their needs, there are many items that people want in order to make their lives more comfortable. These items are not necessary for survival, but they can have great value to people. For example, you may want a television, a cell phone, or a car. You do not really need any of these things in order to live, but they can make your life easier, more comfortable, or more enjoyable. These types of items are called wants. Different people have different wants. In addition, a person's wants can change over time.

People satisfy their wants by obtaining goods and services. For example, if you want fun, you can buy a new game. The process of obtaining goods and services to satisfy your wants is called the want-satisfaction chain. How people obtain goods and services is what distinguishes different economic systems from each other.

**SS.7.E.1.3** Review the concepts of **supply and demand**, **choice**, **scarcity**, and **opportunity cost** as they relate to the development of the mixed market economy in the United States.



# The Want-Satisfaction Chain

To satisfy your need for food, you may want a sandwich on a bun. This want-satisfaction chain shows the steps involved in helping you satisfy that want.



## ① Grain becomes Flour

Farmers harvest grain and send it to mills where it is ground into flour.



## ② Flour becomes Bread

Bakers use flour to make all kinds of bread products, including sandwich buns.



## ③ Bread is Delivered

Kitchens, restaurants, and cafeterias receive bread from bakeries.



## ④ Lunch is Served

The final step in the want-satisfaction chain is a tasty sandwich on a bun.

### ANALYSIS SKILL

### ANALYZING VISUALS

What different industries are involved in the want-satisfaction chain?



## Types of Economic Systems

There are three basic economic systems in the world: traditional, command, and market economies. Most countries today use a mix of these systems.

In a traditional economy, economic decisions are based on how economic activity has been carried out in the past. People may grow their own food and make everything they need to survive, or they might trade with others to obtain things that they cannot make themselves.

A second type of economic system is called a command economy. In this system, the government makes all economic decisions and owns or controls all capital, tools, and production equipment. The government tells people what they can produce, how much of it to produce, and how much they can charge for it. Historically, many Communist countries have tried to set up command economies. Most of these economies have collapsed, but North Korea and Cuba still have command economies.

The third type of economy is the one found in most countries, including the United States. It is called a market economy. A **market economy** is one in which

economic decisions are made by people looking out for their own best interests.

A market economy is based on freedom. People are free to own property, to start companies, and to buy and sell products as they choose. The right to buy and sell goods as you want is called a **free market**. Companies also need to be free to compete with each other. In a free market, competition among sellers—not government policy—is the main factor in setting prices. Sellers try to price their goods lower than their competitors so that people will buy them. At the same time, they have to be careful not to set their prices so low that they lose money.

Regardless of economic system, every country wants a strong, stable economy. A few countries have been able to build strong economies based on a single resource. For example, Saudi Arabia has built its economy on oil production. Most nations, however, try to achieve economic success by having a diversified economy, or an economy based on a number of profitable industries. This approach has long been thought to be the key to long-term economic success.

### READING CHECK

**Contrasting** How do single-resource and diversified economies differ?

**SS.7.E.3.3** Compare and contrast a single resource economy with a diversified economy.

### QUICK FACTS

## American Economic Freedoms

Among the basic rights we have as Americans are certain economic freedoms. These economic freedoms are the foundation of our free market economy.

*How do these freedoms affect our everyday lives?*



### Freedom to Compete



### Freedom to Own Property



## Life in a Market Economy

In a market economy, people are free to start a business and pursue profit. **Profit** is the money a business has left after it has paid its expenses. The profit motive, or the desire to make a profit, is essential to a successful market economy. For individuals, households, and businesses, profit is a major incentive, or benefit, that encourages participation in the economy. If people do not want profit, they will not start businesses and people will have no way to obtain goods and services.

### Competition for Resources

Competition motivates activity in a market economy. Many people want to get ahead, to raise their standard of living. People's wants are unlimited, but the resources available to satisfy wants are limited. As a result, individuals, households, and businesses compete for the resources they need.

**Scarcity** occurs when there are not enough resources to meet people's wants. When a resource becomes scarce, it is harder for producers to obtain. Products made with that resource also become more difficult to obtain. As a result, the prices for these items usually rise.

### Choice

Scarcity affects everyone and forces us to make choices. Individuals and households must decide what things they need and want. Scarcity also forces businesses to choose which goods and services to provide and how much to charge for them.

Most economic choices involve an opportunity cost, or the value of what is given up by choosing one alternative over another. People and businesses face opportunity costs every day. For example, suppose you want to buy a video game and a concert ticket, but do not have enough money for both. If you choose the game, the value of the ticket is the opportunity cost.

### Supply and Demand

Changes in prices are usually the result of the laws of supply and demand. The **law of supply** states that businesses will produce more products when they can sell them at higher prices. They will produce fewer products when prices are low. The **law of demand** states that buyers will demand, or want, a greater quantity of a good when its price is low. Likewise, as prices rise, the quantity demanded falls and people buy less of that good.

**SS.7.E.1.5** Assess how profits, incentives, and competition motivate individuals, households, and businesses in a free market economy.

**SS.7.E.1.3** Review the concepts of supply and demand, choice, scarcity, and opportunity cost as they relate to the development of the mixed market economy in the United States.



**Freedom to Buy and Sell**



**Freedom of Workers to Compete for Jobs**



**Freedom to Earn Profits**



## File-Sharing and Copyright Law

*In June 2005 the U.S. Supreme Court ruled that a popular Web site was responsible for violating copyright laws. The company itself did not download illegal material. However, its file-sharing technology helped individuals share copyrighted materials, such as movies and music, without paying for them.*

### Why it Matters

Article I, Section 8 of the Constitution gives Congress the power to make copyright laws. Copyright laws give artists such as writers, painters, and performers lifetime ownership of their work. People who wish to use a copyrighted work must receive the owner's permission and often pay a fee. For example, whenever you buy a CD, the copyright holder gets paid.

But how would the copyright holder get paid if you did not pay for the CD? People are often tempted to download music files without paying. This is illegal—it violates the artist's copyright. For some artists, the lost income from illegally downloaded works may threaten their ability to continue working. Other artists, however, offer free, legal downloads of their music on the Internet to attract more listeners.



Downloading music from the Internet without paying for it may violate copyright laws.

### ANALYSIS SKILL

#### EVALUATING THE LAW

1. Why do you think the framers of the Constitution wanted to protect artists' rights to their works?
2. What do you think can be done to discourage people from illegally obtaining copyrighted music and movies?

 [hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**

Although you may not know it, you are probably familiar with the laws of supply and demand. Imagine, for example, that your neighbors were paying you \$100 each to mow their lawns. You would probably want to mow a lot of lawns. However, if they only wanted to pay you \$1 per lawn, you probably would not want to mow so many. That is what the law of supply states—people are more eager to supply a good or service for a high price than for a low one.

The law of demand works in the same way. If you found songs online for \$15 each, how many would you buy? You would probably buy, or demand, few or none at all because the price is too high. But if the price was only \$1 each, your demand would likely rise.

Business owners try to achieve a balance between supply and demand. They want to find a price at which consumers will happily buy a product. At the same time, business owners want to make as much profit as they can, so they cannot set prices too low.

To understand this balance, imagine that you are selling lemonade. You set your price at \$10 per glass of lemonade. Unfortunately, people are not willing to pay that much and your lemonade goes unsold. So, to sell more, you decide to drop your price to a nickel a glass. Lots of people are willing to buy it now. However, you quickly learn that it costs you more to make the lemonade than you earn by selling it. Obviously, you will need to raise your prices if you want to stay in business.



In response, you raise your prices to \$2 per glass. You now have fewer customers than you did before, but your business is still steady. You are also making less profit per glass than you did when you charged \$10, but you are not losing money. In other words, you have managed to achieve a balance between supply and demand.

### Free Enterprise

In a market economy, no one orders business owners how to run their businesses. Of course, if owners do not follow the laws of supply and demand, their businesses fail. Still, business owners may operate however they see fit, with little direction or interference by government. This principle is called **free enterprise**.

The free-enterprise system offers enterprising businesspeople the opportunity to make huge profits. For example, Bill Gates and Steve Jobs are two Americans who used their economic freedom to start successful companies. With no intervention from the government, they turned their companies—Microsoft and Apple Computer—into hugely successful operations.

Most companies are not as successful as Microsoft and Apple, though. By accepting the opportunity to make profits, business owners also open themselves to the possibility of huge losses if their companies do not perform well. They might create a product only to learn that there is no demand for it, or they might find that they have to charge more than people are willing to pay for their goods. Mistakes like these can cost business owners. Some even end up losing their companies. This is the main risk that people face in a free-enterprise system.

Competition is vital to the free-enterprise system. As you have already learned, competition between companies is the main factor in setting prices. In addition, competition drives companies to improve their products. Each company wants the products it creates to be the best so that people will buy them.

The constant desire to improve products means that innovation is also important in free enterprise. Clever thinkers are always looking for new products they can create or for ways to improve existing products. They hope that their innovations will help them make huge profits from their products.

Innovative people do not want others to steal their ideas. They want ways to protect what they have created so that no one else can take credit for it or make money from it. In the United States, there are two ways to protect ideas. A patent gives you the exclusive right to make and sell your invention for a certain number of years. A copyright is the exclusive right to publish or sell a piece of writing, music, or art.

### Capitalism

The main driving force behind the American economy today is capitalism. **Capitalism** is an economic system in which the productive resources—farms, factories, machines, and so on—are owned by private citizens.

Capitalism is closely linked to a market economy. People are free to buy and sell as they please. Capitalism also encourages people to invest their money so that they will be successful financially. If they are successful, they will be able to improve their quality of life. Anyone with a little extra money has the opportunity to invest it, either in a company of their own or in someone else's company.

If a company is successful, it can make huge profits, and not only for its owners. All the people who invested in the company can also make profits. By encouraging investment, innovation, and the production of quality goods, the capitalist system benefits the American people as a whole.

### Monopolies

A company is said to have a **monopoly** if it is the only company selling a product. Because they face no competition, monopolies can set any price they want for their product. Consumers must either accept the seller's price or choose not to buy the product.



## PRIMARY SOURCE

### POLITICAL CARTOON

## Monopolies

*Because monopolies limit competition, they harm our free-enterprise system. As a result, they are outlawed in the United States.*



"Freddie, the Little Merger Mogul, didn't expect to have a monopoly right away. He planned to start small by rigging markets, restraining trade, and suppressing competition—then . . ."

### ANALYSIS SKILL

#### ANALYZING PRIMARY SOURCES

**What is the artist's point of view regarding monopolies? How can you tell?**

**SS.7.E.1.1** Explain how the principles of a market and mixed economy helped to develop the United States into a democratic nation.

Competition is essential to free enterprise. This is why governments with market economies often pass laws to promote competition and to prevent monopolies. For example, in the late 1880s, the Standard Oil Company had a powerful monopoly over the oil industry. Concerned over Standard Oil's ability to set prices and control the market, the U.S. Congress passed the Sherman Antitrust Act of 1890. The law gave the federal government the power to break up monopolies. The act also regulated business practices that might lead to reduced competition.

### READING CHECK

**Finding the Main Idea** How are supply, demand, and free enterprise key to a market economy?

## The U.S. Economic System

Many freedoms are central to American democracy. Among them are freedom of speech, freedom of religion, and freedom of the press. But of all the freedoms, economic freedom holds a special place. Our nation's Founders held that economic freedom was a foundation for the American Republic. In this regard, they followed John Locke. He argued that people have natural rights to "life, liberty, and property." Equally important, the Founders believed that economic freedom allowed people to build wealth that could help them limit the government's power.

The U.S. economy largely holds to the basic principles of a market economy and free enterprise. Over time, the people's representatives have enacted some regulations on businesses. These were ways to protect consumers and promote competition. In this way, our market economy has features of a mixed economy.

### A Mixed Economy

Today, many countries have what is sometimes called a mixed economy. They are primarily market economies—with features of traditional and command economic systems. In these mixed economies, businesses are largely free to operate as they please. Their operations, however, must fall within certain regulations set up and monitored by the government.

Many of our government's regulations on business are intended to protect people or serve the public good. For example, federal and state governments have established laws, such as minimum wage laws, to help protect workers. Some laws guarantee workers' safety and protect people from discrimination. Other government regulations are intended to protect the natural environment. For example, the government sets limits on how many chemicals companies can release into the air or water. These regulations sometimes cost companies money,



which results in higher prices for consumers. At the same time, the regulations result in cleaner air and water and less pollution.

The federal government may sometimes intervene in business to help control prices. One way the government does this is by subsidizing, or giving money to, certain industries. For example, to make sure that people can buy flour, cereal, and other wheat products cheaply, the government might give subsidies to wheat farmers. Because they are receiving money from the government, the farmers do not have to charge high prices for their crops. As a result, prices for wheat products stay low.

### American Business

In the early days of the United States, most businesses were small. Most people were farmers, growing what they needed to survive. Only a few people, generally wealthy people, could afford to create large businesses.

Over time, however, many businesses began to grow. This growth was fueled in part by money borrowed from banks. Loans allowed people who had not been born rich to create products to sell. As businesses became successful, they invested their profits and more bank loans to grow even larger.

Today, big businesses are essential to the American economy. Many of the goods and services we use every day could not be produced by small companies. For example, to produce steel, electricity, automobiles, and ships requires large and expensive machines. Only large companies have the resources and the tools to produce these goods efficiently. Economists refer to this ability of large companies to produce many goods efficiently as the economy of scale.

In the last few decades of the 1900s, companies began to grow even larger. Businesses began to join together to form huge organizations called conglomerates. A conglomerate is formed by the merger of businesses that produce, supply, or sell a number

## Comparing Economic Systems

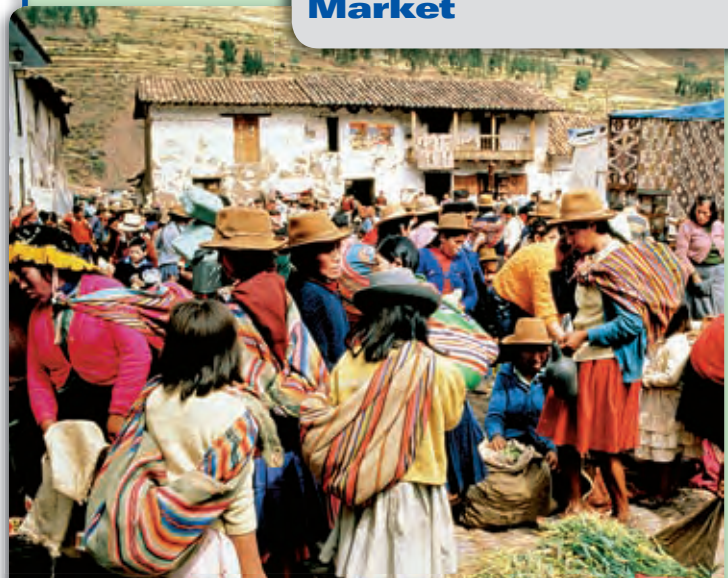
Command, market, and traditional economies differ in the way goods are produced and sold. Most countries use a mix of two or more of these systems.



**Command**



**Market**



**Traditional**

**ANALYSIS SKILL**

**ANALYZING VISUALS**

How is the United States a mix of different economic systems?

## MEDIA INVESTIGATION

### PRESS CONFERENCES

## Understanding Publicity

In 1997 the federal government charged the Microsoft Corporation with violating antitrust laws. To announce the trial and its results, both the government and Microsoft used a powerful tool, the press conference.

During a press conference, reporters gather to hear statements from an individual or an organization. They generally report the information to the public. To do so, they use newspapers, radio and television, or the Internet.

Often people hold press conferences to express their point of view. Press conferences are good publicity tools. They give people control over the way in which information is presented. They are also an opportunity for photographs to be taken with a background and presentation.



An attorney for the U.S. Justice Department holds a press conference during the Microsoft antitrust trial.

### ANALYSIS SKILL

## MEDIA INVESTIGATION

What steps would one have to take to hold a press conference?

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of unrelated goods. For example, a single conglomerate might control communication systems, insurance companies, hotel chains, and many other businesses. The government monitors conglomerates closely to be sure that economic competition is not harmed.

Of course, small businesses have never disappeared in the United States. Even

as big companies get bigger, many small companies continue to thrive. It is largely because of the mix of large and small businesses that the U.S. economy remains powerful today.

### READING CHECK

**Summarizing** What is the U.S. economy like today?

## SECTION 1 ASSESSMENT

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ONLINE QUIZ

### Reviewing Ideas and Terms

- Define** Write a definition for the terms **market economy**, **free market**, **profit**, **scarcity**, **law of supply**, and **law of demand**.
  - Analyze Information** How are scarcity and the laws of supply and demand connected?
- Define** Write a definition for the terms **free enterprise**, **capitalism**, and **monopoly**.
  - Analyze** Why was the Sherman Antitrust Act important?
- Summarize** Why is the United States described as a mixed economy?
  - Draw Conclusions** What features of a market economy do you think support democracy?

### Critical Thinking

- Summarizing** Use your notes and a graphic organizer like this one to identify the five economic freedoms that Americans enjoy.



### FOCUS ON WRITING

- Contrasting** Explain how the U.S. economic system differs from the economic system in Cuba.



# STUDENTS TAKE ACTION

PROJECT Citizen



## Providing Emergency Care

**I**n 2005 officials in Iron County, Missouri, opened a 24-hour critical care facility to treat emergency patients. The center provides much needed services. The only hospital in Iron County had closed several years earlier. The new emergency care center was made possible in part by the efforts of local students. They convinced a nonprofit foundation to make a sound business decision based on local need.

**Community Connection** Like many others in Iron County, the students were concerned about the lack of a hospital in their area. “The lack of emergency care in Iron County affects everyone,” said one student in Mr. Don Barzowski’s government class. The students took part in the Project Citizen program. Their concern led them to work on getting support for a new critical care facility.

**Taking Action** Working with other groups, students contacted many government officials to gain support for funding a new facility. The students also gathered data to see how the absence of a hospital affected the area. The state’s largest foundation for hospital funding held public forums to discuss a new facility. The students attended and gave a detailed presentation.

The teens noted that Iron County had the fourth highest accident rate in Missouri. The county had no local ambulance service or urgent care facility. To travel to the nearest hospital, it took between 32 and 50 minutes. The foundation agreed to give \$900,000 to help fund a new facility, citing the students’ presentation as a major factor in its decision.



Students in Iron County, Missouri, helped bring a critical care facility like this one to their community.

### SERVICE LEARNING



1. What steps did the students take to gather support for their idea?
2. Why do you think the Iron County students were able to convince the foundation to help fund a new critical care facility?

[hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**



# Business Organizations

## BEFORE YOU READ

### The Main Idea

American businesses may be organized as sole proprietorships, partnerships, corporations, or nonprofit organizations.

### Reading Focus

1. What are the different types of business organizations?
2. How do corporations function?
3. What is a nonprofit organization?

### Key Terms

sole proprietorship, p. 460  
partnership, p. 461  
corporation, p. 461  
stock, p. 463  
stockholders, p. 463  
dividends, p. 463  
nonprofit organizations, p. 464

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### TAKING NOTES

Use the graphic organizer online to take notes on how businesses in the United States are organized.



If you make and sell handmade bamboo fly rods, your business will be small. In fact, you may be the only employee. If you mass produce plumbing fixtures, your business may grow large. You may have dozens, or even hundreds, of employees. You may form a corporation. Businesses come in all sizes. The type of business organization you select is often related to the size or complexity of the business, but there are other reasons you might choose one form of business over another.

## Business Organizations

If you want to start your own business, one of the first decisions you will have to make is how your business will be owned. In the United States, there are three basic types of business ownership or business organization: the sole proprietorship, the partnership, and the corporation. Each type of organization has advantages and disadvantages.

### Sole Proprietorships

There are around 27 million business firms in the United States today. Of these, the vast majority are small businesses with

only one employee, the owner. These businesses include game stores, record stores, grocery stores, hair salons, and other businesses that serve people who live nearby. A small business owned by one person is called a **sole proprietorship**.

There are many advantages to going into business for yourself. For example, sole proprietors are their own bosses. They decide the hours the businesses will be open and how their business will operate. In addition, the owners take all the profits the business produces.

Yet there are disadvantages to being a sole proprietor. Owners must have or borrow all the money they need to rent or buy buildings or office space and equipment. If a sole proprietor hires help, he or she must be able to pay the employees. He or she is also personally liable for taxes. Although an owner may hire others to help, the owner is responsible for the success or failure of the business. For example, if the business fails, the proprietor must face the losses. In that case, a proprietor may have to sell his or her personal belongings to pay business debts.



## Different Kinds of Businesses

In the United States, businesses come in all types and sizes. Our economic freedoms allow each person to be a part of the type of business he or she chooses.

*How are sole proprietorships different from corporations?*



**Partnership**



**Corporation**



**Sole Proprietor**

### Partnership

The owner of a small business sometimes seeks another person to become a partner in the business. A business in which two or more people share the responsibilities, costs, profits, and losses is known as a **partnership**. This form of ownership gives businesses more capital and a better chance of success.

The advantages and disadvantages of a partnership are similar to those of a sole proprietorship. The greatest difference is that in a partnership there is more than one person to provide capital, share responsibility, furnish ideas, and do the work. The partners also share the risks. If the business fails, the partners share responsibility for the debts.

Partnerships also have disadvantages. Partners can lose their personal belongings if their business fails, just like sole proprietors. Partnerships have another unique weakness. If the partners disagree strongly about how to run the business, serious problems can result. The company may lose efficiency or be unable to act at all. For this

reason it is a good idea to have a written partnership agreement in place. This document sets out what responsibilities each partner has for running the business. It also establishes how the partners will be paid if the business earns profits. These guidelines will not prevent disagreements from happening, but may help minimize their effects and keep the business running.

### Corporations

The third basic form of business organization is the corporation. A **corporation** is a type of business that is recognized as a separate legal entity. Most of the country's large businesses—and many smaller companies—are corporations. The corporation is a permanent organization, unlike proprietorships and partnerships, which end when their owners die. Corporations play a vital role in the U.S. economy.

#### READING CHECK

**Categorizing** What are three ways that businesses are organized?

# How a Corporation is Created and Organized

Corporations can be very large or very small. Individuals, small businesses, and multinational companies can all become corporations.

## 1 Start Small

Many businesses start out with a sole proprietor, which means just one owner. Some small businesses incorporate, and some do not.

## 2 Grow

To increase staffing and production, a small business needs money. To get money it may ask a small number of people to invest in the business.

## 3 Incorporate

If a business needs to raise money from more than 35 people, it must incorporate.

## 4 Trade Publicly

A corporation can issue public stock, or shares of ownership. The people who buy stock are called stockholders.

### Organization and Control in a Typical Corporation

**Stockholders** are the owners of a corporation.

#### Stockholders



Every corporation must have a **board of directors** that answers to the stockholders.

#### Board of Directors



The board of directors appoints **company officers**, such as the chief executive officer (CEO) and the chief financial officer (CFO), to run the corporation.

#### Corporate Officers



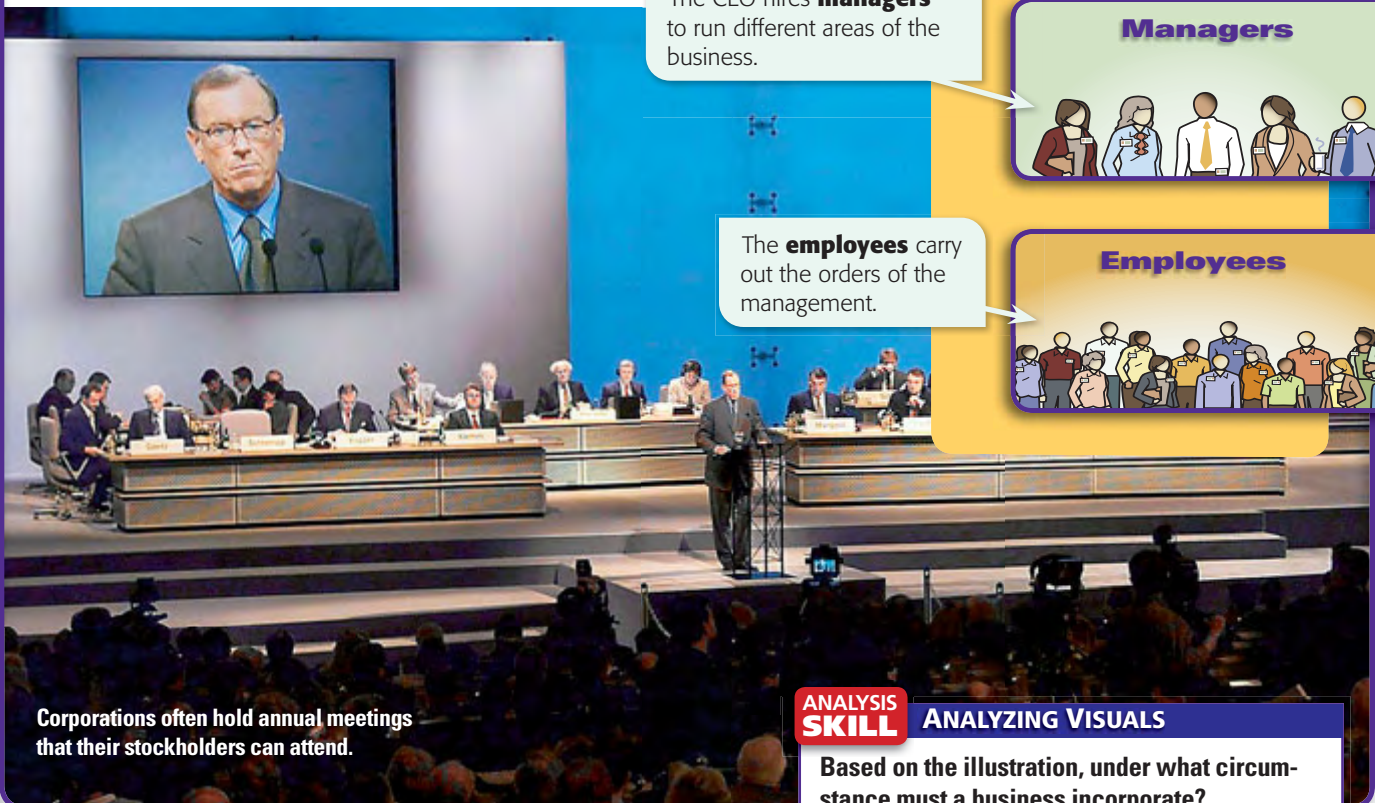
The CEO hires **managers** to run different areas of the business.

#### Managers



The **employees** carry out the orders of the management.

#### Employees



Corporations often hold annual meetings that their stockholders can attend.

### ANALYSIS SKILL

### ANALYZING VISUALS

Based on the illustration, under what circumstance must a business incorporate?



## How Corporations Function

A sole proprietor is personally responsible for the business he or she owns. Partners are also personally responsible for the partnership's success or failure. A corporation, however, is different. A corporation is a type of business organization that is recognized by law as a separate legal entity from the people who own it. It is treated as if it were a person.

### Raising Money

Corporations raise money by selling **stock**, or shares of ownership. Each share of stock represents part of the corporation. The people who buy corporate stocks are called **stockholders**.

Suppose that a new corporation needs \$1 million to set up business. The corporation could sell 10,000 shares of its stock at \$100 a share. Each purchaser of one share of stock would then own one ten-thousandth of the company. The new corporation would have \$1 million in capital to begin work.

If the corporation has profits to distribute, each owner of a single share of stock would receive one ten-thousandth of the total. Corporate profits paid to stockholders are called **dividends**. Each stockholder receives a portion of the profits based on the number of shares he or she owns.

Another way corporations can raise money is by selling bonds. Bonds are loans. People who buy bonds are lending money to the company. The company must pay the interest on its bonds before paying its stockholders. This interest is due whether or not the company earns any profits for the year. The company must pay back the original amount of the loan when the bond expires.

### Rights to Operate

State governments grant corporations the right to operate. Each state has laws on how to incorporate a business. After incorporation, the company has the right to conduct business, to sell stock, and to receive the protection of state laws.

In return for these benefits, corporations must obey state regulations in regard to their organization. They must file reports that make public certain financial information and must pay whatever taxes they owe. They may not sell their stock in ways that are fraudulent or deceptive.

### Elected Directors

The stockholders elect the directors of the corporation. Every corporation is required by law to hold at least one meeting of its stockholders each year. All stockholders have the right to attend and address the meeting—even if they own only one share.

At this annual meeting, stockholders elect a board of directors. They may also vote on changes in the corporation's business **structure**. Each share of stock entitles its owner to one vote. The board of directors, representing the stockholders, meets during the year to make decisions about the corporation.

#### ACADEMIC VOCABULARY

**structure:** the way something is set up or organized

### Choosing Executives

The board of directors chooses corporate officers, or the people who will manage the affairs of the corporation. The officers include the company's president and any vice presidents, the secretary, and the treasurer. The president usually chooses the other major assistants. Together, these officials oversee the daily operations of the corporation.

### Debt Responsibility

If the corporation's business fails, neither the stockholders nor the corporation's executives are responsible for the corporation's debts. This is the advantage the corporation has in gathering large amounts of capital. If a corporation goes out of business, its assets, including its property, buildings, and other valuables, are sold. The money raised is then used to pay off the corporation's debts.

#### READING CHECK

**Finding the Main Idea** What advantages do corporations have when raising money or dealing with debts?



## FOCUS ON Meg Whitman

(1957– )

As the CEO of eBay, Incorporated, Margaret “Meg” Whitman was one of the most powerful businesspeople in the United States. She attended Princeton University and first worked toward a career in medicine. Then,

she worked one summer selling advertising for a school publication. That is when she decided to become an economics major. Whitman earned a master of business administration degree at Harvard University and then went to work for Procter & Gamble. Whitman later moved on to lead in such companies as Walt Disney, Stride Rite Shoes, and the toy company Hasbro.

In 1998 Whitman became president and CEO of eBay. At that time, eBay had fewer than 100 employees. She helped turn the company into a household name that operates worldwide. eBay now has some 13,000 people. The online auction site now greets seven million Web-surfers each day as a result of Whitman’s efforts and talent.

**Drawing Conclusions** What qualities have made Meg Whitman a successful business leader?

## Nonprofit Organizations

Some business organizations provide goods and services without seeking to earn a profit for stockholders. These organizations are known as **nonprofit organizations**. They include charities, scientific research associations, and organizations dedicated to cultural and educational programs. Because they do not make a profit, these organizations are not taxed by the government. They are also not allowed to contribute to political campaigns. Most nonprofits use donations from individuals and businesses to operate.

Larger nonprofit organizations are often corporations. They take this step for the same reasons regular businesses do—to help raise money and protect the assets of their members. Among the many nonprofit corporations in the United States are the American Red Cross, the American Heart Association, the United Way, Boy Scouts, and Girl Scouts.

### READING CHECK

**Summarizing** What are the characteristics of a nonprofit organization?

## SECTION 2 ASSESSMENT



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ONLINE QUIZ

### Reviewing Ideas and Terms

- Define** Write a definition for the terms **sole proprietorship**, **partnership**, and **corporation**.
  - Summarize** What are the advantages and disadvantages of operating a sole proprietorship?
- Define** Write a definition for the terms **stock**, **stockholders**, and **dividends**.
  - Analyzing Information** How do corporations raise money, and how are the debts of a corporation paid if the corporation fails?
- Define** Write a definition for the term **nonprofit organizations**.
  - Defend a Point of View** Do you think that nonprofit organizations should be required to pay taxes? Why or why not?

### Critical Thinking

- Categorizing** Use your notes and a graphic organizer like this one to describe the four types of U.S. businesses.

Business	Characteristics

### FOCUS ON WRITING

- Decision Making** If you were to start a business of your own, would you organize it as a sole proprietorship, a partnership, a corporation, or a nonprofit organization? Explain your answer.







# Making Business Decisions

## BEFORE YOU READ

### The Main Idea


Business owners must make decisions about their use of natural resources, capital, labor, and entrepreneurship. Business owners are free to make these decisions with little interference from the government.

### Reading Focus

1. What are the four factors of production?
2. What is the government's role in the economy?

### Key Terms

natural resources, *p. 466*  
capital, *p. 467*  
labor, *p. 467*  
entrepreneur, *p. 468*

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**TAKING NOTES**  
Use the graphic organizer online to take notes on how factors of production influence business decisions.



If you decide to go into business for yourself, you will have to make many business decisions. Most of these decisions will be about the four factors of production. For example, suppose that you want to design and market new computer games. You will have to decide where to have your offices and how many people to hire, and that's just the beginning. You will have to make a business plan that takes into account all of the factors of production.

## Factors of Production

You have, at one time or another, had to make a decision about how to spend your money. Sometimes, there may be only one thing that you want. That makes the decision easy. If you want more than one thing—a new game and some new clothes—and your funds are limited, you have to make a choice.

Countries make similar choices about production. Every country must ask “What are we going to produce?” “How are we going to produce it?” and “For whom are we producing it?” The answers to these questions help us decide how to use the four factors of production: natural resources, capital, labor, and entrepreneurship.

## Natural Resources

Items provided by nature without human intervention that can be used to produce goods and to provide services are called natural resources. **Natural resources** can be found on or in the Earth or in Earth's atmosphere. The raw materials needed to produce goods of all kinds come from the oceans, rivers, mines, fields, and forests that help make up the world's natural resources.

Many natural resources in our country are limited, however. A natural resource is considered a factor of production only when some payment is necessary for its use. For example, the air you breathe on the beach is not a factor of production because you do not have to pay to use it.

For example, consider the resource of land. Every business needs a place to locate. People starting a business have several key decisions to make when choosing where they will set up shop. They must consider what locations will best benefit their business. Companies that provide services need to be in a location that is convenient for potential customers to reach. Manufacturers want to be in areas with good transportation so they can ship their goods.



Cost also plays a role when choosing a location. Crowded downtown areas are often more expensive to build or rent office space in than places on the edge of town. Yet their access to customers may be worth the higher price. Business owners must also decide whether to build or rent their facilities. Rent is money paid to use property owned by someone else. Building may be more expensive up front but less expensive than renting in the long run. As you can see, business owners have to consider many such issues when deciding where to locate.

## Capital

Suppose you have opened a bakery. In addition to land, you will also need equipment such as mixers and ovens. This equipment is called capital. **Capital** is the manufactured goods used to make other goods and services. Capital includes tools, trucks, machines of all sorts, and office equipment, such as computers. These tools, machines, and other items are often called capital goods

to distinguish them from financial capital. Financial capital is the money that is used to buy the tools and equipment—the capital goods—used in production.

Where will you get financial capital? If you have a good business plan and you have good credit, you might take out a loan from a bank. You might also apply for a loan from the Small Business Administration (SBA). The SBA is an agency of the federal government whose mission is to provide a variety of assistance programs for small businesses.

Perhaps you will decide instead to seek one or more other people who are willing to invest in your bakery business. You also may decide to set up your business as a corporation and sell stock to raise capital. As you make these decisions, you must weigh the opportunity costs and analyze costs and benefits of each plan.

## Labor

All human effort, skills, and abilities used to produce goods and services are called **labor**.

## Factors of Production

The four factors of production—natural resources, capital, labor, and entrepreneurship—are the basis of most business decisions.

*Why do you think entrepreneurship is an essential factor of production?*



**Natural Resources**



**Capital**



**Labor**



**Entrepreneurship**

## Entrepreneurs



In the hope of making a profit, entrepreneurs from all walks of life risk their time, creativity, skills, and money to start businesses.



### Robert Johnson

Robert Johnson launched Black Entertainment Television (BET) in 1980 with programming created for an African American market.



### Bill Gates

In 1975, business pioneer and philanthropist Bill Gates cofounded Microsoft, the world's most successful software company.



### Vera Wang

After a disappointing search for a gown to wear at her own wedding, Vera Wang decided to design a line of wedding dresses for the modern bride.

**SS.7.E.2.4** Identify entrepreneurs from various gender, social, and ethnic backgrounds who started a business seeking to make a profit.

However, the word *labor* is often used to refer specifically to workers as opposed to owners and people who manage companies.

Workers in businesses, industries, and on farms sell their labor in exchange for money. Some workers are paid hourly wages for their labor. Other workers, particularly those who manage companies or have a great deal of responsibility, are paid salaries. Salaries are fixed earnings, rather than hourly wages.

Imagine you owned a bakery. If you performed your own labor, the amount of baked goods you could produce would be limited. If you hired more labor, your production would increase but you would have to pay higher labor costs.

The money you received for selling the additional goods needs to be at least enough to cover all your costs. If it is more than enough, you will increase your profits. If it is not enough to pay the workers, you will have to lay them off, or lower their pay. However, you might be able to find a way to increase productivity instead. Productivity is the amount of work produced by a worker per hour.

## Entrepreneurship

If you start your own business, you may be an entrepreneur. An **entrepreneur** is a person who organizes, manages, and assumes the risks of a business. Entrepreneurs often come up with an idea for a new product or a new way of doing business. They put up their own labor or capital and take the risks of failure. In return for taking the risks, an entrepreneur hopes to make a substantial profit. In our capitalist system, many people think that the efforts of entrepreneurs—starting businesses and creating jobs—are an important part of creating society's wealth.

For example, Bill Gates and other entrepreneurs in the computer industry have provided people with innovative computer software. Entrepreneurs have also shaped the development of the computer and Internet industries around the world. In doing so they have made important contributions to the nation's economy.

### READING CHECK

**Making Inferences** Why is labor considered a factor of production?



## The Government's Role

Although the U.S. government does not tell business owners what products to make or how much to charge, it does influence business in many ways. For example, government ensures that big corporations do not destroy competition from small businesses. The government also protects a person's rights to own private property and to buy and sell in a free market. In addition, the federal government taxes business income. Changes in the tax code can affect business plans.

Many agencies of the federal government help businesses. For example, the Small Business Administration helps small businesses as they compete in the economy. The government plays many other roles in business. It helps business by providing information that managers can use in planning their production levels, sales, and costs. It sometimes provides loans and other types of assistance to businesses. The government also tries to keep the economy running smoothly.

The government protects workers' health and safety, prevents pollution of the environment, and protects buyers from dis-

honest practices and harmful products. The government also ensures that employers cannot discriminate against workers or job applicants. Congress has also established a federal minimum wage law. This law requires a minimum hourly wage for employees who are not exempt.

Some people believe that the government has gone too far in doing its job as overseer. For example, tens of thousands of pages are needed to print all the business regulations issued by the federal government. On the one hand, some regulations are necessary. Others, however, are criticized for adding to the cost of doing business without providing much benefit to people. These higher business costs can be passed on to consumers as higher prices.

Achieving the correct level of government involvement is difficult. How much regulation is needed is a subject of great debate. As a citizen in a free economy, you will help decide this issue with your vote and your voice.

### READING CHECK

**Finding the Main Idea** Why does the government need to regulate businesses in the United States, and how does it do so?

## SECTION 3 ASSESSMENT



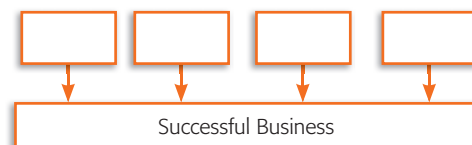
hmhsocialstudies.com  
ONLINE QUIZ

### Reviewing Ideas and Terms

- a. Define** Write a brief definition for each of the following terms: **natural resources**, **labor**, **capital** and **entrepreneur**.  
**b. Analyze Information** What are three ways people get capital for their businesses?  
**c. Draw Inferences and Conclusions** Why do businesses need labor, and how are they affected by productivity?
- a. Elaborate** What are some of the ways in which the government regulates business?  
**b. Defend a Point of View** Do you think the government should regulate business? Why or why not?

### Critical Thinking

- Summarizing** Copy the graphic organizer. Use it and your notes to identify the four factors necessary for a business to be successful.



### FOCUS ON WRITING

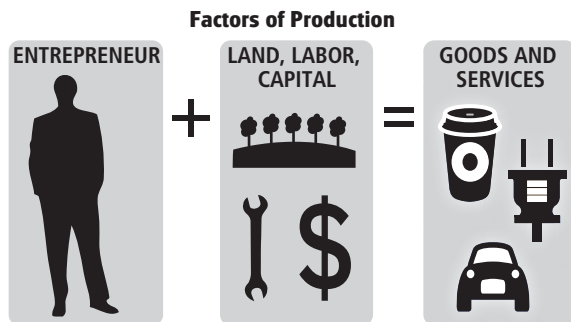
- Making Decisions** Imagine that you are planning to open a small business in your community. Make a list of the decisions that you must make before you can open your store.

# CHAPTER 17 REVIEW



## FLORIDA CIVICS EOC PRACTICE

1. The diagram below illustrates an economic concept.



What type of economy is shown in this diagram?

- A. traditional
  - B. communism
  - C. market
  - D. command
2. The market economy of the United States reflects the founders' belief in which of the following?
- A. freedom of speech
  - B. economic freedom
  - C. government-owned businesses
  - D. minimum wage

## Reviewing Key Terms

For each term below, write a sentence explaining its significance to the American economy.

- |                             |                       |
|-----------------------------|-----------------------|
| 1. market economy           | 17. natural resources |
| 2. free market              | 18. capital           |
| 3. profit                   | 19. labor             |
| 4. scarcity                 | 20. entrepreneur      |
| 5. law of supply            |                       |
| 6. law of demand            |                       |
| 7. free enterprise          |                       |
| 8. capitalism               |                       |
| 9. monopoly                 |                       |
| 10. sole proprietorship     |                       |
| 11. partnership             |                       |
| 12. corporation             |                       |
| 13. stock                   |                       |
| 14. stockholders            |                       |
| 15. dividends               |                       |
| 16. nonprofit organizations |                       |

## Comprehension and Critical Thinking

### SECTION 1 (pp. 450–458)

21. **a. Describe** Name and describe the three main economic systems.
- b. Analyze** What role does competition play in the free enterprise system?
- c. Elaborate** Do you agree that monopolies weaken a market economy? Explain your answer.

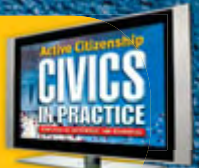
### SECTION 2 (pp. 460–464)

22. **a. Identify** What is a nonprofit organization?
- b. Compare and Contrast** In what ways are sole proprietorships, partnerships, and corporations similar and different?
- c. Elaborate** Which of the different business organizations would you most want to be a part of? Why?



## Active Citizenship video program

Review the video to answer the closing question:  
What arguments from the segment may have persuaded the Court to hold technology companies responsible for illegal downloads?



### SECTION 3 (Pages 466–469)

- 23. a. Recall** What are the four factors of production? Why is each important to a business?
- b. Draw Inferences and Conclusions** Why must the factors of production be considered when starting a new business?
- c. Predict** What might happen if governments did not regulate some business operations?

## Civics Skills

**Evaluating Primary Sources** The primary source below is a 1926 advertisement from a women's magazine. Use the source to answer the questions that follow.

- 24.** What is the subject of this primary source? How do you think it was originally used?
- 25.** What does this primary source tell you about the period from which it was produced?

## Reading Skills



**Interpreting Basic Indicators of Economic Performance** Use the Reading Skills taught in this chapter and the chart below to answer the questions that follow.

Year	Consumer Price Index	Change from previous year
2000	\$172.20	3.4%
2001	\$177.10	2.8%
2002	\$179.90	1.6%
2003	\$184.00	2.3%
2004	\$188.90	2.7%

- 26.** Between what two years did the Consumer Price Index change the most?
- 27.** What overall trend does the chart indicate?

## Using the Internet



- 28.** Through your online textbook, research stock and stock markets. Then imagine you are a corporate officer about to issue stock to raise money for your company. Create a company profile that explains what you produce, why you are issuing the stock at this time, what kind of stock will be issued, how much each share will be, and your projections on how your stock will do in the market.

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## FOCUS ON WRITING

- 29. Writing a Newspaper Advertisement** Use your notes about economic systems to help you plan your newspaper advertisement. Develop a list of information about your lighting system that consumers might want to know. Then design your advertisement, making sure to include both text and interesting visuals. Remember to explain what makes your product different from the competition. Use your advertisement to persuade people to purchase your product.



# FLORIDA...

## The Story Continues

### CHAPTER 18, Goods and Services

#### PLACES

#### **2010: Florida's economy depends on tourism.**

Tourism is Florida's biggest industry. In 2010, 80 million people visited Florida. They spent more than 60 billion dollars, and they generated 22 percent of the state's sales tax revenue. The tourism industry employed nearly 1 million Floridians. That is why the state spends money on tourism marketing to attract potential visitors from around the world.

#### EVENTS

#### **1973: Florida's State Legislature passes laws to protect consumers.**

The Deceptive and Unfair Trade Practices Act had three goals. First, it modernized Florida's consumer laws. Second, it said that people have to tell the truth about things that they are selling. Third, it made Florida's consumer laws like those in the other states.

#### PLACES

#### **The Overseas Highway is 127.5 miles long.**

It runs over the old Over-Sea Railroad path to Key West. The railroad was destroyed by a hurricane in 1935. Because of the Great Depression, the railroad company did not have the money to fix the bridges and track. However, people still needed a way to get goods from the port at Key West. The federal government supplied funding to help build the road and bridges. The resulting Overseas Highway opened in 1938.



**PEOPLE****1883: Henry Morrison Flagler visits St. Augustine.**

Flagler saw that the city could become a tourist spot, but there were no good hotels. As co-owner of the Standard Oil Company, Flagler used some of his oil money to build a hotel. Because he realized that northerners would need an easy way to get to his hotel, he bought the St. Augustine & Halifax Railroad. This was the beginning of the Florida East Coast Railway. Flagler kept building hotels and railways across Florida. In 1905, the United States was going to build the Panama Canal. Key West was the closest deep-water port to the Canal. A railroad would be very profitable if it was near that port, so Flagler decided to run his railway to Key West. The Florida Over-Sea Railroad reached Key West in 1912.

**PLACES****Railroads fight against the Gulf Intracoastal Waterway (GIWW).**

The GIWW is very important to Florida's economy. Farmers and other businesses

use it to ship their goods to ports across the world. However, it took many years to get it built. The railroads knew that it would take some of their business, so they used all of their political power to fight it. They also told farmers that the GIWW would take water away from their farms. However, people saw how useful the GIWW was during World War II. German submarines sank some ships in the Gulf, so ships started using the GIWW section from the Mississippi River to Carrabelle, Florida. This let people ship oil, produce, and military supplies safely to the Atlantic Ocean.

**PEOPLE****Henry Plant buys cheap railroads after the Civil War.**

Plant thought that the Florida economy would recover after the Civil War. So he bought railroads. However, the tracks were different sizes. Plant had all the tracks made the same size; this made his trains faster than other trains. As a result, farmers could get their produce to market sooner, avoiding spoilage.

## Unpacking the Florida Standards <...

Read the following to learn what this standard says and what it means. See FL8-FL20 to unpack all the other standards related to this chapter.

**Benchmark SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit.

**What does it mean?**

Show an understanding of how borrowing and lending money affects the economy, as well as how and why the government regulates financial institutions. Discuss the advantages and disadvantages of using credit to pay for goods and services. Go to Chapter 18, Goods and Services, Chapter 19, Personal Finances, Chapter 20, Economic Challenges, and the Personal Finance Handbook for help.





## CHAPTER 18

# GOODS AND SERVICES

**Essential Question** What role do goods and services play in our economic system?



### Florida Next Generation Sunshine State Standards

**SS.7.C.2.12** Develop a plan to resolve a state or local problem by researching public policy alternatives, identifying appropriate government agencies to address the issue, and determining a course of action. **SS.7.C.2.14** Conduct a service project to further the public good. **SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit. **SS.7.E.1.5** Assess how profits, incentives, and competition motivate individuals, households, and businesses in a free market economy. **LA.7.1.6.1** The student will use new vocabulary that is introduced and taught directly. **LA.7.1.7.1** The student will use background knowledge of subject and related content areas, prereading strategies, graphic representations, and knowledge of text structure to make and confirm complex predictions of content, purpose, and organization of a reading selection.







Henry Ford: Taking the Low Road

[hmhsocialstudies.com](http://hmhsocialstudies.com) VIDEO

# WHY CIVICS Matters

Many of the things that you buy, from cereal to compact discs, are made in the United States. How the United States makes and distributes goods and services has contributed to the country's economic success.

PROJECT **Citizen**



FLORIDA

## STUDENTS TAKE ACTION

**BATTLING PLASTIC BAGS** What goods and services are common in your community? How do they affect the environment? In Pasco County, Florida, students grew concerned about the use of plastic bags in their community. They decided to do something about it.

## FOCUS ON WRITING

**AN INFOMERCIAL** Each year, the United States produces more than \$6 trillion worth of goods and services. As you read this chapter, take notes on how the United States makes and distributes its products throughout the world. Then write an infomercial to teach citizens about America's free-enterprise economy.



# Reading Skills

In this chapter you will read about the goods and services that the United States produces annually. You will learn what mass production is and how it allows the United States to produce more goods than any other country.

You will also read about how American goods are shipped to consumers around the world and how marketing helps to sell these products. Finally, you will learn how to be a wise consumer and find out about the resources available to help you make smart purchases.

## Interpreting a Table

### FOCUS ON READING

A table condenses data into a format that is easy to read and understand. However, tables show information without analysis or interpretation. It is up to readers to interpret the table and draw their own conclusions.

**Reading Tables** To read a table, first look at the title to understand the table's subject and purpose. Then study the headings for each vertical column or horizontal row. Analyze the information to draw conclusions about the data. Look for trends by looking down each column and along each row.

**Title** This table is about how people traveled between cities.

Mode of Transportation of People Traveling between Cities

Year	By Railroad	By Airline
1950	6%	2%
2000	1%	19%

**Headings** These headings tell you that the data will show the year and kind of transportation used.

**Conclusions** By studying the information, you can see that there was a big jump in the use of airlines and a drop in the railroads. You would conclude that airlines have become more widely used than railroads for passenger travel.

### Helpful Hints for Interpreting Tables

1. To locate specific facts on a table, look down a column and across a row.
2. Where the column and row intersect, or meet, is where you will find the data you need.
3. Analyze the information by looking for how the numbers change. Is there a pattern that suggests a trend?



## You Try It!

Study the table below. Then answer the questions that follow.

U.S. Balance of Trade, 2005–2010 (in billions of dollars)			
YEAR	EXPORTS	IMPORTS	BALANCE
2010	1838	2338	-500
2009	1575	1956	-381
2008	1843	2541	-698
2007	1655	2351	-697
2006	1460	2213	-753
2005	1287	1996	-709

\* Minus sign (–) indicates negative balance, or deficit.

**After you have studied the table, answer the following questions.**

1. What years are included in the table?
2. What is the meaning of the minus signs (–) in the “Balance” column?
3. What was the U.S. balance of trade in 2005? In 2010?
4. Do you see a trend in the value of U.S. exports included in the table? Do you see a trend in the value of goods the United States imports? Describe both trends.
5. How did the U.S. balance of trade change during the years included in the table?

**As you read Chapter 18,** think about what facts and figures might be put into a table format.

## KEY TERMS

### Chapter 18

#### Section 1

goods (p. 476)  
services (p. 476)  
gross domestic product (GDP) (p. 477)  
mass production (p. 477)  
profit (p. 480)

#### Section 2

marketing (p. 486)  
mass marketing (p. 486)

#### Section 3

consumer (p. 492)  
brand (p. 492)  
generic product (p. 492)  
debit card (p. 494)  
charge account (p. 495)  
credit cards (p. 495)

### Academic Vocabulary

Success in school is related to knowing academic vocabulary—the words that are frequently used in school assignments and discussions. In this chapter, you will learn the following academic word:  
features (p. 487)

## SECTION 1



SS.7.E.1.5; LA.7.1.6.1; LA.7.1.7.1

# American Production

## BEFORE YOU READ

### The Main Idea

American systems of mass production have made it possible to produce goods more efficiently, which raises the U.S. standard of living. The American economic system has made our economy one of the most successful in the world.

### Reading Focus

1. What are goods and services, and why are they important in the economy?
2. What are the main features of modern mass production?
3. What is the service sector of the economy?
4. How are profit, risk, and innovation related?

### Key Terms

goods, p. 476  
services, p. 476  
gross domestic product (GDP), p. 477  
mass production, p. 477  
profit, p. 480



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TAKING NOTES

Use the graphic organizer online to take notes about American production.



Mass production assembly lines, such as the one shown here, make goods more affordable.

These workers are responsible for just a few parts instead of having to build the entire vehicle.

## CIVICS IN PRACTICE

Did you ever make a model car or sew a dress from a pattern? What if you had to make hundreds or thousands of them to sell? What would you need to charge for each item to make a living? How much would the public be willing to pay for your products? Mass production is the key to producing affordable goods for millions of Americans and people all over the world.

## What Are Goods and Services?

Goods and services are all the things that are produced by a country's economy. Physical products that you can see or touch are called goods. **Goods** are things that are manufactured, or made, and that consumers can buy and own. Examples of goods include food, cars, CD players, buildings, and airplanes. Products that are not physical objects are called **services**. Services are things that people do. Consumers get the benefit of the services but do not own anything as a result. Examples of people who provide services include doctors, tax return preparers, translators, painters, and auto mechanics.



## Modern Mass Production

In 1913, inspired by the conveyor belts in grain mills, Henry Ford sped up the 12-year-old assembly line process. He paired humans with machines to divide the assembly of his Model T cars into 84 quick steps. Suddenly, it was possible to produce more automobiles at a much lower cost.

In 1961 a robot named *Unimate* was put to work on a General Motors assembly line as a welder. Since then, industrial robots have become important players in mass production, often performing tasks in conditions too dangerous for humans.



**ANALYSIS SKILL**

**ANALYZING VISUALS**

**How did the capability to produce more goods in less time help lower costs?**

Some products are a combination of goods and services. For example, a house painter delivers a service—the painting—but also provides a good—the paint itself. A restaurant provides food preparation, ambiance, and cleaning up, but it also provides the food.

The market value of all goods and services produced annually in the United States is called the **gross domestic product (GDP)**. Economists use the GDP as one measure of how well the U.S. economy is performing. Other measures of economic well-being include the unemployment rate, the business failure rate, and the amount of tax revenue that American businesses and citizens produce.

### READING CHECK

**Finding the Main Idea** How is the GDP related to goods and services?

## Mass Production of Goods

Americans' production of goods depends heavily on the process of **mass production**, or the rapid production by machine of large numbers of identical objects. The key to mass production is to develop machine tools that produce exactly identical parts. Each worker can then be responsible for

monitoring only one machine instead of having to make the whole product. Specialized workers can work faster and more efficiently. Because all the parts are interchangeable, a single worker can do the final assembly of the finished product. Later, if a part wears out, it can easily be replaced by a new identical part.

### Power for Mass Production

In the early 1800s, manufacturers learned to move beyond the force of falling water, or water power, as the main source of power to operate their machines. Once Scottish engineer James Watt invented an efficient steam engine, steam power became the leading source of industrial power.

In the late 1800s, the internal combustion engine was developed. This engine used the power released by exploding gasoline. It was often used to run small machines and, later, automobiles as well.

The source of power that contributed most to modern mass production, however, was electricity. In the late 1800s, Thomas Edison made the widespread use of electricity practical and affordable.

### FOCUS ON

Tourism is Florida's largest industry, and it accounts for a major part of the state's economy. More than one million Floridians work in the tourism industry, which includes businesses such as theme parks and attractions, hotels, restaurants, travel agents, and cruise lines. In 2008, Florida's 84.2 million visitors spent more than \$65 billion, which generated \$3.9 billion in sales tax revenue.

## Teens and Labor Laws

*Suppose you are 14 years old and your parents have given you permission to get your first job. You might ask yourself, "What kind of job would I like?" The first questions you should ask, however, are: "What kinds of jobs am I legally allowed to have?" "How many hours am I allowed to work?"*

### Why it Matters

For many years in this country, children as young as 5 or 6 sometimes worked to help support their families. Children as young as 8 could work in coal mines and factories. Many people believed that working long and difficult hours was not a healthy way to spend a childhood. For this reason, Congress outlawed child labor in 1938.

Today the federal government limits the hours that children can work and the types of jobs they can hold. The laws vary, depending on how old you are. For example, children 13 and younger can only work at certain jobs. These include babysitting, delivering newspapers, or acting in theatrical, motion picture, and broadcast productions. If you are 14 or 15, you can work only three hours on a school day and not more than 18 hours during a school week. You can, however, work full time during the summer. Teens aged 16 or 17 can work more hours during the school year. Yet, there are certain jobs that are off limits for anyone under 18. These prohibited jobs involve dangerous work, such as mining and operating heavy equipment.

During the early 1900s, young children often worked long hours in dangerous factory jobs.



### ANALYSIS SKILL

#### EVALUATING THE LAW

1. Why do you think the government limits the hours and types of jobs that teens can have?
2. Do you think the laws affecting teen labor are fair? Explain.

 [hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**

### Modern Mass Production

Today, mass production is an essential part of all large-scale production. Whether you visit an automobile manufacturing plant or a large bakery, you will see some of the same production processes in operation. Each worker is highly skilled at a specialized job. Instead of having the workers move around, a moving track called an assembly line moves the product through stages of production until it is completed. Workers are positioned along the line and add parts or make adjustments as the product moves past them.

### Mass Production Worldwide

Mass production was first developed in the United States but has since spread around the world. Some countries can produce goods as rapidly and efficiently as the United States. Other countries have had less success.

Cuba, for example, uses mass production methods but has not achieved the same level of productivity. One reason is that in Cuba the government controls the economy. Property is not privately owned, and private enterprise is allowed only on a limited basis.



The government generally decides what prices to charge and the amount of goods and services to produce. As a result, most goods like cooking oil and other foods, and even shirts and shoes, can be difficult to buy. Many Cubans buy these goods on the black market—an illegal market that the Cuban government does not regulate.

A command economy like Cuba's does not have the same incentives, or motives, as a free economy. The lack of a profit motive in particular discourages people from increasing productivity. In turn, lower productivity means that there is less money available for modernizing factories and paying workers.

#### READING CHECK

#### Identifying Points of View

Why is mass production less effective in some foreign countries than in other countries?

## The Service Sector

Our economy is sometimes called a service economy. In earlier times, most of the country's economic effort went into producing goods. As the economy has matured, however, fewer and fewer workers are involved in the manufacture of products. At the same time, people have developed a need for many types of services. Today, a significant portion of the U.S. workforce is dedicated to the production and delivery of these services.

### Personal Services

One type of service, called personal service, is performed directly on consumers. You are already familiar with many of these service. Personal services include medical care or haircutting and makeup services. Physical training services such as personal fitness, yoga, and golf lessons are also examples.

### Repair Services

Another type of service is performed on goods that you own. This service is made to repair, maintain, or improve them. Heater and air conditioner maintenance and auto repair are among these services.

## ECON 101

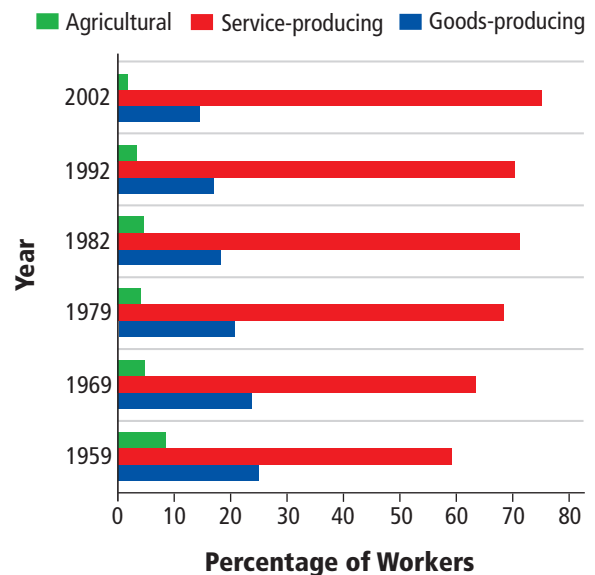
### Growth of the Service Sector

The U.S. Bureau of Labor Statistics predicts that in the 10 years leading up to 2018, 15.3 million new jobs will be created. Of those, approximately 14.5 million will be in the service sector. More than one quarter of the new jobs are projected to be in health care or related industries.

Advances in technology and an increasing number of service jobs mean that education is more important than ever for U.S. workers. Many of today's high-paying jobs require an undergraduate degree or higher.

The Department of Labor's *Occupational Outlook Handbook* can be found on the Internet. Use it to compare the skills and education needed for three different jobs. You can also use this chart to hypothesize about how the changing job market might affect agricultural imports and the cost of manufacturing goods in the United States.

#### Jobs by Industry, 1959–2002



#### ANALYSIS SKILL

#### ANALYZING ECONOMICS

Which industries show an increase in jobs between 1959 and 2002, and which show a decrease in the same time period?

## QUICK FACTS

### Predicted Fastest-Growing Jobs (2008–2018)

- 1 Biomedical engineers
- 2 Network systems and data communication analysts
- 3 Home health aides
- 4 Personal and home care aides
- 5 Financial examiners
- 6 Medical scientists
- 7 Physician assistants
- 8 Skin care specialists
- 9 Biochemists and biophysicists
- 10 Athletic trainers

Source: Bureau of Labor Statistics, *Occupational Outlook Handbook, 2010–11 Edition*

### Other Services

You are already familiar with retail and entertainment services. You have been to the mall or bought something from an online seller. You have gone to the movies or have played music and videogames. Still other services include banking, financial planning, legal services, and insurance.

Some services require no special education and little training or experience. An example is lawn mowing. Others, like auto repair or

plumbing, need some study and on-the-job training. Training may entail a period of supervised training or a formal apprenticeship. Some services, such as legal or medical services, require a lot of advanced training beyond college and usually some practical supervision as well.

### READING CHECK

### Identifying Points of View

Why are services becoming a larger and larger part of the U.S. economy?

## Profit, Risk, and Innovation

A free-market economy encourages people to take risks by offering them the possibility of a reward, such as making a profit, for taking the risk. **Profit** is the difference between the total cost of production and the total revenues received from buyers. In a market economy such as ours, profit motivates business decisions. Businesses make decisions about what and how much to produce based on how much profit they think they can make.

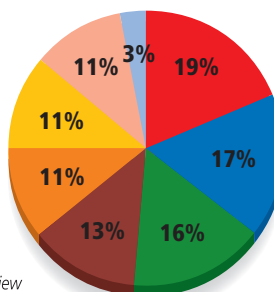
A businessperson who can earn a large profit for taking a large business risk, such as offering a new product or service, may be motivated to take that risk.

## Opportunities in 2008

In the early 2000s much of the job growth in the United States took place in fields related to computers or health care. By 2008 about 11 percent of employed persons worked in executive, administrative, and managerial jobs. Forecasters expect similar trends to continue throughout the 2010s.

### Job Opportunities

- Professional and technical
- Administrative support and clerical
- Services
- Operators, fabricators, and laborers
- Executive, administrative, and managerial
- Marketing and sales
- Precision production, craft and repair
- Agriculture, fishing, and forestry



Source: *Monthly Labor Review*

\*Figures are rounded to the nearest percent.

### ANALYSIS SKILL

### ANALYZING CHARTS

What percentage of U.S. jobs involved marketing, sales, and services in 2008?



Take Michael Dell for example. When in college, Dell was bothered by the high cost of personal computers and the lack of technical support their makers offered. In 1984 Dell took a risk and launched his own computer business. He used direct advertising and, later, the Internet to sell made-to-order computers directly to customers. This lowered his costs, and Dell could offer his customers lower prices and better service. Dell Computers now does about \$50 billion of business a year.

Dell's idea was an innovation in production methods. An innovation is the development of a new product, system, or process that has wide-ranging effects on the economy. If one company uses a successful innovation, its competitors must copy the innovation to remain competitive. When Dell Computers was successful with its direct retail approach, other companies followed. They developed their own direct-to-consumers marketing.

#### READING CHECK

**Summarizing** How are profits and competition important to a market economy?

## PRIMARY SOURCE

### POLITICAL CARTOON

## Jobs and Innovation

*Innovations, such as assembly lines and direct-to-consumer marketing, can have an impact on jobs and wages.*



#### ANALYSIS SKILL

#### ANALYZING POLITICAL CARTOONS

What does this cartoon imply about the results of an innovation like computers?

## SECTION 1 ASSESSMENT



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ONLINE QUIZ

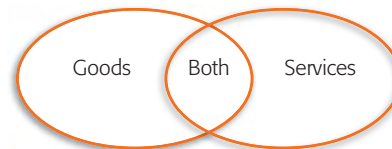
### Reviewing Ideas and Terms

- Define** Write a brief definition for the terms **goods**, **services**, and **gross domestic product (GDP)**.
  - Explain** How can a person or a business offer both a good and a service at the same time? Give an example.
- Define** Write a brief definition for the term **mass production**.
  - Identify** Why did the introduction of electrical power have such an impact on the U.S. economy?
- Summarize** Why is the U.S. economy sometimes called a service economy?
  - Draw Conclusions** Why has the U.S. economy moved away from producing goods and focused more on providing services?
- Define** Write a brief definition for the term **profit**.

- Elaborate** What is the relationship between innovation, taking risks, and earning profits?

### Critical Thinking

- Comparing and Contrasting** Use your notes and a diagram like this one to identify the similarities and differences between goods and services.



### FOCUS ON WRITING

- Summarizing** Imagine that you are the president of an automobile manufacturer. Write a paragraph explaining how your factory uses assembly lines and mass production to build cars.

# STUDENTS TAKE ACTION



## Battling Plastic Bags

**W**hat happens to all those plastic grocery bags that get thrown away? How do they affect our environment? The students in Elizabeth Zizo's middle school class in Pasco County, Florida, asked these questions. They wondered why the government continued to allow plastic bags to be produced. Their main ingredient is petroleum, a resource that cannot be renewed. Reducing plastic bag use would also be better for the environment. There would be fewer toxins released when the bags break down.

**Community Connection** Plastic bags have many negative environmental effects. They add to landfills, clog sewer systems, and can kill marine life. Students learned that at least 11 million plastic bags are used in the United States every hour. Of these, only about 5 percent are recycled. The plastic bags that end up in landfills take hundreds of years to break down. Then they break down into polyethylene dust. This adds toxins to the soil and groundwater that can kill plants and animals.

**Taking Action** Students went to grocery stores and watched as customers used hundreds of plastic bags each day. They wanted to let the Florida Legislature know about the impact of plastic bags on the environment, as well as the nonrenewable resources used in their production. They spoke with community members and wrote letters to their representatives. They also contacted the regional water management district known as Swiftmud and the Florida Fish and Wildlife Conservation Commission to lobby for a Florida law to address this issue.

Their action plan proposed a new fine on plastic bags and their total ban in five years. They also proposed that cloth bags be available at checkout counters for a low fee. Developing an online petition, the students linked it to a Facebook account to help others learn about the dangers of plastic bags.



Students met with former U.S. senator and governor Bob Graham to discuss their project.



### SERVICE LEARNING



1. Work with other students to develop a plan to reduce the use of plastic bags or other nonrenewable resources in your community.
2. Determine a course of action to implement your plan as a service project.

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## SECTION 2



SS.7.E.1; LA.7.1.6.1; LA.7.1.7.1

# Distributing Goods

## BEFORE YOU READ

### The Main Idea

Producing goods is only the first step in filling consumers' needs. Getting goods to consumers involves a complex transportation system that makes it possible for American businesses to sell their goods throughout the country and the world.

### Reading Focus

1. How are goods transported from manufacturers to consumers?
2. How are services delivered to consumers in the United States?
3. How are goods and services marketed to consumers?

### Key Terms

marketing, p. 486  
mass marketing, p. 486



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### TAKING NOTES

Use the graphic organizer online to take notes on how goods and services are transported, delivered and marketed.



Cargo containers carrying American goods are loaded onto ships to be transported to customers around the world.



How can supermarkets stock fruit and vegetables in winter? If we only had local farmers to provide for us, we would eat only the food that was in season. When you go into an electronics store at the mall to buy the latest game, do you ever think about how the game gets into your hands?

## Transporting Goods

In the early days of our country, goods were usually delivered by horse-drawn wagon or by boat, if there was a river flowing the right way. These were slow and often unreliable methods of transportation. The development of the railroad sped things up somewhat, but a truly efficient national economy needed faster and more effective ways of getting products from the manufacturer to the consumers.

Today, goods in our economy are still shipped by rail and by water, similar to the ways goods were shipped 150 years ago. But today we also use trucks and other motor vehicles to carry much of our freight. Airplanes carry freight that must move quickly from one place to another.

## Railroads

Railroads are an important part of the country's transportation system. They carry bulk cargo, such as coal and grain. Railroads helped create a single, large market for products. Long freight trains rolled from coast to coast carrying raw materials and finished products. The railroads brought new goods to every American city, to most towns, and within reach of many farms. The railroads gave businesspeople a means of rapid travel and communication. For about a century, starting around 1850, railroads were the country's chief method of transportation. After that, railroads were challenged by other competing means of transportation—trucks, buses, automobiles, and airplanes. In the 1960s and 1970s, many railroads went out of business.

Railroads today carry a much smaller percentage of freight than they did in the late 1800s. Measured by dollar value, only about 4 percent of goods in the United States are transported by rail. When the goods are measured by weight, trains carry about 16 percent of our goods. However, when the goods are measured by both weight and number of miles hauled, trains carry about 40 percent of the goods.

## Airlines

Airlines are also important in transporting freight. For example, planes now carry all first-class mail between U.S. cities located over a certain distance apart. Airlines can carry all kinds of freight—from small packages to large industrial machinery and automobiles—with great speed. However, airlines carry only a small percentage—about 3 percent by value—of the freight shipped throughout the United States. It is much cheaper to ship items by rail or by truck.

Transportation of goods by air also has its problems. Airplanes can carry heavy cargo, but not much of it at any one time. Also, large cargo planes cannot land at small airports. Cargo must be delivered to large airports and then transported by some other means. Airlines also face higher prices for aviation fuel, so the cost of delivering goods by airplane may become more expensive. Finally, air cargo companies have had to increase security as a result of the September 11, 2001, terrorist attacks. These increased security measures have been expensive. If more measures are necessary, transporting goods by air may become even more costly.

## Distribution of Goods and Services

Goods go through several steps from the factory to your home. Some goods are assembled by people and some are assembled by machines. However they are assembled, all goods must eventually be delivered to a customer. This system is called the distribution chain.

*How does each step of the distribution chain add to the price the consumer pays for a product?*

**QUICK  
FACTS**



### 1 Manufacturing

Workers assemble the parts needed to build a television set.



## Highways

The motor vehicle is the leading means of transportation in the United States. Individual Americans and their families do about 85 percent of their traveling in personal vehicles (cars, light trucks, and SUVs). Motor vehicles, especially trucks, are also the leading means of transporting goods in this country. Trucks carry about three-fourths of all goods by dollar value and about two-thirds of all goods by weight.

Rapid highway transportation depends on good roads. To speed motor traffic, the country maintains a vast interstate highway system. The United States now has about 4 million miles (6.5 million km) of roads. Together these roads form an interconnected highway system that reaches every part of the country.

Highway transportation also depends on a steady supply of fuel. Even though currently there may be no shortage of gasoline or diesel fuel, prices for these fuels continue to increase because of global political conflict and supply uncertainty. As fuel prices rise, the cost of delivering goods over the highways increases. Consumers eventually end up paying more for these goods.

## Rivers

Transportation of goods by water—rivers, canals, and oceans—continues to be an important means of transportation. Although relatively little—only about 1 percent by value; about 6 percent by weight—of our goods are shipped by water, there are some advantages to this method.

For those manufacturers and consumers located close to major rivers, barge or boat transportation of goods can be fast and inexpensive. The development of modern container shipping, where goods are packed in large container boxes that can be carried on the back of a truck or loaded onto a barge, has made it easier to use a combination of land and water transportation to deliver goods.

Transportation by water does have some disadvantages. For example, river transportation is subject to the weather. During 2003, for example, lack of rain led to low water levels in the Mississippi River that delayed river shipments.

### READING CHECK

### Comparing and Contrasting

What are the advantages and disadvantages of shipping goods by highways and by rivers?



#### 2 Packing

Completed television sets are packaged for safe and efficient shipping.



#### 3 Warehousing

Factories often sell goods in large quantities to a wholesaler, who stores goods in a warehouse and later sells them to retailers.



#### 4 Buying/Selling

Retailers offer a variety of goods for sale to their customers.

## Delivering Services

The growing service sector has many types of businesses. There are tourism, restaurants, personal care, retail, and entertainment. Of course, entertainment has many services of its own. Those include the record industry, the music industry, radio, television, computer games, and movies. Then there are the news media and the leisure industry with its amusement parks and resorts. Also, services include education, health care, consulting, investment, and legal advice. All these services need to be delivered.

Services can be delivered in many ways. Some services are delivered in person, over the Internet, or through the mail. Others are delivered at retail stores and by telephone. Each service provider finds the best way to deliver the service offered.

Services have become a large part of our economy. As a result, service providers have put more effort into finding the best ways to market and deliver their products. But service providers face some problems that manufacturers do not face. For example, services are not something you can hold or touch, like a cell phone or a car. Consumers may not always know exactly what they are getting when they ask for a certain service. That is, how do they measure, say, the freshness of a product or the training or skill level of a service provider? How do you know which insurance agent or travel agent to pick?

Consumers may also have difficulty choosing one provider over others for certain services. Most restaurants offer similar food choices, and many shops offer similar haircuts or beauty services. How do you decide which store to shop in or which restaurant to eat in? Service providers must find ways to convince you to choose them for the service that you want.

### READING CHECK

**Analyzing** What are two problems that consumers face when selecting a service provider?

## Types of Services

The service sector has become the fastest growing part of the U.S. economy. Services include health care, personal care, education, and information services.



Health Service

## Marketing Goods and Services

Once goods are made and shipped, or once services are ready to be offered, the goods or services must be made available to the consumer. At the same time, consumers have to be made aware that the goods and services are available. Consumers must also be convinced to buy a particular product or service.

The process of convincing consumers to buy the product is called **marketing**. Perhaps you have developed the most exciting new product of all time. Yet, your business will not survive unless you have a way of telling people what you have created. Then you must convince them your product is something they want to own. Today, most selling is done on a large scale. It must reach out to thousands or even millions of people.

### Mass Marketing

Selling goods in large quantities often requires mass marketing. **Mass marketing** is the process of selling a good or a service in which the same





**Educational Service**



**Personal Service**



**Information Service**

**ANALYSIS  
SKILL**

**ANALYZING VISUALS**

1. Why do you think the service sector of the economy is growing so quickly?
2. How can you compare one service to another?

product, price, promotion, and distribution is used for all consumers in a particular market. Mass marketing involves preparing products that are the same wherever they are sold. You can go into any drug store to buy your favorite brand of toothpaste and know you will get the product you want. Three important **features** of mass marketing are the one-price system, self-service, and standard packaging.

**One-price system** In the one-price system, prices are stamped or bar-coded onto products. A bar code, also known as the Universal Product Code (UPC), is the pattern of lines and spaces and the numerals usually printed on a label that is found on most commercial goods. The code, which can be read by a computer, contains information about the product and allows cashiers to ring up items quickly.

**Self-service** Most modern stores use a type of marketing and delivery called self-service. Self-service is an efficient and inexpensive way to sell goods because it saves time and labor. In self-service stores like supermarkets and

department stores, customers typically push carts up and down the aisles, selecting items and serving themselves. Some stores now even allow customers to check out by themselves by passing their purchases through a scanner that reads the bar code.

**Standard packaging** Standard packaging also adds to the efficiency of the self-service system. Goods come from factories already wrapped. Crackers, for example, are wrapped and sold in boxes. Sugar comes in boxes or bags of different weights. New technology continues to provide new uses for the bar codes you see on packages. For example, bar codes help a store track inventory and reorder products that are selling out. Bar codes are also used to keep track of products during shipping and can carry various information about the product.

Many stores are now in constant communication with their suppliers to keep their shelves stocked without having to store a lot of extra product. Using this “just-in-time” supply keeps stores from running out of popular products while keeping costs down.

**ACADEMIC  
VOCABULARY**

**features**  
characteristics

## Types of Advertising

### Competitive

Competitive advertising tries to persuade consumers that a product is better than or easier to use than its competitors.

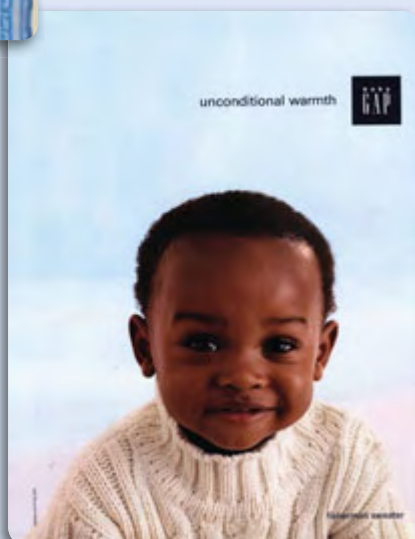


### Informative

Informative advertising gives consumers information about a product, such as its price, its quality, its history, and its special features. Informative ads may be combined with competitive ads.

### Emotional

Some advertisers use words or pictures that attempt to appeal to a consumer's emotions. Advertisers may also appeal to fear, happiness, or a consumer's sense of well-being.



ANALYSIS  
SKILL

#### ANALYZING VISUALS

What do you think helps make an advertisement interesting or informative?

### Wholesalers and Retailers

When moving from the factory to you, products may pass through several hands. A factory or manufacturer often sells goods in large quantities to a wholesaler. Owning a large warehouse where goods are stored, the wholesaler then sells the goods to retailers. Next, retailers, or retail stores, sell the goods directly to the public. Wholesalers, also called distributors, link the factory and the retailer. In the end, of course, the customer pays for this service. Today, retailers may be a single store that offers only one type of good or service. Then again, you may buy your goods and services at a shopping mall or at a large "big-box" store.

### Internet Sellers

The Internet is changing the relationship between retailers and the public. Purchasers can often shop online. Here, they can view goods and some services on their computers and purchase items electronically. Goods are then sent to the purchaser using the postal service or a private delivery service. This service has become especially popular for books or clothing. Yet, it is also used for furniture, rugs, and other large and expensive items. Internet retailers do not need as many stores or local warehouses if they can ship to customers from a central point. Services, such as insurance quotes, may be delivered by e-mail to the customer.

### Advertising

Marketing goods and services would not be possible without advertising. Advertising informs people about products. It also tries to persuade consumers to buy the products. When producers of similar products compete, advertising may make the difference between the success and failure of a particular product.

The goal of an advertiser is to give a consumer a reason to buy the advertised product. Some advertising is designed to increase



people's recognition of a product's name. A brand-name product is a widely advertised and distributed product. People often buy brand-name products they have heard about most favorably or most often. Other advertising tries to convince consumers that one company's product is better, more effective, longer lasting, or less expensive than another company's product.

Some people believe that some forms of advertising do not accurately represent products and can be misleading. They also think that advertising encourages people to buy products that they do not really need. Others argue that competition among mass producers, marketers, and advertisers helps keep the quality of products high and prices low. Finally, some people think that advertising can be a good way to inform consumers about new—or improved—goods or services that are coming to the market.

#### READING CHECK

**Analyzing Information** How is advertising part of the marketing chain of delivering goods and services to consumers?

## PRIMARY SOURCE

### POLITICAL CARTOONS

#### Truth in Advertising?

*Some advertising is false or misleading.*



Marketing a product includes using advertising to try to convince consumers to buy the product.

#### ANALYSIS SKILL

#### ANALYZING POLITICAL CARTOONS

What does this cartoon suggest about the manufacturer's intentions in marketing his product?

www.CartoonStock.com

## SECTION 2 ASSESSMENT

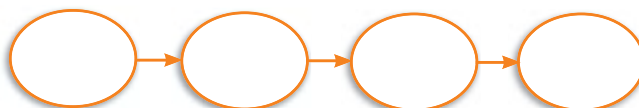
hmhsocialstudies.com  
ONLINE QUIZ

### Reviewing Ideas and Terms

1. **a. Identify** What are the four main ways that goods are transported to consumers?  
**b. Compare and Contrast** If you want to ship a large quantity of sand from one part of the United States to another, would you ship by truck or by rail? Explain your answer.
2. **a. Explain** Why can services be delivered to consumers in so many different ways?  
**b. Evaluate** Many services are offered on the Internet. Is information offered by Internet sellers likely to be more or less accurate than information in a national magazine? Explain your answer.
3. **a. Define** Write a brief definition for the terms **marketing** and **mass marketing**.  
**b. Analyze** How does mass marketing help the U.S. economy?

### Critical Thinking

4. **Summarizing** Copy the graphic organizer. Use it and your notes to summarize the process of manufacturing, transporting, and marketing goods to consumers in the United States.



#### FOCUS ON WRITING

5. **Identifying Points of View** Imagine that you are a newspaper reporter covering a debate on the role of advertising in the U.S. economy. Write a newspaper article outlining the debate.

## Reading Labels

### Learn

Different types of products have different labeling regulations. Milk, meat, clothing, and computers all must carry labels, but what those labels have to say is different. That is one reason why it is important to read labels carefully.

At the same time, companies are *not* required to disclose everything about a product on its label. Milk companies, for example, do not have to address their use of any drugs on the cows that produce the milk. Beef packages do not tell whether a cow lived its life outside or inside.

### Practice

**1 Determine what type of information you need.**

Fat content, price, and expiration date are all required labels on a carton of milk. It is up to you to decide what information you want and need.

**2 Well-known brands are not always best.**

Brand names are not always a good indicator of the quality or value of a product. For example, the “Local Dairy” milk brand shown here is most likely the same as nationally known brands.

**3 Look for information left off the label.**

To find out where or when an item was produced, you may need to call the company that makes the product. Often, the company’s phone number will be on the package.

### Apply

Use the two milk carton labels shown below to answer the following questions.

- Which milk is lower in fat? Explain how you know.
- What additional information would help you to choose between the two products?
- If the price of the Local Dairy milk were \$1.99 and the price of the Happy Cows Farm milk were \$2.59, which product would be a better value? Explain your choice.

**REDUCED FAT MILK**  
2% Milkfat

Nutrition Facts		
Serving Size 1 cup (236ml)		
Servings Per Container 1		
Amounts Per Serving		
<b>Calories</b>	120	Calories from Fat 45
% Daily Value*		
<b>Total Fat</b>	5g	8%
Saturated Fat	3g	15%
<b>Cholesterol</b>	200mg	7%
<b>Sodium</b>	120mg	5%
<b>Total Carbohydrate</b>	11mg	4%
Dietary Fiber	0g	0%
Sugars	11g	
<b>Protein</b>	9g	17%
Vitamin A 10% • Vitamin C 4%		
Calcium 30% • Iron 0% • Vitamin D 25%		
* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.		

**CHOCOLATE NONFAT MILK**

Nutrition Facts		
Serving Size 1 cup (236ml)		
Servings Per Container 1		
Amounts Per Serving		
<b>Calories</b>	80	Calories from Fat 0
% Daily Value*		
<b>Total Fat</b>	0g	0%
Saturated Fat	0g	0%
<b>Cholesterol</b>	Less than 5mg	0%
<b>Sodium</b>	120mg	5%
<b>Total Carbohydrate</b>	11mg	4%
Dietary Fiber	0g	0%
Sugars	11g	
<b>Protein</b>	9g	17%
Vitamin A 10% • Vitamin C 4%		
Calcium 30% • Iron 0% • Vitamin D 25%		
* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.		



## SECTION 3



SS.7.E.1.2; LA.7.1.6.1; LA.7.1.7.1; MA.7.A.1

# You the Consumer

### BEFORE YOU READ

#### The Main Idea

As consumers, we learn about the products we buy so that we can make the best choices. Some independent and governmental organizations help protect consumers' interests.

#### Reading Focus

1. What are the keys to becoming a wise consumer?
2. What should a consumer consider in deciding to buy on credit?
3. What do independent organizations and the government do to protect consumers?

#### Key Terms

consumer, p. 492  
brand, p. 492  
generic product, p. 492  
debit card, p. 494  
charge account, p. 495  
credit cards, p. 495



Use the graphic organizer online to take notes about what it takes to be a wise consumer.



When shopping, you should try to be a wise consumer.



Think of your favorite commercial or magazine ad. How much information does the ad really give you? Have you ever been disappointed after buying a product because you thought you would be getting something more? The purpose of advertising is to sell products, not necessarily to educate consumers. For the kind of information you need to make wise choices, you have to look elsewhere.

### Keys to Wise Consuming

Each year businesses spend billions of dollars encouraging us to buy their products. They run advertisements in newspapers and magazines, on the Internet, on billboards, on the radio, and on television. Businesses create slogans they hope we will remember. They know that some of us will buy the product whose slogan appeals to us most. Often, however, a product's slogan has little to do with its quality or usefulness. There are steps that you can take to make sure that you spend your money wisely.

## Feature versus Price

When buying expensive items, like appliances or a car, it is wise to compare the features being offered. The overall price may be affected by what is offered—or not offered—in the package.

MSRP: \$26,095\*

6-speed Sport AT automatic transmission w/paddle shifters

**INTERIOR TRIM PACKAGE** **\$3,600**

- Aluminum & leather shift
- Aluminum pedals
- Glass rear window with defogger
- Air conditioning
- Cruise control
- Power windows, door locks, and mirrors
- Power door locks with remote keyless entry

Look carefully at the options list and the amount charged for them. Often a consumer can negotiate the price of an option, or can purchase a vehicle on which several options are offered as a package at a lower overall price.

**PREMIUM PACKAGE** **\$1,600**

- Xenon HID headlights
- Dynamic Stability Control w/Traction Control
- Limited-slip differential (MT only)
- Advanced Keyless Entry & Start System
- Anti-theft alarm

**DESTINATION FEE** **\$560**

Illustrated example of an auto price sticker



## Learn When and Where to Buy

First of all, learn when to buy a product and the best place to buy it. Each of us is a consumer. A **consumer** is a person who buys or uses goods and services. As consumers, we play an important part in the American free-enterprise system. However, we must also learn to be responsible shoppers.

Some shoppers, called impulse buyers, make a quick decision to buy a product based on the product's slogan, a display in the store, or television advertising. A wise shopper spends more time thinking about what to buy.

Consumers can get the most for their limited shopping dollars in a number of ways. For example, wise food shoppers study advertisements in the newspaper to find out which stores are having sales. Using coupons can also help shoppers save money.

By watching for sales, you can buy clothing, books, furniture, hardware, and other items at reduced prices. Some people never pay the full price for an item. They stock up when the price is low. A low-price item is not always a bargain, however. An item is not a bargain if it is something you cannot really use or if it is poorly made.

## Brand Names and Generic Products

Wise shoppers choose goods and services at the price and quality that best suit their needs. Some consumers buy only brand-name products. A **brand** is a name given by the maker to a product or range of products. Brands are what companies advertise. Many people buy brand-name items because they believe, from past experience or for other reasons, that a brand name must be of good quality.

Other consumers buy generic products. A **generic product** is a product that does not have a manufacturer's name or brand. Generic goods are often plainly packaged. They may not offer guarantees of quality. Generic products are often less expensive than brand-name products. Many consumers buy generic products that meet their needs and their tastes.



## It Pays to Compare

Expensive brand name items are not always the best buy. Often, the same or similar items can be found for less.

**QUICK  
FACTS**

### Before You Purchase

- 1 Consider your needs.
- 2 Consider your budget.
- 3 Do research.



T-shirt	\$30.00
Jeans	\$100.00
Running shoes	\$65.00
Subtotal	\$195.00
Sales Tax (8.5%)	\$16.58
TOTAL	\$211.58



T-shirt	\$15.99
Jeans	\$25.00
Running shoes	\$16.50
Subtotal	\$57.49
Sales Tax (8.5%)	\$4.89
TOTAL	\$62.38

These items are similar but were purchased at a discount store.

**ANALYSIS  
SKILL**

### COMPARE AND CONTRAST

1. How much did the smart shopper save compared to the person who shopped at the other store?
2. Why might a designer label be more expensive?

## Study Labels

Labels are placed on foods, clothing, and other items to protect consumers. The government requires that certain information be included on these labels to help consumers judge product quality. There are a number of federal laws regarding labeling. The Fair Packaging and Labeling Act requires businesses to supply certain information, including manufacturer information, package contents, and the weight or quantity of the items in the package.

The Nutrition Labeling and Education Act of 1990, amended in 1994, requires that food companies, in addition to listing serving sizes, show the fat, cholesterol, sodium, fiber, and nutrient totals contained in each serving. The figures are given as a percentage of a person's daily dietary allowance.

In addition to weight and content information, meat packages must have instructions for safe handling and cooking.

The labels must also warn consumers that improper handling or cooking of meat may lead to illness. Even though the meat has passed government inspection, it must still have a warning label.

The packages of many products, including milk and cheese, must include the date by which the product must be sold or used. Dating a product ensures that it will be fresh when purchased by consumers.

Some laws also require unit pricing. The price tag must show price per unit of the product—per ounce or gram, for example. Larger sizes are often a better bargain because they have a lower price per unit. This is not always true, however. You must read labels carefully to get the best bargain.

### READING CHECK

**Finding the Main Idea** What are three steps you can take to become a wise consumer?

## Credit Cards and Interest

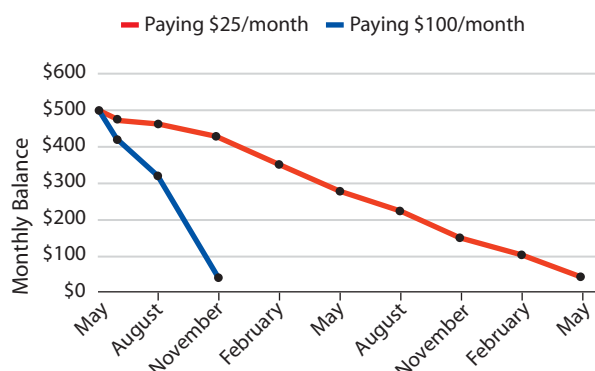
Did you know that the same item can cost two or three times more when purchased with a credit card instead of cash? And it can take a long time to pay for the purchase. Credit cards use compound interest. Every month, a credit card charges interest on the unpaid balance, or principal. Then the interest is added to the principal. To calculate compound interest, follow these steps:

**Step 1** Month 1 principal  $\times$  Interest rate = Month 1 interest

**Step 2** Month 1 interest + Month 1 principal = New principal

**Step 3** New principal – Monthly payment = Month 2 principal

### Paying off a \$500 Purchase on a Credit Card at 18.9 Percent



By paying more a month, the monthly balance is paid off much sooner.

#### ANALYSIS SKILL

#### ANALYZING ECONOMICS

The graph above shows the rate of payment at two different monthly amounts. Approximately how many months would it take to pay the principal if the monthly payment were \$50?

## Buying on Credit

When you buy something, you may pay for it now or you may buy it on credit. Credit is all money borrowed, except home financing. For some purchases, you may use a combination of the two methods. For example, when you buy a car, you often make a cash down payment. Then you pay the rest of the purchase price over a period of months or years. What are the advantages and disadvantages of buying merchandise in these two ways?

### Paying Now

Products can be paid for with cash, checks, or debit cards. Checks are written and signed orders to a bank. These orders tell the bank to pay a sum of money from a checking account to the party named on the check. Most sellers will accept checks if you can provide proper identification.

A **debit card** usually looks just like a credit card. Yet it operates the same way that a check does. When you use the card, money is deducted directly from your bank account. Paying with either a check or a debit card usually means that you will be charged the amount of your purchase within a few days at most. Once you have spent the cash, it is gone.

If you pay now for your purchase, you will probably think more carefully about spending your money. Once you make the purchase, the money immediately comes out of your pocket or your bank account. You do not have to borrow money or pay interest. Either adds to the overall purchase price of the item.

If you pay now, you may not have enough cash to buy what you need or want. You may have to put off buying the product until you have had time to save more money. Or you may have to adjust your budget to buy the product now. That means you may have to go without some other things to buy it.



## Paying Later

Suppose you find a bargain on something you want now, but you do not have the cash on hand to pay for it. Buying the item with a charge account or credit card provides you with the ability to purchase the item immediately.

A **charge account** is a form of credit that stores grant to many of their customers. Most large retail chains offer charge accounts that are good at all of the company's stores across the nation. **Credit cards** are similar to the charge cards provided for charge accounts but are issued by banks and other lending institutions. Unlike charge cards, which can only be used at specific stores, credit cards can be used at thousands of stores and other businesses around the world.

These forms of credit allow customers to buy goods and services without paying until they receive a bill from the store or bank. A good credit rating—which means that you pay your bills on time—is important for buying a car or gaining a bank loan.

## Installment Plans

Installment plans also allow consumers to buy goods without paying the full amount in cash when they make their purchases. Under an installment plan, the buyer uses cash to pay part of the purchase price. This money is called a down payment. The rest of what the buyer owes is called the balance. The balance is paid in equal payments, or installments, over a period of weeks, months, or years.

In addition to the regular price, a service charge and interest on the unpaid balance are included in the installment payments. An installment plan allows a buyer to use a product while paying for it. However, until the final payment is made, the product still belongs to the seller. If the buyer misses payments, the seller can charge extra fees or repossess, or take back, the item. When this happens, the buyer loses the item and the amount of money that has already been paid on the item. Buying an item on an install-

ment plan increases the consumer's cost of that item. In addition to the regular price, a service charge and interest on the unpaid balance are included in the installment payments. When you buy an item under an installment plan, you may find it cheaper to take out a bank loan for a purchase. The interest and loan fee paid to the bank may be less than the service charge and interest under an installment plan. It is wise to make as large a down payment as possible. It is also wise to pay off the balance as quickly as possible to reduce the item's total cost to you.

## Dangers of Credit

Charge accounts, credit cards, and installment plans can make shopping more convenient. They can also help you build a good credit rating. This is important for getting loans in the future. However, customers must be careful not to make foolish purchases or run up credit card debt. The interest rates paid on unpaid balances can be very high, making the debt harder to pay. Also, if you miss a payment, there can be more cost. You can be charged penalties and a new higher interest rate on the unpaid balance. Some cards also have an annual fee that holders must pay just to use the card.

If you apply for a credit card, be sure you know the fees associated with the card. You should be careful using credit cards by phone or on the Internet. Otherwise, your credit card information could get stolen. In some cases, you can be held responsible for paying the charges that have been made on your stolen credit card.

Charge accounts and credit cards can be used for many goods and services. With them, you can buy from small, inexpensive items to automobiles and other large purchases. Installment plans are usually used to purchase expensive items. Buying a house is done on a particular type of installment plan called a mortgage.

### READING CHECK

**Summarizing** What are some of the alternatives to paying for an item

**SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit.

## Consumer Protection

Sometimes you may find that a product has been falsely labeled or advertised, or that you have purchased something that is defective. If you believe you have been misled by an unfair business practice, or if the item is defective, you should first make a complaint to the business that sold you the product or service. Most of the time, the seller will try to solve the problem with you. However, if that does not happen, there are organizations and agencies that offer protection and assistance to consumers.

### Private Consumer Organizations

If you are not satisfied with a good or a service you have purchased, you should contact the local Better Business Bureau. There is a bureau in or near most communities. This organization gives advice and assistance to people who believe they have been cheated or treated unfairly by a company.

A number of private organizations help consumers as well. Among these is Consumers Union, which tests and rates nearly every product the public buys. Consumers Union

publishes the results of its tests in magazines and special reports. An examination of these and other publications will help you compare various brands of the same product.

### Government Consumer Protection

The federal government also protects consumers through its agencies, such as the Federal Trade Commission (FTC). The FTC has the power to bring to court any company anywhere in the United States that uses false or misleading advertising or false labeling.

The Department of Agriculture sets nationwide standards for—and inspects and grades—meat, poultry, and certain other foods sold in interstate commerce. The U.S. Postal Service makes sure that businesses and individuals do not cheat the public through the mail. The Consumer Product Safety Commission (CPSC) monitors product safety nationwide to make sure that products in the marketplace do not cause injuries.

Most states and many cities also have consumer protection offices. These offices publish advice for consumers and issue warnings to businesses that violate consumer laws. The businesses can be brought

## MEDIA INVESTIGATION

### Product Warnings

*Advertisements often include valuable warning information about a product.*

“Warning: Contents are flammable.” “Caution: Keep out of reach of children.” More and more, companies are using product warnings in their advertisements. The ad shown here lists side effects related to medicine.

Why do advertisers include these warnings? Many products, such as tobacco, prescription medicines, and movies, are required by law to include warnings to potential consumers. Other advertisers choose to feature warnings to help their customers. When you examine advertisements, pay careful attention to such warnings.



This warning label includes an alert to consumers about possible allergic reactions.

Drug Facts	Purposes
<b>Active ingredient</b> (in each capsule) Naproxen sodium 220 mg (Naproxen 200 mg)	Pain reliever/fever reducer
<b>Uses</b> Temporarily relieves minor aches and pains (due to): <ul style="list-style-type: none"><li>• headache</li><li>• minor joint aches</li><li>• muscle aches</li><li>• minor joint arthritis</li><li>• toothache</li><li>• backache</li><li>• the common cold</li><li>• menstrual cramps</li><li>• temporarily reduces fever</li></ul>	
<b>Warnings</b> <b>Allergy alert:</b> Naproxen sodium may cause a severe allergic reaction which may include: <ul style="list-style-type: none"><li>• hives</li><li>• facial swelling</li><li>• getting wheezing</li><li>• shock</li></ul> <b>Alcohol warning:</b> If you consume 3 or more alcoholic drinks every day, ask your doctor whether you should take naproxen sodium or other pain relievers/fever reducers. Naproxen sodium may cause stomach bleeding. Do not use if you have ever had an allergic reaction to any other pain reliever/fever reducer.	

ANALYSIS  
SKILL

## MEDIA INVESTIGATION

**Making Decisions** Would a product warning in an advertisement discourage you from purchasing the product? Why or why not?

[hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**



to court if they continue to cheat or mislead consumers.

### Problems Caused by Consumers

Consumers often accuse businesses of misleading advertising, poor service, and inferior products. However, some people cause problems for businesses. Shoplifting, or stealing an item displayed in stores, costs businesses in the United States billions of dollars each year. Sometimes people break or damage a store owner's property. Sometimes they demand refunds for merchandise they have already used or abused. Items in motels, hotels, and restaurants are often stolen or damaged. Sometimes people fail to pay for purchases obtained on credit.

Such thefts add to the costs of doing business. Businesses pass on these costs to consumers—that is to say, you—in the form of higher prices.

#### READING CHECK

**Finding the Main Idea** What can consumers do if they are dissatisfied with a product or service?



### FOCUS ON Florence Kelley (1859-1932)

Florence Kelley was raised to believe in her own abilities. Upon graduating from Cornell University in 1882, Kelley discovered that women had few op-

portunities to make use of their talents. She set her mind on reforming those circumstances.

Settling in Chicago in 1891, Kelley joined up with Jane Addams's settlement house movement. There Kelley drafted a report on the conditions faced by child workers in area sweatshops. In 1899 she helped found the National Consumers' League (NCL), often considered the most effective lobbying group for the interests of women and children. For years the NCL's white label certified products that were made without child labor. Kelley continued as head of the NCL until her death in 1932. The League continues its work to this day.

**Summarizing** How did the NCL's white-label program provide information to consumers?

## SECTION 3 ASSESSMENT



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ONLINE QUIZ

### Reviewing Ideas and Terms

- a. Define** Write a brief definition for the terms **consumer**, **brand**, and **generic product**.

**b. Explain** Why is it important to be a wise consumer?

**c. Evaluate** If an item, such as paper towels or tomato sauce, is on sale at a low price, is it a good idea to rush out and buy 24 rolls of paper towels or 24 cans of tomato sauce? Why or why not?
- a. Define** Write a brief definition for the terms **debit card**, **charge account**, and **credit cards**.

**b. Analyze** How can a consumer use credit cards and installment plans and still be a wise consumer?
- a. Recall** What is the first step you should take if you think that you have been misled about a product or that the product you purchased is defective?

**b. Make Inferences** Why is it important that the federal government have the power to protect consumers?

### Critical Thinking

- Comparing and Contrasting** Copy the graphic organizer. Use it and your notes to show the advantages and disadvantages of the different ways that a consumer can pay for a product.

Payment Method	Advantages	Disadvantages

### FOCUS ON WRITING

- Decision Making** A friend wants to buy a new computer and asks you for advice on choosing one. Write a list of five recommendations for your friend for finding the highest-quality product for the lowest possible price. Explain why you think those recommendations are important.

# CHAPTER 18 REVIEW



## FLORIDA CIVICS EOC PRACTICE

1. The following quotation is from Earl Wilson (1934–2005), a famous baseball player.

Modern man drives a mortgaged car over a bond-financed highway on credit-card gas.

What point was Mr. Wilson making?

- A. Credit should be made available to more people.
- B. Both governments and individuals depend too much on credit.
- C. There is a big difference between private and public debt.
- D. Americans should limit the amount of money spent on building highways.

2. Three businesses manufacture the same product and sell it for about the same price, but one of the businesses adds popular features to the product while keeping the price the same. What process is described?

- A. marking up
- B. profit enhancement
- C. competition
- D. entrepreneurship

## Reviewing Key Terms

For each term below, write a sentence explaining its significance to the economy.

- 1. goods
- 2. services
- 3. gross domestic product (GDP)
- 4. mass production
- 5. profit
- 6. marketing
- 7. mass marketing
- 8. consumer
- 9. brand
- 10. generic product
- 11. debit card
- 12. charge account
- 13. credit cards

## Comprehension and Critical Thinking

### SECTION 1 (Pages 476–481)

14. **a. Recall** What are the three main features of mass production?
- b. Explain** What incentive is a key part of mass production, and why is it important?

### SECTION 2 (Pages 483–489)

15. **a. Describe** Why does the U.S. economy depend on the transportation and marketing of goods?
- b. Sequence** How are products distributed from the manufacturer to the customer?

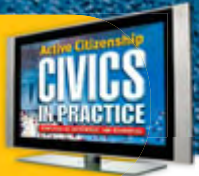
### SECTION 3 (Pages 491–497)

16. **a. Identify** What choices are available to help consumers make smart purchases?
- b. Compare and Contrast** What are the advantages and disadvantages of using charge accounts, credit cards, and installment plans?



## Active Citizenship video program

Review the video to answer the closing question:  
*How might Americans and our government help improve working conditions in foreign countries?*



## Using the Internet



**17. Reporting on Production** Have you ever wondered what goes on behind the scenes at a manufacturing facility? Through your online textbook, investigate how some well-known products are manufactured. Then write a newspaper or magazine article describing all the materials it takes to manufacture a product from one of the selected companies, the steps involved in production, and how the product is marketed.

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## Civics Skills



**Reading Labels** Use the Civics Skills taught in the chapter and study the labels below. Then answer the question that follows.

**REDUCED FAT MILK**  
2% Milkfat

Nutrition Facts	
Serving Size 1 cup (236ml)	
Servings Per Container 1	
Amounts Per Serving	
<b>Calories</b> 120	Calories from Fat 45
% Daily Value*	
<b>Total Fat</b> 5g	8%
Saturated Fat 3g	15%
<b>Cholesterol</b> 200mg	7%
<b>Sodium</b> 120mg	5%
<b>Total Carbohydrate</b> 11mg	4%
Dietary Fiber 0g	0%
Sugars 11g	
<b>Protein</b> 9g	17%
Vitamin A 10%	Vitamin C 4%
Calcium 30%	Iron 0% • Vitamin D 25%
* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.	

**CHOCOLATE NONFAT MILK**

Nutrition Facts	
Serving Size 1 cup (236ml)	
Servings Per Container 1	
Amounts Per Serving	
<b>Calories</b> 80	Calories from Fat 0
% Daily Value*	
<b>Total Fat</b> 0g	0%
Saturated Fat 0g	0%
<b>Cholesterol</b> Less than 5mg	0%
<b>Sodium</b> 120mg	5%
<b>Total Carbohydrate</b> 11mg	4%
Dietary Fiber 0g	0%
Sugars 11g	
<b>Protein</b> 9g	17%
Vitamin A 10%	Vitamin C 4%
Calcium 30%	Iron 0% • Vitamin D 25%
* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.	

**18.** Which milk has more calories?

**19.** Which milk has less fat?

## Reading Skills



**Interpreting a Table** Use the Reading Skills taught in this chapter and study the table below. Then answer the questions that follow.

U.S. Balance of Trade, 1995–2000 (in billions of dollars)			
Year	Exports	Imports	Balance
2000	1,065	1,441	-376
1999	957	1,219	-262
1998	932	1,099	-167
1997	937	1,047	-110
1996	851	959	-108
1995	795	895	-100

**20.** Which of the following correctly identifies a trend apparent in the data from the table?

**a.** The value of U.S. exports fell dramatically between 1995 and 2000.

**b.** The value of U.S. exports far exceeds the value of imports to the United States.

**c.** The value of imports to the United States exceeds the value of U.S. exports.

**d.** Until 1998 the United States maintained a positive trade balance.

**21.** Between 1997 and 1998, what happened to the value of U.S. exports?

**22.** By what amount did the value of U.S. imports increase between 1995 and 2000?

## FOCUS ON WRITING

**23. Writing Your Infomercial** Review your notes about the U.S. economy. Pay special attention to the process in which goods and services are created and how they are distributed throughout the country and the rest of the world. Now write an infomercial in which you outline this process and explain its effect on the world economy. Then devise some visual aids and deliver your infomercial to the class.



# FLORIDA...

## The Story Continues

### CHAPTER 19, Personal Finances

#### PEOPLE

**1877: When William H. Barnett opened his first bank in Jacksonville, it was easy to open a bank.** Barnett was a stranger from the north. However, people trusted him because of his five rules of business. The first rule was to treat people as he wanted to be treated. Second, he did not make business deals unless he expected to make money. Third, if someone was honest and worked hard at a good idea, he loaned them money. Fourth, he thought carefully before making promises; then he kept them. Fifth, he did not worry about making money. He was careful in his spending and the loans he made. So Barnett made a profit, and his banks spread. They served Florida for more than 100 years.

#### PLACES

**The Miami Stock Exchange is known as MSX4.** The Miami Stock Exchange makes it easy for people to trade stocks and currency. It manages trading services for 27 Latin American and Caribbean Exchanges. These exchanges, known as the G27, are located in Central and South America, as well as in the Caribbean. Nations include Peru, Barbados, Trinidad and Tobago, Jamaica, Costa Rica, Brazil, Chile, Venezuela, and Mexico.

#### EVENTS

**A sinkhole forms when groundwater dissolves underground rock.** Florida has more sinkholes than any other state. Sinkholes can damage or destroy homes and other buildings. The state of Florida makes insurers offer sinkhole insurance, which helps people protect the value of what they own. Claims rose from 2006 to 2010, and as a result, insurers want to increase premium costs. They have collected less money in premiums than they have paid out in claims.



**EVENTS****1992: Hurricane Andrew tears across southern Florida.**

Hurricane Andrew had a 17-foot storm surge. However, most of the damage was done by the wind. Twenty-six people died in the United States and Bermuda because of Andrew. The storm caused 25.5 billion dollars in damage in South Florida. It showed the need for and importance of hurricane insurance.

**EVENTS**

**1993: The state of Florida starts the Florida Hurricane Catastrophe Fund.** Many Floridians knew that their homes could be destroyed by hurricanes, so they bought hurricane insurance. That meant that insurance companies paid for most of what Hurricane Andrew damaged and destroyed. This cost the companies so much that they did not want to offer hurricane insurance anymore. A special session of the state legislature created the Florida Hurricane Catastrophe Fund. The purpose of the fund is to protect and

promote the state's interest in keeping insurance capacity in Florida. The fund provides compensation to insurance companies for a portion of their losses caused by catastrophic hurricanes.

**PLACES****1946: Business booms in Oviedo after World War II.**

However, there was no local bank. Farmers and other citizens had to go to Orlando, Sanford, or Winter Park. People were afraid of being robbed on the way. In 1946, some Oviedo business owners decided to open their own bank, the Citizens Bank of Oviedo. The bank flourished and is still in operation today as the Citizens Bank of Florida.



## Unpacking the Florida Standards <...>

Read the following to learn what this standard says and what it means. See FL8-FL20 to unpack all the other standards related to this chapter.

**Benchmark SS.7.E.1.4** Discuss the function of financial institutions in the development of a market economy.

**What does it mean?**

Describe the roles played by financial institutions in a market economy. Go to Chapter 19, Personal Finances, and Chapter 20, Economic Challenges, for help.



## CHAPTER 19

# PERSONAL FINANCES

**Essential Question** What role do personal finances play in the economy?



### Florida Next Generation Sunshine State Standards

**SS.7.C.2.11** Analyze media and political communications (bias, symbolism, propaganda). **SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit. **SS.7.E.1.4** Discuss the function of financial institutions in the development of a market economy. **SS.7.E.1.6** Compare the national budget process to the personal budget process. **SS.7.E.2.2** Describe the banking system in the United States and its impact on the money supply. **SS.7.E.2.5** Explain how economic institutions impact the national economy. **LA.7.1.6.1** The student will use new vocabulary that is introduced and taught directly. **LA.7.1.7.1** The student will use background knowledge of subject and related content areas, prereading strategies, graphic representations, and knowledge of text structure to make and confirm complex predictions of content, purpose, and organization of a reading selection. **MA.7.A.1.2** Solve percent problems, including problems involving discounts, simple interest, taxes, tips, and percents of increase or decrease.





# WHY CIVICS Matters

Imagine life without money. If you couldn't trade for the goods you wanted, you would be out of luck. Fortunately, we have a system in which you can exchange money for what you need. Understanding personal finances is an important part of being a good citizen.

PROJECT **Citizen**



## STUDENTS TAKE ACTION

### GAINING ACCESS TO LIBRARIES

What if you had to pay to use the public library, even for materials you needed for school? Think about steps you could take to convince people that you should have access to a public library at no charge.

## FOCUS ON WRITING

### WRITING A LETTER OF RECOMMENDATION

Your friend has applied for a job at a local bank and has asked you to write her a letter of recommendation. After you read this chapter about personal finance, you will write a letter to convince the bank that your friend is the perfect candidate for the job.



# Reading Skills

In this chapter you will read about the basic characteristics of currency. You will learn why people and businesses accept checks as payment instead of cash. You will also learn about the role credit plays in the economy. You will discover about how the Federal Reserve System

regulates the amount of money in circulation. You will learn about the importance of saving money and the different ways people invest their money. Finally, you will read about private insurance and Social Security.

## Making and Understanding Charts and Graphs

### FOCUS ON READING

When writers want to communicate complex information in a simple way, they often use visuals such as charts and graphs. Charts show how the parts of something relate to the whole thing. Graphs show changes or trends over time.

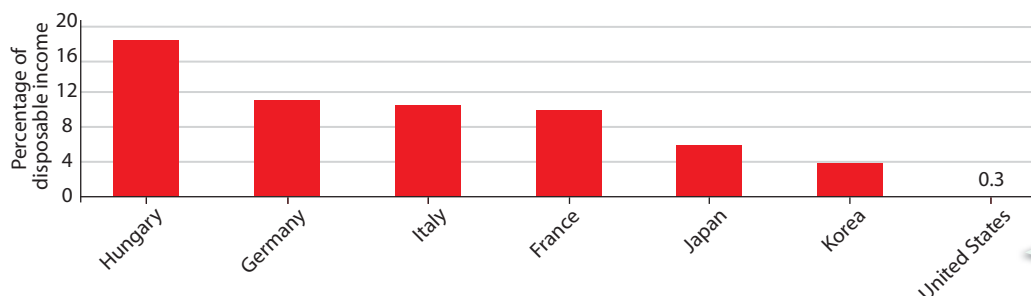
**Making Charts and Graphs** To create a visual, first decide whether a chart or graph is better. One common chart is a pie chart. It shows the sizes of the different parts, or slices, of the whole. Pie charts often use percentages instead of specific numbers. In a graph, the horizontal line, called an axis, often represents points in time such as hours, days, or years. The vertical axis often shows quantities or amounts.

### Helpful Hints for Making and Understanding Charts and Graphs

1. Read the title to determine the subject of the chart or graph.
2. Study the labels. A pie chart will label the slices, or main categories. A graph will have labels on each axis.
3. Analyze the data. What does the information mean?
4. Draw conclusions about the subject.

**Title** Create a title that identifies the subject of the chart.

**Household Savings Rate, 2005**



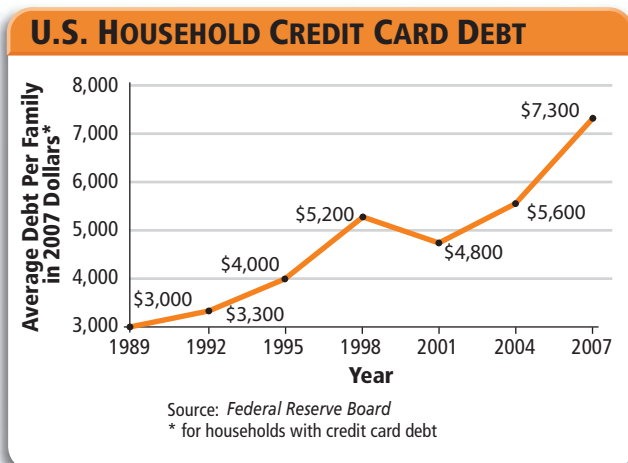
**Labels** Use labels to show the main categories or pieces of data that the chart or graph represents.

**Analyze the Data** Be sure you understand the data that is presented. Read the title and any labels to identify the subject of the chart or graph. This bar graph, for example, illustrates the percentage of disposable income that households in several countries put into savings in 2005.



## You Try It!

Study the line graph below and then answer the questions that follow.



After you have studied the graph, answer the following questions.

1. What is the subject of this graph?
2. What time period does the graph cover?
3. In which year was household credit card debt the highest?
4. Between which years did household credit card debt decline?  
How much did the average credit card debt decline?
5. What general trend does this graph indicate?

As you read Chapter 19, notice what information could be illustrated as a chart or graph.

## KEY TERMS

### Chapter 19

#### Section 1

currency (p. 504)  
long-term credit (p. 507)  
short-term credit (p. 507)  
bankruptcy (p. 508)  
creditors (p. 508)

#### Section 2

collateral (p. 512)  
savings and loan associations (p. 513)  
credit unions (p. 514)  
Federal Reserve System (p. 514)  
discount rate (p. 515)  
discounting (p. 516)

#### Section 3

certificates of deposit (CDs) (p. 518)  
brokers (p. 518)  
stock exchange (p. 518)  
mutual funds (p. 518)  
money market funds (p. 519)

#### Section 4

insurance (p. 522)  
premium (p. 522)  
private insurance (p. 523)  
beneficiary (p. 523)  
social insurance (p. 524)  
Social Security (p. 524)  
Medicare (p. 526)  
Medicaid (p. 526)

### Academic Vocabulary

Success in school is related to knowing academic vocabulary—the words that are frequently used in school assignments and discussions. In this chapter, you will learn the following academic word:

acquire (p. 507)

## SECTION 1



SS.7.C.2.11; SS.7.E.1.2; LA.7.1.6.1; LA.7.1.7.1

# Money and Credit

## BEFORE YOU READ

### The Main Idea

In addition to using dollar bills and coins, individuals and businesses use checks, debit cards, and credit to pay for their purchases.

### Reading Focus

1. What are three basic characteristics of currency?
2. Why do people and businesses accept checks as payment?
3. How is credit important to individuals and families?
4. How is business credit useful to the economy as a whole?

### Key Terms

currency, p. 504  
long-term credit, p. 507  
short-term credit, p. 507  
bankruptcy, p. 508  
creditors, p. 508



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### TAKING NOTES

Use the graphic organizer online to take notes on the role that currency, checks, personal credit, and business credit play in the economy.



One way you pay for what you buy is with currency, or coins and paper money. Other times you might borrow money or use a credit card.



How do you pay for something? If an item is inexpensive, you may use cash, or currency. If goods and services are more costly, however, it may become inconvenient to carry around enough cash to buy what you want. As a result, you are more likely to write checks or use credit or debit cards. For expensive purchases, like cars and houses, people usually arrange loans.

## Characteristics of Currency

Every country in the world has an official form of currency. The word **currency** is another term for coins and paper money. Whatever it is called, all currencies share at least three common features:

1. Currency must be easy to carry. It must be small and light so people can carry it with them for everyday use.
2. Currency must be durable, or last a long time. It should not wear out too quickly or fall apart.
3. Currency must be made in a standard form and must be considered legal tender by the government that issues it. In this way, people can be certain that their coins and bills will be accepted in exchange for goods and services.



## A History of Cash

People in different cultures have used a variety of materials—from stones to beads to metals—to conduct financial transactions. For people on the South Pacific island of Yap, *rai*—stone wheels as large as ten feet in diameter—were used for socially important transactions such as marriages.

*Why were rai generally used only for important social transactions?*



Yap Island rai (stone wheel)



Early American bill



Ancient coins

Wampum belt



Earlier in our history, one of the weaknesses under the Articles of Confederation was the lack of a standard currency. Each state issued its own money. The different values and exchange rates for these currencies made trade among the states very difficult. The Constitution solved this problem by granting Congress the sole right to coin money and to regulate its value.

Today, the currency used by Americans is issued by the federal government. Two mints—plants where coins are made—now make most coins for general circulation. The two mints, located in Philadelphia, Pennsylvania, and Denver, Colorado, produce more than 65 million coins a day.

In the United States, six coins are used: pennies, nickels, dimes, quarters, half-dollars, and dollar coins. For many years the value of a coin was equal to the value of the metal that it contained. A silver dollar, for example, yielded about a dollar's worth of silver when melted down. In the past,

many Americans would only accept coins. They believed coins were more valuable and reliable than paper money.

Most money issued today is paper money, printed in Washington, D.C., at the Treasury Department's Bureau of Engraving and Printing. Bills are printed in denominations of \$1, \$2, \$5, \$10, \$20, \$50, and \$100. The \$5, \$10, \$20, \$50, and \$100 bills have been redesigned in recent years to make them more difficult to counterfeit.

All U.S. paper money and coins are legal tender. This means that by law people must accept this money as payment for goods and services in the United States. This system has worked for many years. Thus, everyone knows that these same dollars and coins will be accepted without hesitation when they are presented at stores, banks, or elsewhere.

### READING CHECK

**Summarizing** What are the three common characteristics of all currencies?

## Checks and Debit Cards

Paper money and coins were important in developing a strong financial system in the United States. Today most buyers do not use coins or paper money for the majority of their purchases. Instead, Americans often make payments by check or debit card.

### Checks

Checks are just pieces of paper. They are not legal tender because they are not issued or guaranteed by the federal government. To write a check for a purchase, you must have a particular kind of bank account—usually called a checking account—and enough money in that account to cover the check.

Merchants and others who receive the check know that the bank will honor the check. In other words, banks will take money from your account in the amount of the check and issue that money to the person or organization to whom the check was written.

If people write checks for more money than they have in their account, the bank will usually charge an overdraft penalty. This penalty might be \$25 or more, so it is important to watch your bank balance carefully. People who intentionally write checks without enough money in their accounts may be charged with a crime.

### Debit Cards

Today more and more people prefer to make payments from their checking accounts with debit cards instead of writing checks. Debit cards are like electronic checks. Instead of writing out a check in the store, you can give the cashier your debit card. The money will be deducted from your account just like with a check. Debit cards offer an increasingly popular alternative to carrying cash or a checkbook.

#### READING CHECK

**Drawing Inferences and Conclusions** Why are people more likely to use a check or debit card than cash to make a purchase?

## Credit and the Economy

Sometimes a consumer may want to make a purchase but does not have enough cash in his or her wallet or bank account. When this happens that person needs access to credit. Buying something on credit means that a person is able to buy something now with the promise to pay for it later. Credit is a loan of money that is repaid plus interest. Interest is a payment charged for borrowed money.

### Charge and Credit Cards

Some stores issue charge cards to many of their customers. A charge card is a form of borrowing. Customers can buy items without paying for them immediately because the store lends them the money for the purchase.

The amount of the purchase is added to the customer's account balance and billed to the customer each month. The customer then sends the store a payment for some or all of the amount due. A minimum payment is



Today, paper checks and debit cards account for almost 50 percent of U.S. consumer purchases. Cash still accounts for about one third of all purchases.



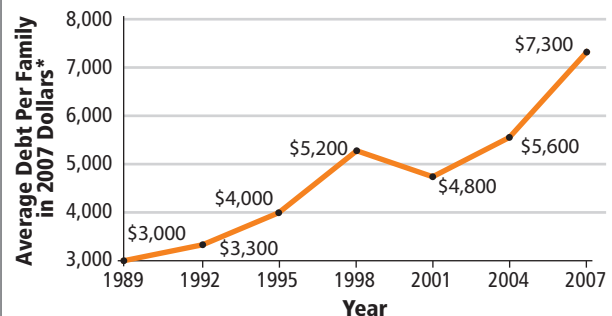
## America's Credit Card Debt

The first general-purpose credit card was introduced in 1958, when the BankAmericard was sent to 60,000 potential customers. By 1970, two major credit cards were available, but only about half of the people who received cards were using them. The average credit card debt was \$185.

Credit card companies have changed a lot since those early days. Companies now research the financial background of potential customers. To make more money, they also charge penalty fees and offer people higher credit lines and lower minimum payments.

Today, Americans possess more than 609 million credit cards. The average household in 2010 had an average of \$7,400 in credit card debt. Many households have no credit card debt or pay their balance each month.

### U.S. HOUSEHOLD CREDIT CARD DEBT



Source: Federal Reserve Board  
\* for households with credit card debt

#### ANALYSIS SKILL

#### DRAWING CONCLUSIONS

Based on the decrease in credit card debt between 1998 and 2001, what conclusions would you draw about the national economy?

typically required. Usually there is no interest charge if the customer pays the full balance by the due date. If the customer only pays part of the balance, the store usually charges interest on the remaining amount.

Similar to charge cards, credit cards are much more common. Banks and other lending institutions issue them. A charge card can only be used in the store or chain of stores that issued it. On the other hand, you can use a credit card almost anywhere. You present the credit card when making a purchase, and the store charges the credit card company for the amount of the purchase. The credit card company pays the store. You then receive a monthly bill from the credit card company for the total amount of all your purchases.

As with charge cards, the customer pays all or part of the credit card bill once a month. Most customers send credit card companies checks. Yet, many people now use the Internet to transfer funds directly from their bank account to pay their credit card bills. Interest charges, which can be quite high, are added to the unpaid portion of the monthly bill.

## Credit and the Family

If used wisely, credit can help the average American family. Few young families have saved enough money to **acquire** a house. Yet borrowing from a bank or mortgage company to do so will give them the extra money they need. They can then pay the loan off gradually from money they earn. Of course, they also have to pay interest on the loan, often for 30 years.

Loans payable over long periods are called **long-term credit**. Most American families use long-term credit to buy cars. Other families use it for buying major appliances and furniture. If a family plans to pay for an item within just a few weeks or months, it needs only **short-term credit**. This type of credit can be especially helpful for emergency purchases, such as a new furnace or refrigerator to replace the one that broke.

If used unwisely, credit can cause serious financial problems. A person might buy so much on credit that he or she cannot afford to make the payments on time. Often the lender has the right to charge a penalty and to raise the interest rate after missed payments.

#### ACADEMIC VOCABULARY

**acquire:** to get, purchase or buy

**SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit.

## Credit Card Protection

*When you buy a movie ticket, how do you pay for it? Do you use a debit or credit card? Maybe you pay with cash that you withdrew using your ATM card. All of these cards are convenient, but because they are linked to your bank or credit account, their loss or theft could cost you a great deal. Two laws help protect you from these situations: the Fair Credit Billing Act (FCBA) and the Electronic Fund Transfer Act (EFTA).*

### Why it Matters

The FCBA and the EFTA offer protection if you report your lost or stolen card immediately. Under the FCBA, if you report a credit card missing before someone uses it, you will not pay for any unauthorized purchases, although you may be charged a fee up to \$50. For debit and ATM cards, the EFTA protects you from charges if you file a report before the card is used. However, if the card is used after two days, you can be charged \$50, and later, up to \$500. After 60 days, you may have to pay for all the unauthorized charges.

Protect yourself. Always know where your cards are and keep a list of your account numbers and the phone numbers of your banks and card companies in a safe place. Save your receipts and check them against your account statements. If you see charges you did not make, report them immediately.



If you have a credit card, check your monthly statement carefully.

### ANALYSIS SKILL

### EVALUATING THE LAW

1. Is it more dangerous to lose a credit or debit card? Explain your answer.
2. What impact do you think the FCBA has on credit card companies and their responsibilities? Explain your answer.

[hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**

This makes the balance even harder to pay off. Stores may repossess, or take back, purchases that have not been fully paid for.

A credit card holder may be sued for the outstanding balance, and in the worst case may have to declare bankruptcy. **Bankruptcy** is a legal declaration that a person or business cannot pay debts owed. If a bankruptcy judge agrees, the person may be excused from the debt or be allowed to pay a reduced amount. In some cases, one may have to sell most of the things he or

she owns to satisfy the **creditors**, those people who are owed money. Declaring bankruptcy can hurt a person's credit rating for years. This makes it more difficult to borrow money for a car, home, or other needed items. In 2005 Congress passed strict new bankruptcy laws. It is now more difficult to declare bankruptcy, and the amount of debt that can be excused has been reduced.

### READING CHECK

**Analyzing Information** What are the positive and negative aspects of credit?



## Business Credit and the Economy

Businesses often use credit rather than currency in most sales involving large amounts of goods. Credit helps merchants by allowing them to buy more goods at one time, which means they have more merchandise to sell to their customers.

Imagine that you are the owner of a snowboard shop and you need to stock 50 snowboards for the next season. If the boards cost you \$200 each, then you would need \$10,000 to pay for the shipment. But you may not have that money until you can sell all the boards. The snowboard manufacturer may agree to deliver the boards on credit, allowing you some period of time to pay for the boards. Alternatively, you may arrange to borrow the money from a bank to pay for the shipment. Then you would repay the bank as the boards are sold.

Borrowing in the form of credit is important to the purchase and sale of goods and services in a free market. It is therefore very important to the successful

operation of the U.S. economy as a whole. If individuals and families use credit wisely, they can buy and use things before they have saved enough money to pay cash for them. For example, a family may be renting a house for years while saving up money. What if the family could buy the house now and begin to live in it? They can do this by borrowing the money they need from a bank.

When consumers buy goods sooner, the economy grows faster. The builder gets paid now rather than later for building a house. This would also apply to the people who supply the wood or the brick. The seller of the furnace or the air conditioning system would also be paid now. Consumer spending is an important force in the economy.

Similarly, careful use of credit allows businesses to produce and sell more goods and services than they could afford to by using only cash. This also helps the economy grow. Businesses will buy more raw materials, rent more production space, hire more employees, and so on.

### READING CHECK

**Finding the Main Idea** How does credit help keep the economy in balance?

## SECTION 1 ASSESSMENT



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ONLINE QUIZ

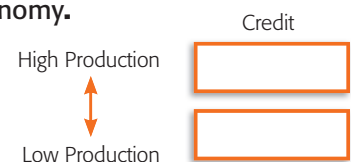
### Reviewing Ideas and Terms

- Define** Write a brief definition for the term currency.
  - Summarize** What three common features do all currencies have?
- Summarize** Why are checks not considered legal tender, and why do businesses accept them anyway?
  - Compare and Contrast** How are charge cards and credit cards similar and different?
  - Defend a Point of View** Would you prefer to use cash or checks when shopping? Explain.
- Define** Write a brief definition for the terms **long-term credit**, **short-term credit**, **bankruptcy**, and **creditors**.
  - Summarize** How can individual credit be both helpful and harmful?

- Recall** Why do businesses often use credit for purchases rather than cash?
  - Elaborate** How does the use of business credit allow the economy to grow?

### Critical Thinking

- Categorizing** Copy the graphic organizer. Use it and your notes to show how credit can be used to help balance the economy.



### FOCUS ON WRITING

- Analyzing Information** Imagine that you are the editor of a financial magazine. Write an article explaining what families should consider when they purchase goods on credit.

## Analyzing TV News



SS.7.C.2.11

### Learn

One of the most powerful forms of media today is television news. Since the television boom in the 1950s, news programs have been broadcast on television across the nation and the world. Most major television networks broadcast national and international news programs every night. In addition, most local stations have nightly news programs that focus on local news.

In the last 20 years, 24-hour news channels have changed television news. Such networks can show live coverage of events around the world as they happen, because they broadcast throughout the day. Because television news is one of the major sources of information about local, national, and world events, it is important to watch the news with a critical eye. Use the strategies below to help you analyze television news.

### Practice

- 1 Pay attention to the stories.** What types of stories does a news program cover? Whether they focus on politics, international relations, or financial issues, the choice of stories can tell you about the priorities of the news station. Also pay attention to the order in which stories appear—it might indicate which stories the news directors feel are most important.
- 2 Identify the point of view.** Ideally, news stories are supposed to be balanced. That is, they offer both sides of an issue or event. Often, however, some stories can present only one point of view. Pay careful attention to the words and phrases the reporter uses, as they can indicate a particular point of view.

- 3 Analyze the visual information.** Often, news stories are intended only to provide viewers with information about an event. They may also serve other purposes. Examine the visual information—what is the background of the screen, the dress of the reporter, or the visual information used to present the story? How does it affect the story?
- 4 Notice the balance of stories on international and domestic topics.** News programs usually cover both events happening in the United States, and those happening abroad. Often the relevance to Americans—in terms of economics or national security—is stressed in international stories.

### Apply

Use the photo below to help you answer the following questions.

1. What is likely the subject of the news story pictured below? How can you tell?
2. What does this television news program use to capture the audience's attention?
3. Is this news story likely intended for a local, national, or international audience? Explain.





## SECTION 2



SS.7.E.1.2; SS.7.E.1.4; SS.7.E.2.2; SS.7.E.2.5; LA.7.1.6.1; LA.7.1.7.1

# Banks and Banking

## BEFORE YOU READ

### The Main Idea

Banks provide a safe place to keep money and help businesses and individuals by making loans.

### Reading Focus

1. How and why were the first banks established?
2. What is the purpose of banks and the banking system?
3. How and why does the U.S. Federal Reserve System regulate the amount of money in circulation?
4. How does a person get a bank loan?

### Key Terms

collateral, *p. 512*  
savings and loan associations, *p. 513*  
credit unions, *p. 514*  
Federal Reserve System, *p. 514*  
discount rate, *p. 515*  
discounting, *p. 516*



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### TAKING NOTES

Use the graphic organizer online to take notes on the origins of banking, the banking system, the Federal Reserve System, and getting a bank loan.

**SS.7.E.1.4** Discuss the function of financial institutions in the development of a market economy.



Not all banks are the same, although many of them offer the same services. They protect your money in a checking or savings account. They lend money to businesses and individuals. If you start your own business, you might apply to a bank for a small business loan. Banks help a market economy grow and develop by increasing the supply of money and credit available to people and businesses.



Banks are secure locations where people can safely deposit their money.

## The Origins of Banking

Money presented problems for many people 1,000 years ago just as it does today. People had difficulty finding a safe place to keep their riches. Carrying money made people the targets of thieves. Hiding it in their homes did not guarantee its safety either.

In most communities there were goldsmiths who kept a supply of gold to work on in their business. Because gold was so valuable, the goldsmiths kept it in heavy safes. In time, the townspeople began to bring their money to the goldsmiths for safekeeping. Before long, local goldsmiths had entered the money-keeping business, charging a small fee for the service.

Eventually, goldsmiths began providing money-lending services as well. Townspeople who needed money came to the goldsmiths for loans. In return for the loans, they signed a paper promising to repay the money by a certain date and to pay interest for using the money. The first banks were born.

**SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit.

Borrowers guaranteed their loans by promising to give up their property to the money lender if the loans were not repaid on time. Property used to guarantee repayment of a loan is called **collateral**. Over time, these money-lending practices developed into the banking system we know today.

#### READING CHECK

**Finding the Main Idea** Why did banks first become necessary?

## The Banking System

**SS.7.E.1.4** Discuss the function of financial institutions in the development of a market economy.

**SS.7.E.2.2** Describe the banking system in the United States and its impact on the money supply.

Our modern banking system is much more complicated than that of the early money lenders. Banks today handle billions of dollars' worth of deposits and withdrawals. Businesses and individuals rely upon the services and security of banks to help them protect and manage their money.

### Types of Bank Accounts

Most people rely on banks for checking and savings accounts. Although you usually do not earn interest on regular checking accounts, you can easily access the money

in these accounts. Money in a checking account is called a demand deposit. That is, the bank must give you your money when you request, or demand, it by coming to the bank in person to withdraw it or by writing checks. Many banks also will issue automated teller machine (ATM) cards. These cards allow you to withdraw cash from your accounts at various locations at any time of day, even when the bank is closed. Another popular option for withdrawing money is the debit card, which acts as an electronic check.

You can also deposit your money in a savings account, where it earns interest. If the bank requires you to keep the money in your savings account for a minimum period of time, then the account is called a time deposit. The amount of interest you are paid depends on the type of account. Longer time deposit accounts are usually called certificates of deposit, or CDs. With these accounts you receive a certificate recording the deposit, the time period, and the interest rate. Another type of savings account is

## Types of Banks

QUICK  
FACTS

Today businesses and individuals have a variety of different types of banks to choose from. While the basic services of each type of bank are similar, they offer different services to their customers.



### Commercial Banks

Commercial banks offer a full range of financial services to businesses and individuals.



### Savings and Loan

Savings and loan associations are institutions that help people save and obtain home mortgages.



### Credit Union

Credit unions are member-owned institutions that provide the same services as banks and savings and loans.



called a money market deposit account, or money market account. As long as a minimum balance is maintained, this account typically earns a higher rate of interest than a standard account. There are limits on how often you may take money out of this type of account.

Another popular type of bank account combines checking and savings. This is the negotiable order of withdrawal (NOW) account. With a NOW account, you can write checks and receive interest on the money in the account. Most banks require that you maintain a certain minimum balance in your NOW account.

### Types of Banks

There are four main types of banks in the United States—commercial banks, savings and loan associations, savings banks, and credit unions. Although the differences among these banks have blurred in recent years, some important distinctions remain.

**Commercial Banks** Most of the banks in the United States are commercial banks. Commercial banks offer a full range of services. They offer checking, savings, and NOW accounts. They also make loans to individuals and businesses. Many commercial banks even issue credit cards and manage retirement accounts. They have departments that help customers manage property and invest money.

Accounts in commercial banks are insured by a government agency called the Federal Deposit Insurance Corporation (FDIC). In 2009 each depositor was insured up to \$250,000. If for some reason a bank is unable to give its depositors their money, the FDIC will refund their deposits up to this limit.

**Savings and Loan Associations** Banks known as **savings and loan associations**, or S&Ls, were created in the mid-1800s to help people purchase homes. They still account for a large percentage of home mortgage loans.

## PRIMARY SOURCE

### POLITICAL CARTOON

### Savings and Loans

*Savings and loan associations were popular places for many families to save money and to take out loans to buy homes.*

From 1980 to 1982, some 118 U.S. savings and loan institutions, with assets worth \$43 billion, failed. In the 45 years before 1980, only 143 savings and loans, with a total of \$4.5 billion in assets, had failed. Clearly, there was a crisis in the savings and loan industry.

This cartoon was published in 1989. By then, some 565 savings and loan associations had failed.



ANALYSIS  
SKILL

### ANALYZING POLITICAL CARTOONS

**How does this cartoon reflect the impact of the savings and loan crisis of the 1980s on the ordinary family?**

During the 1980s federal legislation allowed S&Ls to expand their services to offer many of the same services as commercial banks. Customers can obtain loans, open checking, savings, and NOW accounts, and apply for credit cards. When this deregulation first began, many S&Ls made risky loans and other bad investments. As a result, hundreds of S&Ls throughout the country failed in what became known as the S&L crisis.

Until 1989 the Federal Savings and Loan Insurance Corporation (FSLIC) insured S&L deposits. Faced with paying the costs of the failed S&Ls, the FSLIC ran out of money. The government then formed the Resolution Trust Corporation (RTC) to sort out the savings and loan crisis. Administered by the FDIC, the RTC took over the FSLIC's insurance obligations.

By August 1994 the RTC had saved more than 730 savings and loans. The total cost to taxpayers was estimated at nearly \$165 billion.

**Savings Banks** Savings banks began in the early 1800s to encourage people who could make only very small deposits to save. Today these banks offer a variety of services, including home loans. As with commercial banks, deposits in savings banks are insured by the FDIC.

**Credit Unions** Most **credit unions** are established by people who work for a single company or belong to a single organization. Credit unions are owned and operated by their members.

When members make deposits, they buy interest-paying shares in the credit union. These deposits are pooled in order to make low-interest loans available to members. Depositors may also write checks, which are called share drafts.

Deposits in credit unions are insured by a government agency called the National Credit Union Association (NCUA). Each depositor is insured up to \$250,000.

#### READING CHECK

**Comparing** How are the different types of banks similar?

## The Federal Reserve System

At one time, banks were allowed to conduct business with few rules. As a result, they sometimes lent money to high-risk customers and did not get enough collateral in return for loans. Some banks lent too much money and did not keep enough in reserve. Under these conditions, some banks failed.

Rumors occasionally spread that a particular bank was shaky. Depositors might then start a run on the bank—rushing to the bank to withdraw all their money in case the bank did fail. If too many depositors withdrew their money at once, the bank would have no funds left. People with money still in the bank would have lost their savings.

To prevent such bank failures and to give people more confidence in the safety of banks, the federal government created a plan to regulate the U.S. banking system. In 1913 Congress set up the **Federal Reserve System**, sometimes called the Fed. The Fed regulates banks by requiring that they keep a certain amount of money in reserve.

### Federal Reserve Banks

The Federal Reserve System divides the United States into 12 federal districts. A Federal Reserve bank is located in each district. Federal Reserve banks do not do business directly with individuals or companies. Instead, they act as bankers for the federal government and for other banks.

**SS.7.E.2.5** Explain how economic institutions impact the national economy.



### FOCUS ON Anna Escobedo Cabral

(1959— )

In 2004, President George W. Bush selected Anna Escobedo Cabral to be the forty-second treasurer of the United States. During her time as treasurer, Cabral's signature appeared on each new piece of currency to make the bill official.

Cabral grew up in California and studied political science at the University of California, Davis. She later earned a master of public administration degree at Harvard University. In the 1990s Cabral became deputy staff director of the Senate Judiciary Committee. She also served as executive staff director of the Senate Republican Conference Task Force on Hispanic Affairs. In this position, she led 25 senators on a mission to respond to Hispanic communities. Afterwards, she became president and chief executive officer of the Hispanic Association on Corporate Responsibility. She later served as director of the Smithsonian Institution's Center for Latino Initiatives.

As treasurer, Cabral was in charge of collecting taxes through the Internal Revenue Service. She also oversaw the printing and minting of American currency. Also, she served as a spokesperson on financial education.

**Evaluating** What are the duties of the United States treasurer? Why is this position important?



Federal Reserve banks serve two main purposes. First, they handle the banking needs of the federal government. For example, Federal Reserve banks handle the sale of bonds issued by the government. In addition, most U.S. currency is put into circulation through the Federal Reserve System. From these banks, the money spreads out into the economy for use by businesses and consumers.

Second, the 12 Federal Reserve banks provide various services to state and national banks, and control the banking system. For example, a member bank can go to the Federal Reserve bank in its district and borrow money. Doing so allows the member bank to meet a high demand for cash from its customers.

The member bank must pay interest on the loans it receives from the Fed, just like individuals or businesses. The rate of interest charged to member banks by the Federal Reserve is called the **discount rate**. This rate often influences the amount of money available to banks for making loans.

### The Board of Governors

The Federal Reserve System is managed from Washington, D.C., by a seven-member board of governors. Each member is appointed by the president, with the consent of the Senate, and serves for a single 14-year term.

Through its influence over the banking system, the Fed tries to keep the right amount of currency in circulation. When the economy is growing and more goods and services are being produced, more currency is needed in circulation. The additional currency allows businesses and individuals to take part in a growing economy.

When the currency supply grows faster than the supply of goods, prices tend to rise. To prevent this, the Fed may try to slow the growth of the money supply or even take money out of circulation.

#### READING CHECK

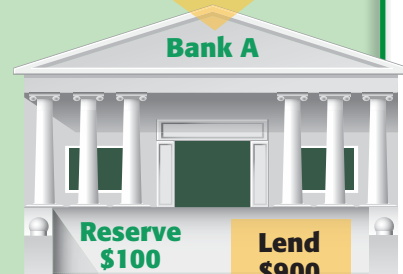
**Analyzing Information** How does the Federal Reserve regulate the economy?

## Banks and the Money Supply

Economists use two definitions of money supply. The narrowest definition, called M1, includes all currency, checking accounts, and traveler's checks. A broader definition, M2, includes all of those plus savings deposits, certificates of deposit, and other assets that can be converted quickly into cash. Money in your pocket or in your checking account is part of the money supply.

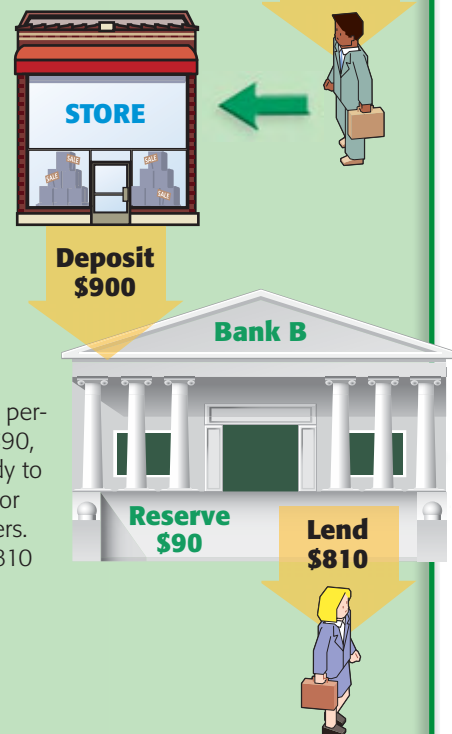
- 1 You deposit \$1,000 into your checking account at Bank A. The government guarantees your deposit.

**Deposit  
\$1,000**



- 2 Bank A can lend \$900 of your deposit to other people. By law it must hold 10 percent of your deposit in reserve.

- 3 The person who borrows the bank's \$900 may spend it at a store. The store then deposits that money into its account at Bank B.



- 4 Bank B shows that 10 percent of the \$900, or \$90, is in its reserves and is ready to lend the other 90 percent, or \$810, to one of its customers. She is free to spend that \$810 any way she wants to.

**Because banks can lend cash, the government does not have to print more money—it simply lets the banks increase the money supply.**

#### ANALYSIS SKILL

#### ANALYZING VISUALS

Describe how banks increase the money supply.

## Getting a Bank Loan

What happens when you borrow money from a bank? Imagine that you own and operate a small computer repair service company. You need \$5,000 to buy some new equipment in order to service the latest generation of computers. Because you do not have the money yourself, you apply for a loan.

You meet with a loan officer to explain why you need this money. You bring in business records that show that you have been making a profit. You might also bring financial analyses, called projections, that estimate how your business will improve with the added equipment. In addition, you want to convince the loan officer that you will be able to repay the loan. So you also point out that you have no other debts except for a car loan, which you have always paid on time.

The loan officer needs the approval of the bank's lending committee for larger loans. She does, however, have the authority to approve smaller loans like yours on

her own. You receive a short-term loan of \$5,000, which you must repay in 90 days. You do not receive the full \$5,000, however. The bank deducts a small amount in advance as the interest it is charging for the loan. It deposits the remainder as a credit in your checking account at the bank. Deducting the interest on a loan in advance is known as **discounting**.

After you receive the loan, you buy the new equipment. This starts a chain of events into action. You can now offer better service to your customers, which should help you make more money. The bank also makes money on the loan. The equipment company uses the money it got from you and other customers to pay its employees and suppliers. Perhaps it will even be able to expand its business as well. In this way, your loan and other forms of credit circulate throughout the U.S. economy.

### READING CHECK

### Identifying Cause and Effect

What factors might cause a bank to agree to lend money?

## SECTION 2 ASSESSMENT



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ONLINE QUIZ

### Reviewing Ideas and Terms

1. **Explain** How did the first banks originate?
2. **a. Define** Write a brief definition for the terms **collateral**, **savings and loan associations**, and **credit unions**.  
**b. Compare and Contrast** What is the difference between a demand deposit account and a time deposit account?
3. **a. Define** Write a brief definition for the terms **Federal Reserve System** and **discount rate**.  
**b. Identifying Cause and Effect** Why did the U.S. government decide to regulate banks, and how did it do this?
4. **a. Define** Write a brief definition for the term **discounting**.  
**b. Analyze Information** How do business loans help the U.S. economy grow?

### Critical Thinking

5. **Summarizing** Use your notes and a chart like the one here to summarize the different types of banks that operate in the United States.

Commercial Banks	Savings and Loans	Savings Banks	Credit Unions

### FOCUS ON WRITING

6. **Summarizing** Imagine that you are an economics professor teaching a course to future bankers. Write a brief lesson explaining the purpose of the Federal Reserve banks.



## SECTION 3



SS.7.C.2.11; S.7.E.1.2; MA.7.A.1.2; LA.7.1.6.1; LA.7.1.7.1

# Saving and Investing

## BEFORE YOU READ

### The Main Idea

There are many ways to save money. Saving helps the economy by providing banks with money to make loans to others.

### Reading Focus

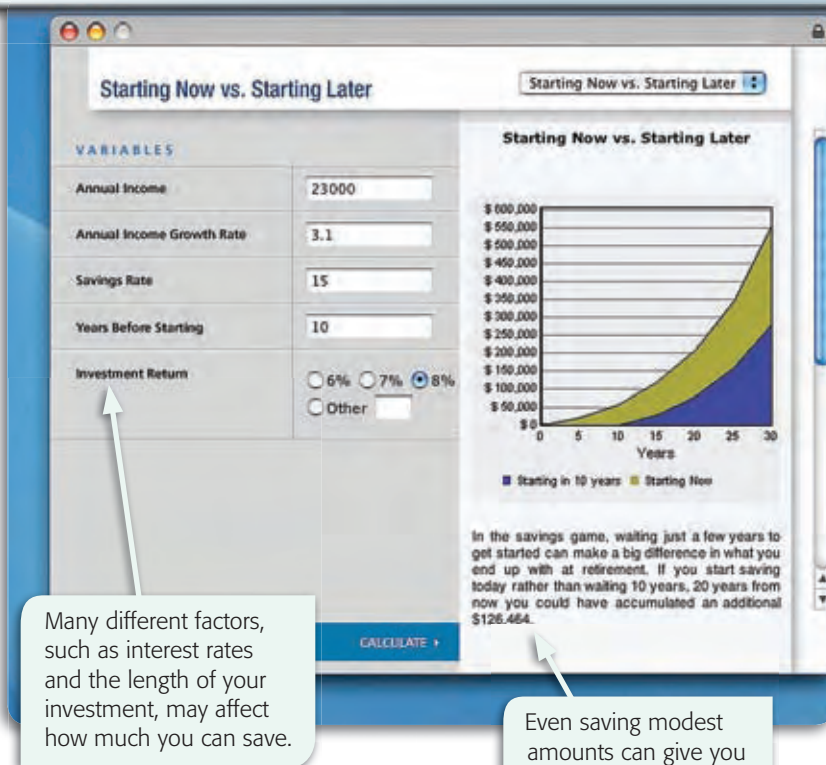
1. Why is it important to save money?
2. What are some ways people save and invest their money?
3. How does saving money help the U.S. economy?
4. How does the government protect savings and investments?

### Key Terms

certificates of deposit (CDs), p. 518  
brokers, p. 518  
stock exchange, p. 518  
mutual funds, p. 518  
money market funds, p. 519



Use the graphic organizer online to take notes saving and investing.



Many different factors, such as interest rates and the length of your investment, may affect how much you can save.

Even saving modest amounts can give you a large sum after a number of years.



Many people put aside part of what they earn to meet unexpected expenses, to pay for an expensive item, or to live more comfortably when they retire. You will, too, someday. Money can be kept in a savings account, or it can be invested in stocks and bonds. A savings account is probably safer. Stock market investments are riskier but might be more rewarding. Savings and investment both make your money available to others and help the economy grow.

## Saving Is Important

There are many different ways to save your money. You can hide your money under a mattress, put it in a cookie jar, or keep it in a piggy bank, but these places are not very safe and do not pay interest.

### Saving Accounts


Many Americans set aside a regular amount in a savings account each week or each month. The bank pays interest on all money deposited in a savings account. In this way, your money earns more money for you. If you save money on a regular basis, you can build a large sum over time. The money can be withdrawn when it is needed.

Regular savings accounts usually require you to keep only a small minimum balance. However, some banks charge a service fee if your account falls below the minimum balance or if you exceed a specified number of transactions within a certain time period.

### Certificates of Deposit

Banks and other financial institutions also offer **certificates of deposit (CDs)**. Savers who use CDs invest a certain amount of money for a specified period of time. Most CDs are issued in units of \$1,000 or more. The interest to be paid when the CD matures is set at the time of purchase and usually remains constant.

CDs can have terms lasting weeks, months, or even years. Usually, the longer the money is invested, the higher the interest paid on the CD. However, if you withdraw your money before the end of the specified term, you may have to pay a penalty.

**READING CHECK**  **Analyzing Information** Why might banks require a minimum balance be maintained in a savings account?

## Ways to Invest

Another way to save for the future is to invest your money. Bonds and stocks are two of the most popular investments.

### Buying Bonds

Bonds are certificates of debt issued by governments and corporations to people who lend them money. Most bonds pay interest regularly, such as every calendar quarter. When the bond reaches maturity, bond holders get back the amount of their original investment. U.S. government bonds, as well as the bonds of most states, localities, and corporations, are a relatively safe form of investment.

One form of bond, the U.S. savings bond, does not pay interest until the bond matures and you cash it in. For example, a savings bond bought for \$100 might earn \$100 in interest over 12 years. If you paid \$100 for one

of these bonds, you would receive \$200 when you cashed it in. Meanwhile, your money is safe because the federal government can be counted on to repay its debt. However, the interest rate for savings bonds is usually lower than for many other kinds of investments.

### Buying Stocks

Business organizations known as brokerage houses buy and sell various stocks for their customers. The people employed by brokerage houses are known as **brokers**. Each brokerage house is a member of one or more stock exchanges. Millions of shares of stock are bought and sold every working day at a **stock exchange**. One of the most influential stock exchanges in the world is the New York Stock Exchange in New York City.

Anyone can buy stocks through a brokerage house. In addition, you can easily buy and sell stocks via the Internet. However, you should know a great deal about the stock market before buying stocks. Stock prices depend on expectations of how a company will perform in the future, making stocks a relatively risky investment.

People who buy stocks are taking a chance. They hope their investment will earn more money than it would earn in a savings account or a bond purchase. If the value of the stock rises, you can sell it at a profit. However, stocks may pay small dividends or none at all. Moreover, their value on the stock market may fall.

To reduce the amount of risk in stock purchases, many people buy shares in **mutual funds**. By buying a share in a mutual fund, you own a small piece of a large number of stocks. Because mutual fund managers buy many different stocks, the risk from any one stock is not great. Before buying shares in a mutual fund, however, you should research the fund. You should determine what stocks the fund holds, its performance over time, and its management. A mutual fund that is poorly managed can be risky.



**Money market funds** are mutual funds that buy short-term bonds. Most short-term bonds have stable values. So you can be fairly confident that a dollar invested will still be worth a dollar when you take it out. You can withdraw your money at any time. Money market funds do not guarantee a specified amount of interest. However, they often can pay a slightly higher rate than most banks. Bear in mind that the rate of interest may rise or fall. Also, the government does not insure this form of saving. Thus, it can be a risky investment.

**READING CHECK** **Evaluating** What should a person take into consideration before investing?

## Saving Helps the Economy

What happens to the money that Americans have in savings accounts, bonds, stocks, and other forms of saving? That money is used to help expand the U.S. economy. How does saving promote such growth?

Economic growth occurs when factories and other means of production increase their production. However, expanding production normally requires money to pay for a variety of needs. These needs can include more employees, new factories, machine tools, and other capital goods. Some of the money will come from the company's profits that it saves to fund expansion. Much of the rest will come from other people's savings that banks lend to the company.

Businesses can use a combination of saving and borrowing to finance expansion. Most corporations put aside a portion of their profits before paying dividends to their stockholders. This money is reinvested in the business in the form of new capital. The new capital might be in the form of new machines or larger factories. It helps businesses establish new branches or add new lines of products or services to what the company already produces.

**READING CHECK** **Finding the Main Idea** How does saving contribute to economic growth?

## Protecting Savings and Investments

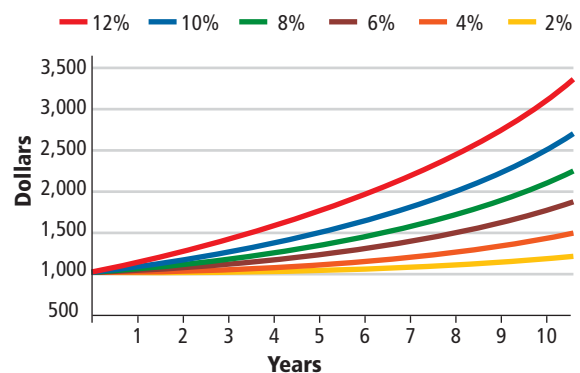
When people deposit money in a bank account, they want to know that their money will be safe. They also want to know that they will be able to get their money back when they ask for it. Likewise, when people buy stocks or bonds, they want to be sure that they are not taking unnecessary risks with their money.

### MATH 101

## Calculating Interest

Interest is the money a financial institution pays you for the use of your money. A saver's initial deposit is called the principal. The most basic kind of interest is simple interest. Simple interest is interest paid on the principal alone. Compound interest is interest paid on the principal, plus any interest that has already been earned. Simple interest is calculated using the following formula:  $\text{Principal} \times \text{Interest Rate} = \text{Interest Earned}$ . To calculate compound interest, use the following:  $(\text{Principal} + \text{Year 1 Interest}) \times \text{Interest Rate} = \text{Interest Earned}$ .

### Compound Interest



Source: Historical Statistics of the United States

### ANALYSIS SKILL

### ANALYZING GRAPHS

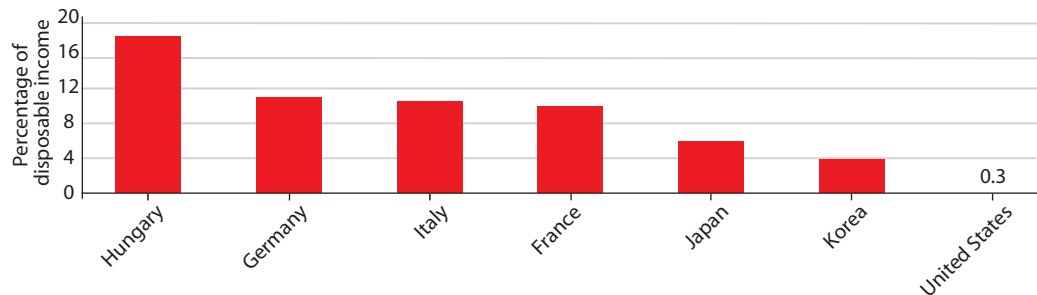
How many years would it take to double your deposit of \$1,000 at eight percent interest?

## National Savings Rates

Saving is important to the national economy because the money set aside can be lent to other people to invest or spend. For example, businesses may borrow the funds and invest in new equipment or hire more workers. The economy as a whole benefits when you save.

Disposable income is the money income you have left after you have paid all taxes. Disposable means that you can spend the money.

### Household Savings Rate, 2005



Source: Organisation for Economic Co-operation and Development, U.S. Bureau of Economic Analysis

### Things You Might Want to Save For

- New video game
- Clothes
- Living expenses (such as telephone bills)
- New cell phone
- Car and automotive expenses
- College education
- Apartment

#### ANALYSIS SKILL

#### INTERPRETING CHARTS

Why do you think Americans save so little compared to people in other countries?



For these reasons, federal and state governments have passed laws regulating institutions that handle money. All financial institutions must receive a state or federal charter to operate.

### Regulating Stock Exchanges

In the 1930s Congress established the Securities and Exchange Commission, or SEC. This organization ensures that all stock and bond offerings on the country's stock exchanges include accurate information about the company. This way, purchasers are not misled.

In years past, people sometimes sold watered-down stock. This stock did not fully represent the value claimed for it. There were also many other types of stock fraud and deception. Some dishonest people and firms cheated the American public.

The regulations of the Securities and Exchange Commission were established to stop such practices. The SEC constantly monitors the practices of the country's stock exchanges and the brokers who buy and sell stock. This does not mean, however, that all stocks are safe investments.



## Regulating Savings Organizations

All of the country's savings organizations come under state or federal government control. Laws regulate both banks and savings and loan associations. Even company credit unions must allow government accountants to examine their records regularly. These people determine if they have enough capital and are operating properly.

As you have read, money in savings and loan accounts is insured against loss. The Federal Deposit Insurance Corporation manages deposit insurance. In 2009 deposits were insured up to \$250,000. The insurance covers savings accounts, certificates of deposit, and money market accounts. The National Credit Union Share Insurance Fund similarly insures credit union accounts.

Saving is important to the prosperity of the United States and its citizens. Because of this, it is essential that individual savings be protected.

### READING CHECK

**Summarizing** How does the government protect the savings of individuals?

## MEDIA INVESTIGATION

### NEWSPAPER HEADLINES

## The 1929 Stock Market Crash

Headlines are designed to sell newspapers. They use active language that makes people want to read the article. A well-written headline will tell what the article is about without exaggeration.

Some writers try so hard to get a reader's attention that their headlines are misleading. Such headlines often point up the most violent or sensational aspect of an event, regardless of whether it fairly represents the whole story.



In October 1929, when the U.S. stock market crashed, many people first learned of the collapse from newspapers. Investors were very worried—even panicked—about losing their money. Some headlines reflected that panic, but it is also possible that they contributed to creating it, too.

### ANALYSIS SKILL

### MEDIA INVESTIGATION

What page of the newspaper is likely to have the most sensational headlines? Why?



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ACTIVITY

## SECTION 3 ASSESSMENT



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ONLINE QUIZ

### Reviewing Ideas and Terms

- a. Define** Write a brief definition for the term **certificates of deposit (CDs)**.  
**b. Summarize** What are some ways that people can save money?
- a. Define** Write a definition for the terms **brokers, stock exchange, mutual funds, and money market funds**.  
**b. Compare and Contrast** What is the difference between saving and financial investments?
- a. Summarize** How does the U.S. economy benefit when people deposit money in savings accounts, bonds, or stocks?  
**b. Draw Inferences and Conclusions** Why do businesses often invest much of their profit in expanding their companies?

- 4. Summarize** What are some of the ways the government protects your savings and investments?

### Critical Thinking

- 5. Summarizing** Copy the graphic organizer at right. Use it and your notes to show the different ways people save and invest their money.



### FOCUS ON WRITING

- 6. Decision Making** Write a paragraph telling how you might invest \$1,000 and why you would choose such a form or forms of investment.

## SECTION 4



LA.7.1.6.1; LA.7.1.7.1

# Insurance against Hardship

## BEFORE YOU READ

### The Main Idea

Insurance companies offer policies to protect people from possible financial hardships. The federal government also has several programs to help protect people from risks and uncertainties.

### Reading Focus

- 1 How are insurance companies able to protect you?
2. What are some forms of insurance provided by the government?

### Key Terms

insurance, p. 522  
premium, p. 522  
private insurance, p. 523  
beneficiary, p. 523  
social insurance, p. 524  
Social Security, p. 524  
Medicare, p. 526  
Medicaid, p. 526



Use the graphic organizer online to take notes on the different types of insurance.



Homeowners can buy insurance against damage from wind, water, floods, and fires.



The concept of insurance is at least 4,000 years old. Babylonian merchants traveling in caravans to East Asia protected themselves by contributing to a collective fund to cover losses to bandits. Over the centuries, the idea has become increasingly popular. What was once common only for businesses and wealthy individuals is available today for many Americans. Risk and uncertainty are a part of life, but insurance provides a way to protect yourself and your family.

## Insurance Protects You

**Insurance** is a system of spreading risks over large numbers of people. These people each pay a small amount to an insurance company to avoid the risk of a large loss. For example, if you own a \$20,000 car, it could be ruined in an accident. You might be willing to pay a much smaller sum—perhaps \$750 each year—to protect yourself against the risk of an accident.

The amount you pay for this protection is called a **premium**. Premiums may be paid yearly or more often. The contract that gives this kind of protection is called an insurance policy.



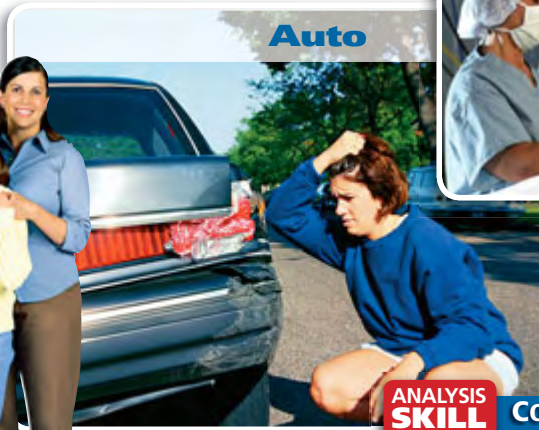
## Types of Insurance

Families may need a variety of types of insurance to protect themselves from unexpected losses.

**Life**



**Auto**



**Health**



**Property**



**ANALYSIS SKILL**

### COMPARING AND CONTRASTING

If you were a college student, unmarried in your early 20s, which types of insurance might you buy? Explain your answer.

How can insurance companies take small amounts of money from people, yet pay them a large sum if a hardship occurs? The reason is simple—not everyone has a hardship. You may pay premiums on accident insurance all your life and never collect a cent because you never have an accident.

A large insurance company has millions of policyholders who pay their premiums regularly. Part of this money goes into a reserve fund. State laws specify how large a reserve fund a company must maintain. Claims are paid from the reserve fund. As long as the insurance company collects more in premiums than it has to pay out in claims, it can make a profit. Major natural disasters can cause a problem for insurance companies, however.

The voluntary insurance that individuals and companies pay to cover unexpected losses is called **private insurance**. There are many different kinds of losses that private insurance covers, from life insurance to health insurance to property insurance.

### Life Insurance

The main purpose of life insurance is to provide the policyholder's family with money in the event that the policyholder dies. In this way, the family is protected from financial hardship. The person named in the policy to receive the money when the policyholder dies is called the **beneficiary**.

The two kinds of life insurance are term insurance and whole-life insurance. Term insurance covers only a specified period of time. Because it expires at the end of the specified term, it is relatively inexpensive. Whole-life insurance covers the policyholder throughout his or her life, and is more expensive.

### Disability and Health Insurance

Other insurance policies cover policyholders if they are injured in an accident or suffer an illness. Disability income insurance, for example, provides payments to replace lost wages when the policyholder cannot work due to a total or partial disability.

Health insurance covers medical or hospital expenses. Major medical expense insurance pays a large portion of the medical costs resulting from a serious illness or injury. Premiums for these kinds of insurance are often paid in part by you and in part by your employer.

### Property and Liability Insurance

Some types of insurance protect your personal property from events such as fires, hurricanes, vandalism, and theft. The most widely purchased form of property and liability insurance is automobile insurance. This type of insurance protects you against liability for injuring another person or damaging another car in an automobile accident. It also provides coverage if your car is stolen, vandalized, or damaged in an accident.

#### READING CHECK

**Analyzing Information** How do insurance companies stay profitable while still paying policyholders for their claims?

## Insurance Provided by the Government

During the Great Depression of the 1930s, many businesses and factories closed, and millions of men and women lost their jobs. Banks failed, and thousands of people lost their life savings. In response, President Franklin D. Roosevelt recommended and Congress passed a series of laws called the New Deal. Some of the new laws brought immediate assistance to needy people. Other laws were intended to protect people against severe economic risks and hardships in case of future recessions.

Government programs like these that are meant to protect individuals from future hardship are called **social insurance**. The Social Security Act of 1935 set up a system of social insurance known as **Social Security**. It has three major parts—old-age and survivors insurance, disability insurance, and unemployment insurance.

### Old-Age, Survivors, and Disability Insurance

People pay a percentage of their salary each month while they work in order to receive cash benefits later, when they retire. During the years when workers earn money, they and their employers contribute to a fund. After workers retire, or if they become disabled and are no longer earning money, they receive payments from the fund.

By law monthly contributions made under the Social Security Act are shared equally by workers and by employers. These contributions are actually a tax because they are compulsory, or required. If workers die before reaching retirement age, their families receive survivors' payments. A payment is made for each child under 18 and for the surviving spouse. When children turn 18, payments to them stop.

### Unemployment Compensation

The Social Security Act contained a plan to help workers who lost their jobs due to circumstances beyond their control. This plan is called the unemployment compensation program.

To receive benefits, workers who become unemployed must register with a state employment office. Then they report periodically to the office for help finding jobs. If the job search is unsuccessful, unemployed workers receive weekly benefits based on their average earnings over a certain period of time. Most states provide benefits for up to 26 weeks.

In February 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act. Among other things, the act aimed to help the millions of Americans who had lost their jobs as a result of the 2008 recession. Unemployment benefits were extended under the act, though the number of weeks people can receive unemployment benefits varies by state.

### Workers' Compensation

Federal and state workers' compensation programs help people who have job-related



# The Social Security System

The Social Security Act was passed in 1935 to provide economic assistance to retired workers. Since then, the system has grown and changed to aid more people.



Employees and employers pay a certain percentage of each pay-check into the Social Security program. This money is used to pay the benefits owed to retired people or their families and to eligible people with disabilities.



Employees put **7.5** percent of their earnings into the Social Security system.

Employers match the **7.5** percent for each employee.

## Social Security Trust Fund

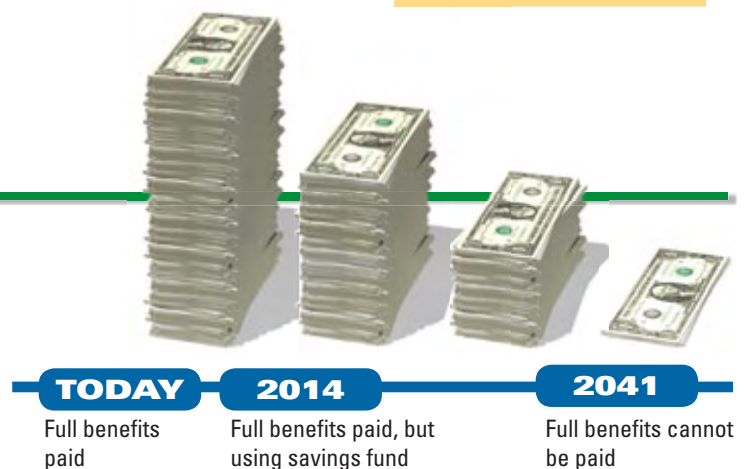
The Social Security trust fund pays benefits to eligible retirees, survivors, and disabled people.

## General Fund

The general fund makes payments to those eligible for supplemental income.

## The Future

The Social Security system faces a possible problem because eventually it may not have enough money to pay full benefits to everyone entitled to them. The system is expected to be able to make payments easily until 2014. After that it will have to take money from its savings fund. Some experts predict that in 2041 the system will no longer have enough money to pay full benefits to everyone in the system. How to solve this problem is a matter of national debate.



### ANALYSIS SKILL

### ANALYZING VISUALS

If you were in Congress, what solution might you provide to avoid the problem in 2041?



People today live longer and healthier lives. However, many elderly people need Medicare or Medicaid to help pay for health care.

injuries or illnesses. These programs pay the medical expenses of the workers and help replace any lost income. Workers' compensation also pays death benefits to the survivors of workers killed while on the job.

### Medicare and Medicaid

The federal government also has programs to help poor and older citizens pay their medical expenses. In 1965 Congress passed the

health insurance program called **Medicare** to help U.S. citizens who are 65 and older pay for hospital care and for some nursing home care. Medicare includes a voluntary medical insurance plan that helps many older citizens pay their medical bills. People with disabilities who are unable to work are also eligible for Medicare benefits. In 2003 Congress added a prescription medicine benefit to Medicare.

Congress also passed the **Medicaid** health insurance program in 1965. This program provides money to the states to help pay the medical costs of people with low incomes. For example, it helps some people pay for treatments they might not otherwise be able to afford.

The cost of Social Security has become a major concern. As more Americans live longer, retire, and collect benefits, the expense of the program grows. Attempts to reform the program have caused national debate that has yet to be settled.

#### READING CHECK

**Finding the Main Idea** What is the main purpose of social insurance?

## SECTION 4 ASSESSMENT



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ONLINE QUIZ

### Reviewing Ideas and Terms

- Define** Write a brief definition for the terms **insurance**, **premium**, **private insurance**, and **beneficiary**.
  - Summarize** How can insurance companies cover large risks in return for relatively small premiums?
- Define** Write a brief definition for the terms **social insurance**, **Social Security**, **Medicare**, and **Medicaid**.
  - Compare and Contrast** What is the difference between unemployment compensation and workers' compensation?
  - Summarize** What do the Medicare and Medicaid programs provide?

### Critical Thinking

- Summarizing** Copy the graphic organizer below. Using your notes, list the different kinds of insurance you have read about and what each kind covers. Add boxes if you need to.

Insurance	
Type	What it Covers

### FOCUS ON WRITING

- Supporting a Point of View** Do you think Social Security has encouraged Americans to become too dependent on the state and federal governments for support in times of need? Write a paragraph explaining your answer.



# STUDENTS TAKE ACTION

PROJECT Citizen



## Lobbying for Library Access

**I**n the city of Newberg, Oregon, many students in the public school district lived outside the city's public library district. These students had to pay a fee to use the library's resources. That fee included the use of books and other educational materials. Some families could not afford to pay the fee. That meant many students could not use the public library.

**Community Connection** Project Citizen students in Ms. Terry McElligott's social studies class decided that all local public school students should have access to the library. However, the teens found from their research an interesting fact. Most local residents outside of the library district opposed expanding its boundaries. Being within the library district would increase their property taxes. They would end up paying more than the current library usage fee.

**Taking Action** The teens focused on two goals. First, they wanted to increase public support for expanding the library district boundaries. Second, they wanted funding for library access for young people. A city council member and a local librarian supported the students' efforts. Both in person and through the media, the students lobbied citizens and public officials. They explained how extending the library district's boundaries would benefit all students. They made the public more aware of the issue of library access. Also, for a private fund to pay for out-of-district cards for students in need, the students raised more than \$400.



Local libraries are a valuable asset for many students.

### SERVICE LEARNING

1. How did the students take into account the economic concerns of different groups in the community when developing their action plan?
2. What compromises might help win more support for the students' plan to extend district boundaries?

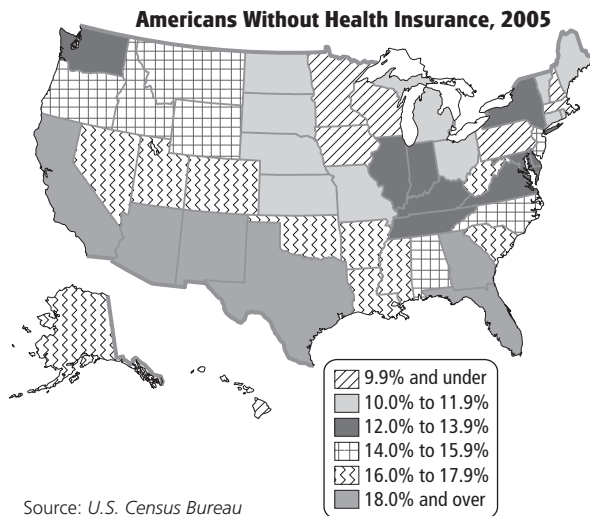
 [hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**

# CHAPTER 19 REVIEW



## FLORIDA CIVICS EOC PRACTICE

1. The map below displays the percentage of Americans who were without health insurance in 2005.



What percentage of the states had uninsured rates of 18.0% and over?

- A. 32%
- B. 16%
- C. 5%
- D. 12%

2. Which phrase describes Federal Reserve Banks?

- A. established by people who work for a single company or work for a single organization
- B. act as bankers for the federal government and for other banks
- C. act as back-ups for savings and loan associations
- D. regulate the amount of collateral this is available for government loans

## Reviewing Key Terms

For each term below, write a sentence explaining its significance to personal finances.

- |                                  |                       |
|----------------------------------|-----------------------|
| 1. currency                      | 17. insurance         |
| 2. long-term credit              | 18. premium           |
| 3. short-term credit             | 19. private insurance |
| 4. bankruptcy                    | 20. beneficiary       |
| 5. creditors                     | 21. social insurance  |
| 6. collateral                    | 22. Social Security   |
| 7. savings and loan associations | 23. Medicare          |
| 8. credit unions                 | 24. Medicaid          |
| 9. Federal Reserve System        |                       |
| 10. discount rate                |                       |
| 11. discounting                  |                       |
| 12. certificates of deposit      |                       |
| 13. brokers                      |                       |
| 14. stock exchange               |                       |
| 15. mutual funds                 |                       |
| 16. money market funds           |                       |

## Comprehension and Critical Thinking

### SECTION 1 (Pages 504–509)

- 25.a. Recall** Why are checks not considered legal tender, and why do people accept them for payment even though they are not legal tender?
- b. Elaborate** How do charge cards differ from credit cards?
- c. Supporting a Point of View** Periodically in the United States there is debate about abolishing the penny. Do you think the penny should be abolished? How might this affect the economy?

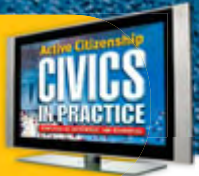
### SECTION 2 (Pages 511–516)

- 26.a. Describe** What are the four main types of financial institutions?
- b. Compare and Contrast** What are the different types of bank accounts? How are they similar and different?
- c. Predict** How might our financial system be different without the Federal Reserve System?



### Active Citizenship video program

Review the video to answer the closing question:  
*In your opinion, is it the government's responsibility to protect citizens from identity theft?*



### SECTION 3 (Pages 517–521)

- 27 a. Recall** How does saving money help the economy grow?
- b. Summarize** What different opportunities do people have to save and invest?
- c. Evaluate** Do you think Americans should save more money? Give reasons for your answer.

### SECTION 4 (Pages 522–526)

- 28. a. Explain** What enables insurance companies to stay in business while still charging the premiums that they do?
- b. Compare and Contrast** What are the similarities and differences between private insurance and social insurance?
- c. Evaluate** In your opinion, should the federal government continue the Social Security system? Why or why not?

### Civics Skills



**Analyzing TV News** Use the Civics Skills taught in this chapter to answer the questions about the photo below.



- 29.** What type of news program might this photo show?
- 30.** What clues might indicate if a news story is biased?

### Reading Skills

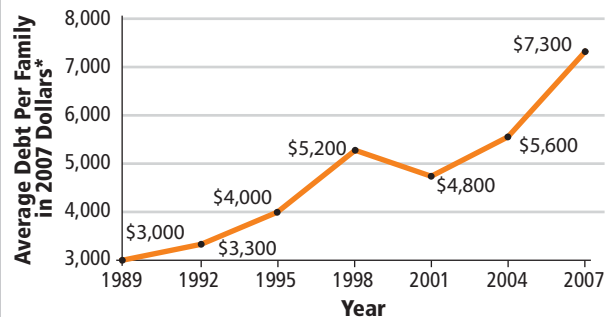


#### Making and Understanding Charts and Graphs

Use the Reading Skills taught in this chapter to answer the questions about the line graph below.

- 31.** What is the subject of this line graph? What labels does the graph use?
- 32.** What was the average credit card debt in 1995? In 2004?

#### U.S. HOUSEHOLD CREDIT CARD DEBT



Source: Federal Reserve Board  
\* for households with credit card debt

### Using the Internet



- 33. Managing Money** Whether you are making it, spending it, or saving it, money is an integral part of life in the United States. Through your online textbook, conduct research on money, loans, and credit. Then create a skit to explain the importance of money, loans, and credit in terms of the national economy. Make sure you use correct terminology and explain the role of money, loans, and credit in your skit.

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### FOCUS ON WRITING

#### 34. Writing a Letter of Recommendation

Review your notes on personal finance. Then write a two- to three-paragraph letter to the bank to which your friend has applied for a job. Explain to the bank why you think it should hire your friend.



# FLORIDA...

## The Story Continues

### CHAPTER 20, Economic Challenges

**PEOPLE** **Migrant and seasonal workers play a big role in Florida's economy.** When the Great Depression occurred, many families became migrant workers. They took work wherever they could find it. Today's migrant workers also take much of the work they can find. Some workers are native Floridians, but many workers are from South and Central America. However, they are not all Hispanic. A large number of them speak native dialects. Haitians and other peoples from the Caribbean also work as migrants.

**EVENTS** **Floridians hurt by the Great Depression were helped by the New Deal.** One New Deal program was the Civilian Conservation Corps (CCC), which gave jobs to 40,000 Florida men. They built many of Florida's state parks and wildlife preserves. They rebuilt the Overseas Railroad, which connected Miami to Key West. A hurricane had destroyed many of the railroad bridges. The CCC provided the men food, clothes, and a place to live. Their paychecks were sent home to benefit their families.

**PEOPLE** **Florida child labor laws protect teens in the workforce.** Teens aged 14 and older may be employed in Florida. Child labor laws help protect them. First, teens under the age of 18 cannot work in dangerous jobs. For example, minors may not be loggers or firefighters. Second, the laws limit how many hours a minor may work, in order to ensure school attendance. A minor who wants to work more hours can apply for a waiver.



**PEOPLE**

**1925: A. Philip Randolph forms the Brotherhood of Sleeping Car Porters.** Randolph's parents taught him to be proud that he was an African American from Florida. He took that pride with him when he moved to New York. As a porter, he worked on the famous Pullman sleeping cars. Most of the porters were African American. Sometimes, the Pullman Company made them work 24 hours without sleeping. The black porters were paid less than white porters. Railroad workers already had a union to fight for their rights. However, that union did not want black members. Randolph formed a new union to fight for the rights of African American porters. He challenged the powerful Pullman Company and won.

**EVENTS**

**2009: Florida's population drops for the first time since World War II ended.** Many military people left Florida after the war. Nevertheless, the state's population kept growing for two reasons. The economy was strong, and there was a real estate boom. Both factors declined during the recession in 2008–2009. More than 56,000 residents left Florida.

**EVENTS**

**2010: Ports near Gulf oil spill work with cruise lines to keep oil out of the harbors.** Any cruise ship sailing through an oil slick in the Gulf would bring the oil into port. However, that did not happen following the Deep-water Horizon catastrophe. Cruise lines changed their sailing times so they got to the Gulf in daylight. Then they could see the oil slick and maneuver around it.



## Unpacking the Florida Standards <...>

Read the following to learn what this standard says and what it means. See FL8–FL20 to unpack all the other standards related to this chapter.

**Benchmark SS.7.C.2.13** Examine multiple perspectives on public and current issues.

### What does it mean?

Understand how to identify point of view, or a person's beliefs and opinions, and be able to read and think about a public or current issue from different points of view. Go to the Chapter 4 Reading Skills lesson, Identifying Points of View, for help. See also the Students Take Action and the Law 101 features that appear in each chapter.



## CHAPTER 20

# ECONOMIC CHALLENGES

**Essential Question** What challenges does the U.S. economy face? How does the government respond to economic challenges?



### Florida Next Generation Sunshine State Standards

**SS.7.C.2.13** Examine multiple perspectives on public and current issues. **SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit. **SS.7.E.1.4** Discuss the function of financial institutions in the development of a market economy. **SS.7.E.2.2** Describe the banking system in the United States and its impact on the money supply. **SS.7.E.2.5** Explain how economic institutions impact the national economy. **LA.7.1.6.1** The student will use new vocabulary that is introduced and taught directly. **LA.7.1.7.1** The student will use background knowledge of subject and related content areas, prereading strategies, graphic representations, and knowledge of text structure to make and confirm complex predictions of content, purpose, and organization of a reading selection.







**HISTORY**

**FDR's New Deal**

 [hmhsocialstudies.com](http://hmhsocialstudies.com) **VIDEO**

# WHY CIVICS MATTERS

Did you know that you play a role in the U.S. economy? Every time you make a purchase, deposit money in the bank, or perform work, you are contributing to the economy. The economy changes over time. Its ups and downs cause problems that affect all Americans.



## STUDENTS TAKE ACTION

**RESTORING SCHOOL RECESS** When the school board in Madison, Wisconsin, decided to abolish the morning recess break, students went into action. What would you do if you did not agree with a change in your school's policies?

## FOCUS ON WRITING

**A MEMO** You are a writer at a television network with an idea for a financial news segment. Draft a memo to your boss telling her about your idea. As you read this chapter, gather information about the economic challenges the country has faced in the past and may experience again. Then write your memo about these challenges, how they were met, and how they may be dealt with in the future.

# Reading Skills

In this chapter you will read about the business cycle of a free-market economy. You will learn about the Great Depression and how the government became more involved in regulating the country's economy. You will read about the

challenges the national economy faces. You will learn about the policies the government uses to respond to those challenges. You will read about the ways workers and employers negotiate with one another.

## Conducting Cost-Benefit Analyses

### FOCUS ON READING

Everything you do has both costs and benefits connected to it. Benefits are things that you gain from something. Costs are what you give up to obtain benefits. The ability to analyze costs and benefits is a valuable life skill for you as a student and as a citizen. Weighing an action's benefits against its costs can help you and society make good decisions.

For example, if you buy a video game, the benefit of your action to you is the enjoyment you get from playing the game. The clearest cost is what you pay for the game. Other costs may not involve money, such as the time you spend playing the game. This time is a cost because you give up something else, such as doing your homework or watching a TV show, when you choose to play the game.

**Costs and Benefits** Another example is a conflict between business owners and workers. To force business owners to bargain with them, labor unions can decide to strike. In a strike, union members walk off the job. Production stops, and the company loses money. As a worker, you might analyze the decision to strike by comparing the benefits and costs.

#### Benefits of a Strike

- May cause business owners to bargain with workers
- Could obtain higher wages and better benefits
- Workers feel they have bargaining power

#### Costs of a Strike

- Workers lose salary while on strike
- Production stops and business loses money
- Workers could be replaced by new employees and lose their jobs

### Helpful Hints for Analyzing Costs and Benefits

1. First determine what the action or decision is trying to accomplish.
2. Look for the positive or successful results of the action or decision. These are the benefits.
3. Consider the negative or unsuccessful effects of the action or decision. Also think about what positive things would have happened if it had not occurred.
4. Compare the benefits to the costs and evaluate the action.



## You Try It!

The following passage is from the chapter you are about to read. Read it and then answer the questions below.

In 2002 the shippers association started a lockout that kept dockworkers out of 29 West Coast ports for 10 days. When a strike or lockout happens, both sides may suffer. Workers do not get paid, and their companies lose sales. Other people also are hurt by strikes . . . During the shipping lockout, cargo piled up on ships and some manufacturers had to shut down because they could not get raw materials.

From  
Chapter 20,  
p. 547

**After you have read the passage, answer the following questions.**

1. Imagine that you are a member of the shipper's association. What might be the benefits to you of shutting down your business and locking workers out?
2. What are the business costs of a long dispute with the workers?
3. Chapter 19 made the following point: *"In a healthy economy when business is doing well, there must be plenty of money available to consumers. Otherwise, the goods being produced cannot be sold. This would slow production. Slowing production could cut into profits and possibly result in layoffs of workers. Free-flowing money in the form of credit makes it possible for consumers to buy whenever there are goods to be sold."* Based on this passage, what are the benefits to the national economy when you borrow money to buy a stereo?

**As you read Chapter 20**, look for situations in which doing a cost-benefit analysis could help the country make economic decisions.

## KEY TERMS

### Chapter 20

#### Section 1

business cycle (p. 534)  
expansion (p. 534)  
inflation (p. 535)  
costs of production (p. 535)  
peak (p. 535)  
contraction (p. 535)  
recession (p. 535)  
trough (p. 535)  
depression (p. 535)

#### Section 2

fiscal policy (p. 541)  
monetary policy (p. 541)

#### Section 3

labor unions (p. 544)  
collective bargaining (p. 544)  
strike (p. 545)  
picketing (p. 545)  
job action (p. 545)  
mediation (p. 547)  
arbitration (p. 547)

### Academic Vocabulary

Success in school is related to knowing academic vocabulary—the words that are frequently used in school assignments and discussions. In this chapter you will learn the following academic words:

policy (p. 541)  
contract (p. 545)

## SECTION 1



LA.7.1.6.1; LA.7.1.7.1

# The Business Cycle

### BEFORE YOU READ

#### The Main Idea

The economy has periods of uneven growth called business cycles. Sometimes the economy grows quickly, but other times it may grow very slowly or even shrink. The worst point in the business cycle in the United States was the Great Depression.

#### Reading Focus

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

#### Key Terms

business cycle, p. 534  
expansion, p. 534  
inflation, p. 535  
costs of production, p. 535  
peak, p. 535  
contraction, p. 535  
recession, p. 535  
trough, p. 535  
depression, p. 535



Use the graphic organizer online to take notes on the business cycle, the Great Depression, and the government's response.



People who make a living selling stocks and bonds may be greatly affected by changes in the business cycle.



Do you know anyone who has lost a job in a business downturn? The job market can change quickly, with little warning. When business thrives, factories hire more people. However, when business falters, factories lay off people.

## The Business Cycle

This shifting of the economy from good times to bad and then back to good times again is called the **business cycle**. The business cycle is a common feature in free-market economies.

When the economy is booming, the gross domestic product (GDP) increases. As you have learned, the GDP is the total amount of goods and services produced by the country in one year. Such a period of growth is called **expansion** because the economy is growing larger.

The expansion of the economy during a boom period is generally good for the country—most people have jobs and businesses are doing well. However, expansion can also cause economic problems. One problem that often accompanies a boom is inflation.



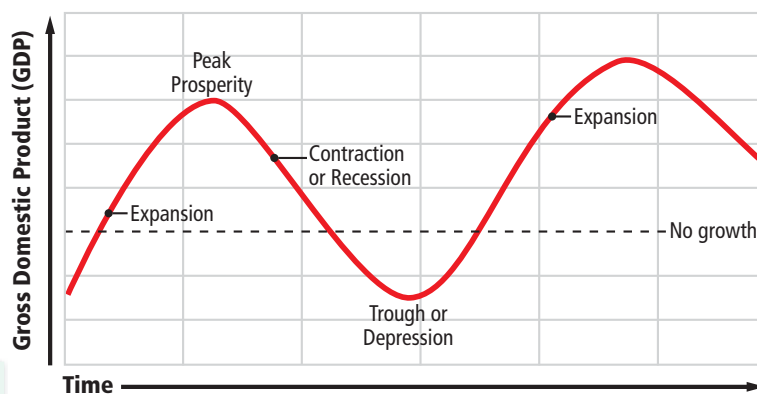
## The Business Cycle

QUICK  
FACTS

The U.S. economy goes through business cycles of expansion and contraction. As the economy expands, more workers are needed to meet the demand for more goods. When the economy begins to contract, people may lose their jobs because fewer goods are demanded and manufacturers must cut back.

In the U.S. economy, expansions usually last from 6 to 10 years. Recessions generally last about six months to two years.

### The Typical Business Cycle



ANALYSIS  
SKILL

#### ANALYZING CHARTS

How does consumer spending affect the business cycle?

**Inflation** refers to a general increase in the price level of goods and services. During periods of prosperity, people have more income to spend, causing the demand for goods and services to increase. Prices inflate, or rise, as customers compete with each other to buy goods and services. Sometimes, prices rise faster than wages. People have to spend more but do not get more for their money.

The costs of doing business also increase during a period of economic expansion. Increased competition forces businesses to pay higher prices for raw materials and transportation. Because jobs are more plentiful, businesses may also have to increase wages to keep their workers. Wages, payments for raw materials, transportation, rent, and interest on money borrowed are all part of the **costs of production**. When inflation makes these costs rise, businesses may have to increase the prices of their products to make a profit.

At some point, the expansion of the economy and the inflation that goes with it stop. When this happens, the business cycle

has reached a **peak**, or high point. After the economy peaks, business activity begins to slow. This economic slowdown is called a **contraction**. If the contraction becomes severe enough, a **recession** may occur. During a recession, businesses fail, people lose their jobs, and profits fall.

When the economy reaches its lowest point, it is said to be in a **trough**. When the trough is particularly low, economists say the economy is in a **depression**. During a depression, unemployment is very high. Unemployed people cannot buy many goods and services, so businesses suffer or close. Usually troughs are not so low as to throw the economy into a depression.

READING CHECK

**Sequencing** List the stages of the business cycle in the correct order.

## The Great Depression

The worst depression in the country's history took place during the 1930s. This period is known as the Great Depression. The first sign of trouble came in October 1929.

## ACADEMIC VOCABULARY

**traditional:**  
customary,  
time-honored

Prices of stocks on the New York Stock Exchange fell sharply. Then many banks failed, causing many people to lose their savings. By 1932 businesses were producing only half as much as they had in 1929. Thousands of businesses closed. Farm prices plummeted. By 1933 about one in four Americans was unemployed. Many people lost their homes.

Before the Great Depression, most economists believed the business cycle should be left alone. They argued that it was unwise for the government to try to control inflation, boost production, or end unemployment. This hands-off philosophy was based on the idea that the free market was self-correcting. Economists believed that the problems that came with the business cycle would solve themselves. If prices rose too high, people would stop buying goods and services until prices fell again.

Many economists also thought that recessions could not last long. Workers who lost their jobs would soon be willing to accept lower wages. Businesses would then be able to hire people for lower pay. Other costs of production would also be lower than before.

Then came the Great Depression. The **traditional** theories did not seem to work anymore. The economy did not fix itself. Instead of ending quickly, the Great Depression lasted for more than 10 years.

### READING CHECK

#### Identifying Points of View

Why were some economists against government involvement in the economy?

## The Government's Response

During the Great Depression, millions of unemployed people were willing to accept any pay, no matter how low. However, businesses could not afford to hire workers, even at low wages.

Those businesses that did survive during the Depression did not expand. After all, there was no point in producing more goods when few people had enough money to buy them.

Finally, many people were willing to allow the government to take steps to improve the economy. President Franklin D. Roosevelt established a program called the New Deal that included many approaches to improving the economy.

## The Great Depression

During the Great Depression of the 1930s, many people lost their jobs and their homes. Tens of thousands of unemployed Americans made their way to Florida in search of work picking and canning fruit and vegetables. Many of these migrant families built makeshift homes from the materials at hand.

*In what ways do you think life changed for people who lost their jobs, savings, and homes?*





One approach was to have the government create more jobs. Many people were hired to do civic construction projects, such as building parks and schools.

The government created the Federal Deposit Insurance Corporation (FDIC) to insure bank deposits and increase people's confidence in the banking system. The Securities and Exchange Commission (SEC) was established to oversee the buying and selling of stocks and bonds. The goal of the SEC was to prevent the stock market fraud that had contributed to the depression.

Another important part of the New Deal program was the creation of the Social Security system. This system was established to give regular payments to retired citizens and to help others in need. Unemployment compensation was created to provide workers with some money when they had lost their jobs.

#### READING CHECK

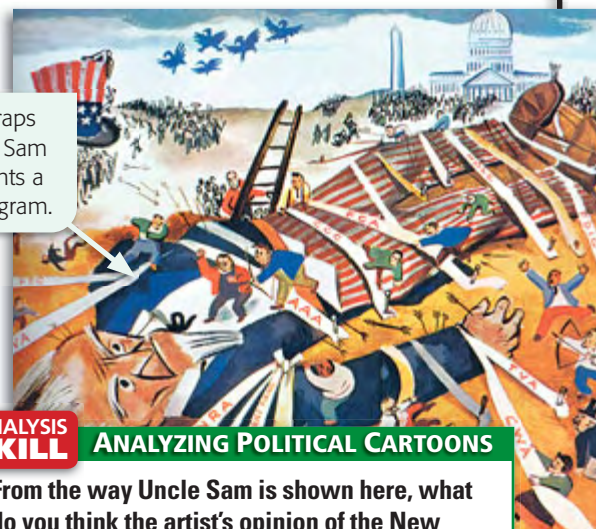
**Finding the Main Idea** Why did many Americans begin to support government intervention in the economy?

## PRIMARY SOURCE

### POLITICAL CARTOON

## WPA and the New Deal

*The New Deal was a variety of different programs designed to end the Great Depression and strengthen the U.S. economy. The Works Project Administration (WPA) was a "make work" program that provided jobs to unemployed Americans during the Depression.*



Each of the straps holding Uncle Sam down represents a New Deal program.

#### ANALYSIS SKILL

#### ANALYZING POLITICAL CARTOONS

From the way Uncle Sam is shown here, what do you think the artist's opinion of the New Deal was? Explain your answer.

## SECTION 1 ASSESSMENT

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ONLINE QUIZ

### Reviewing Ideas and Terms

- a. Define** Write a brief definition for the terms **business cycle**, **expansion**, **inflation**, **costs of production**, **peak**, **contraction**, **recession**, **trough**, and **depression**.

**b. Draw Conclusions** What are the economic effects of a recession?
- a. Recall** What were some of the problems businesses faced during the Great Depression?

**b. Draw Conclusions** Why did the Great Depression cause economists to rethink their theories about the business cycle?
- a. Summarize** What changes did the government make to try to improve the economy during the Great Depression?

**b. Make Evaluations** Are government agencies like the FDIC and the SEC still needed today? Why or why not?

### Critical Thinking

- Summarize** Use your notes and a chart like the one here to identify the programs created by the New Deal and explain how they addressed economic problems.

The New Deal	
Problem	Solution
bank problems	
stock market fraud	
unemployment	
economic hardship	

#### FOCUS ON WRITING

- Contrasting** Write a paragraph explaining how contractions, recessions, and depressions are different.

## SECTION 2



SS.7.C.2.13; SS.7.E.1.2; SS.7.E.1.4; SS.7.E.2.2; SS.7.E.2.5;  
LA.7.1.6.1; LA.7.1.7.1

# Coping with Economic Challenges

## BEFORE YOU READ

### The Main Idea


Problems such as inflation, unemployment, and recession pose serious challenges to the economy. The government responds to these problems by changing its monetary and fiscal policies.

### Reading Focus

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

### Key Terms

fiscal policy, *p. 541*  
monetary policy, *p. 541*

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**TAKING NOTES**

Use the graphic organizer online to take notes on the causes of economic problems, the government's response to the problems, and other ways to help the economy.



When you are not feeling well, you go to a doctor. When the economy is unhealthy, the government and the Federal Reserve make changes to control inflation and unemployment. Balance is the goal. The ups and downs of the business cycle are normal, but an economic depression is not.

## Causes of Economic Problems

**SS.7.E.2.5** Explain how economic institutions impact the national economy.

During times of economic growth, the economy often experiences inflation. Inflation harms workers whose wages are not rising as fast as the inflation rate. Even though workers may have the same wages, they cannot buy as much with their money. As a result, their standard of living goes down.

On the other hand, an economy that is not growing supports fewer jobs and leads to higher unemployment. Unemployment grows during periods of recession. Because businesses are producing less, they need fewer workers.

Unemployment hurts the individual unemployed workers and also harms the overall economy. Unemployed workers cannot pay bills or taxes. They buy fewer goods and services, which hurts American businesses. Sometimes unemployed people must seek government assistance, which costs taxpayers money.

As you can see, inflation, unemployment, and recession pose serious challenges for the economy. What contributes to these economic difficulties? Economists point to many different reasons, including the money supply, government spending, and productivity.

### The Money Supply

One major cause of inflation is having too much money in circulation. As people spend this additional money, they cause prices to rise. As a result, the Federal Reserve tries to control the amount of money circulating in the U.S. economy.

Inflation may also be caused when financial institutions make too many loans.



## Teens and Minimum Wage

*Do you have a plan to get an after-school job? How much do you hope to earn? Years ago, some employers took advantage of young workers. They paid them extremely low wages for working long hours at sometimes dangerous jobs. Today, even teenagers working their first job are guaranteed a minimum wage.*

### Why it Matters

The first national minimum wage of 25 cents per hour was created in 1938 by the Fair Labor Standards Act. The law also said that workers who worked more than 44 hours per week had to be paid at a higher rate for the extra time. Today, many workers who work more than 40 hours per week are paid an “overtime” rate.

Since 1938 Congress has increased the minimum wage many times. The minimum wage has been \$7.25 per hour since 2009. There are some exceptions, however. For example, workers who rely heavily on tips, such as waiters, can be paid a lower hourly rate. For workers under 20, the minimum wage is \$4.25 per hour during their first 90 days of employment.



Most teens' first jobs, such as working at a mall store, will pay minimum wage.

### ANALYSIS SKILL

#### EVALUATING THE LAW

1. Do you think the current minimum wage is fair? Why or why not?
2. Why do you think that people under the age of 20 may be paid less than the minimum wage for a short time?

[hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**

People and businesses who borrow money then spend that money on goods and services. Thus, loaning money is the same as putting more money into the economy, contributing to inflation. Businesses that borrow and expand too rapidly may produce more goods than they can sell. These businesses must then slow their production, which contributes to economic recession.

### Government Spending

The government spends many billions of dollars each year. Much of the money spent by the government comes from taxes paid by individuals and business firms. The government also borrows some of the money it

spends. Government borrowing and spending may contribute to inflation because it puts more money into the economy.

### Productivity

The amount that a worker produces per hour is called productivity. Rising productivity usually leads to higher wages, higher profits, and lower prices. However, in recent years worker productivity in the United States has lagged behind that of some other countries. This makes many foreign products less expensive than American-made goods.

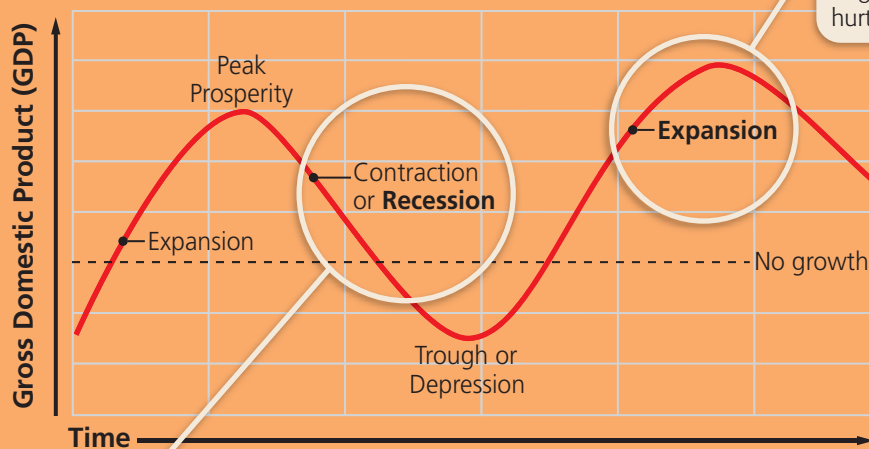
### READING CHECK

**Finding the Main Idea** What are the most serious challenges to the economy?

# Government Response to the Business Cycle

By using fiscal and monetary policy, the government can influence fluctuations in the business cycle to soften the impact on the American public.

## The Typical Business Cycle



During a **recession** or contraction, business activity slows. Businesses may fail, people lose jobs, and profits fall.

During economic **expansion**, inflation—the rise in the price of goods and services—can hurt consumers.

### Fiscal Policy

Fiscal policy is how the government collects and spends its money. Fiscal policy is decided by the president and Congress.

**Recession** Government fiscal policy may include reducing taxes and increasing government spending. Either step will put more money into the economy and promote economic expansion.

**Expansion** To slow inflation and to prolong expansion, government fiscal policy might include tax increases and spending cuts.

### Monetary Policy

The Federal Reserve System (the Fed) uses monetary policy to influence financial conditions in the economy. The Fed's main tool is its control of short-term interest rates.

**Recession** The Federal Reserve may reduce interest rates so that people and businesses would borrow and spend more money.

**Expansion** The Federal Reserve can raise interest rates. When interest rates rise, people borrow less and spend less, thus slowing economic expansion.

### ANALYSIS SKILL

### INTERPRETING CHARTS

What actions would you recommend to the president and the Fed to try to move the economy from a recession into a period of growth?



## Government's Response to Economic Problems

The government can respond to challenges facing the U.S. economy in a number of ways. The federal government can change its **fiscal policy** to aid the ailing economy by revising its policy of taxing and spending.

If the economy is entering a recession, the government may reduce taxes. It also may increase its own spending. In response to the deep recession the country entered in 2008, President Barack Obama passed a huge stimulus bill that attempted to do both. The bill cut taxes for the middle class. It also invested billions of dollars in the nation's infrastructure, including health care, education, and energy programs. The bill was designed to create new jobs, both in government and in the private sector. The aim was to relieve those most affected by the recession.

During a recession, the economy may also be aided by changes in **monetary policy**. This means a change in the money supply. The Federal Reserve System (the Fed) is the country's central bank. As such, it works to control the amount of money in the economy.

In a recession, the Fed may increase the money supply. It can do that by buying government bonds back from banks or

lowering the reserve requirements for member banks. It may also invest money in the banks to aid the flow of credit. If inflation gets too high, the government may raise taxes. The Fed may also raise the reserve requirement. Both actions take money out of the economy.

### READING CHECK

**Analyzing Information** How might the government respond to a recession?

### ACADEMIC VOCABULARY

**policy:** rule, course of action

## Other Ways to Help the Economy

Fiscal and monetary policies do not always ensure a healthy economy. What more can be done to improve the economy?

**Reduce Government Spending** The government can reduce wasteful spending and halt unnecessary government programs.

**Increase Saving** Consumers can also help the economy. They can reduce their spending and save more of their income.

**Buy American-Made Products** When consumers buy products made in the United States, they help American businesses.

**Increase Productivity** Business managers and workers can try to improve their efficiency.

### READING CHECK

**Summarizing** How can consumers help to improve the economy?

## SECTION 2 ASSESSMENT



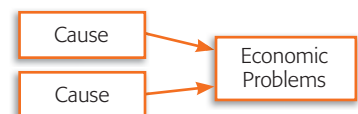
hmhsocialstudies.com  
ONLINE QUIZ

### Reviewing Ideas and Terms

- a. Recall** What are some problems that have a negative impact on the economy?  
**b. Compare and Contrast** How can government and consumer spending affect the economy?
- a. Define** Write a brief definition for the terms **fiscal policy** and **monetary policy**.  
**b. Explain** How does the federal government try to solve economic problems?
- a. Summarize** What are some ways that the government can reduce spending?

### Critical Thinking

- Identifying Causes** Use your notes and a diagram like this one to identify the causes of economic problems.



### FOCUS ON WRITING

- Support a Point of View** Do you think Americans should buy only American-made products? Explain your answer.

## Analyzing Line Graphs

### Learn

Line graphs visually represent the relationship between two variables. For instance, a line graph could represent the connection between percentage of employees in a union and hourly wages. In a line graph, the areas between known data points are connected, so it is possible to determine patterns. If the graph shows a clear pattern, it may even be possible to draw a conclusion about data not shown on the graph.

### Practice

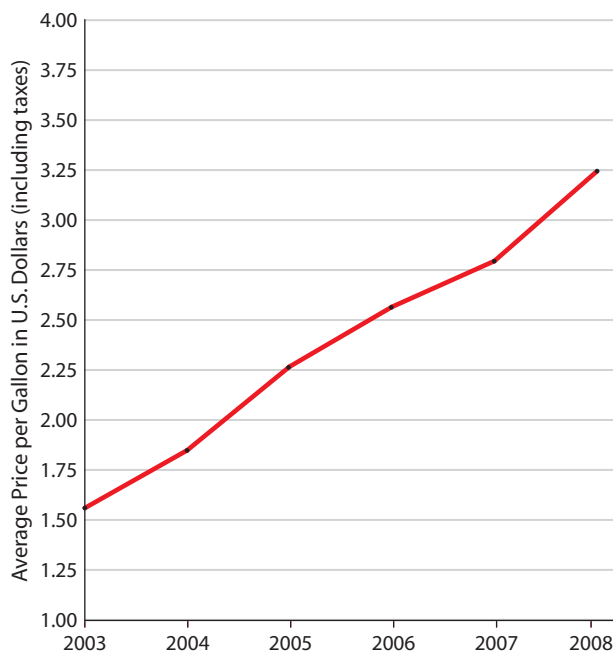
- 1 Find out the two variables.** You can use the labeling on the x-axis and the y-axis to determine the two variables. Be sure to check the units used. In the line graph “Retail Gasoline Prices” the unit for price is U.S. dollars. If time is one of the variables shown on a line graph, it is usually on the horizontal axis, or the x-axis. The variable that changes over time would then be shown on the y-axis.
- 2 Determine the trends shown in the graph.** Is there a clear correlation between the two variables? You can try to figure out how one variable affects the other, and also why there may be parts of the graph that do not follow the same trend.
- 3 Decide whether you can extrapolate based on the graph.** If there is a clear pattern in the graph, you can infer what would happen outside of the data shown in the graph. However, if there is no pattern in the graph, you may not be able to predict what would happen next.

### Apply

Use the line graph titled “Retail Gasoline Prices” to answer the following questions:

- 1.** What was the average price per gallon of gasoline in 2005?
- 2.** Based on this graph, what trend in the price of gasoline can you detect?
- 3.** Considering the economic challenges the country faced in 2008, how might the price of gas have affected many American consumers?

**Retail Gasoline Prices,  
2003–2008**



Source: Energy Information Administration





# Labor and Management

## BEFORE YOU READ

### The Main Idea

Workers formed labor unions to force employers to improve working conditions and wages. Businesses and unions have had conflicts over the years, so the federal government passed laws dealing with labor relations.

### Reading Focus

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

### Key Terms

labor unions, p. 544  
collective bargaining, p. 544  
strike, p. 545  
picketing, p. 545  
job action, p. 545  
mediation, p. 547  
arbitration, p. 547



Use the graphic organizer online to take notes on the origins of factories, the rise of labor unions, labor laws, and labor today.



In the early 1900s, boys as young as 8 years old worked underground in coal mines.



As an employee, you want the best wages for your labor. As an employer, you want to control costs. One of your costs will be the cost of employee wages. How can labor and management both get what they want?

## The Rise of Factories

In the early days of the United States, many Americans worked for themselves on small farms or in their own workshops or stores. The Industrial Revolution began in England in the mid-1700s, and quickly spread to the United States and Europe. It changed the way products were made and how people worked. Inventors created machines to manufacture a range of products faster and more cheaply than they could be made by hand. This machinery quickly grew too large to fit inside a home or workshop. As a result, business owners built large factories to house their machinery and workers.

Now instead of working for themselves, thousands of workers took factory jobs for wages. Factory owners often hired hundreds of workers, including men, women, and many young children. Often, entire families worked in the factories.

Conditions in these early factories were often very difficult. The workweek typically lasted six days. The working day was also longer than we are used to, ranging from 12 to as many as 16 hours long. For greater efficiency, jobs were broken down into many small tasks. Workers performed the same routine task over and over throughout the day. This type of work was a great contrast to craftwork done at home or in small shops, where one person might work on an item from start to finish.

In addition, because there were no safety laws, many factories were dangerous places. Early machinery ran using exposed belts and gears that could catch hair or loose clothing. Serious injuries and deaths were common. Dust often filled the air and damaged workers' lungs. Many factories had poor lighting, heating, and cooling. If workers were hurt on the job or got sick, they had no insurance or sick days. Workers' wages were typically low, so saving money was difficult.

#### READING CHECK

**Contrasting** How was factory work different from the work done by many Americans before the Industrial Revolution?

## The Rise of Labor Unions

As American industry expanded, growing numbers of workers became dissatisfied with their labor conditions. Men and women began to organize into groups to demand better conditions from their employers. These organizations of workers became known as **labor unions**.

### Collective Bargaining

Typical labor union demands included better wages, safer working conditions, and shorter workdays. To achieve these goals, union leaders needed the right to bargain with employers.

This form of negotiation between labor and management is called **collective bargaining**. Under collective bargaining, representatives from a labor union meet with representatives of an employer. Each side argues for the changes it wants or does not want. Usually some sort of compromise is necessary. For example, employers may argue that meeting union wage demands will harm the company's profits. Union leaders might agree to a lower wage increase if some pieces of old and dangerous equipment are replaced.

#### TIME LINE

### The Labor Movement

Factory workers often worked long hours for low pay in unsafe working conditions. Workers began to organize and form labor unions in order to improve their working conditions.

#### QUICK FACTS



1850

On May 11, 1894, Pullman workers went on strike in Chicago.

1894



1903

In July 1903, Mother Jones led a protest march to draw attention to child labor.

1911

On March 25, 1911, the Triangle Shirtwaist factory fire killed 146 workers in New York City.





When an agreement is reached, its terms are put into a written **contract**. The employer and the officers of the union sign this labor contract. Most contracts expire after a certain time period. Then the process of collective bargaining begins all over again.

### Methods Used by Labor

Collective bargaining only works if both sides are willing to sit down and talk to each other. When employers refused to recognize or deal with unions, labor leaders often responded with a **strike**. In a strike, union members walk off the job if employers do not agree to labor's demands.

If a company tries to hire other workers during a strike, the strikers try to prevent this by **picketing**. Picketing strikers walk back and forth, often carrying signs, in front of company buildings. They discourage other workers from entering and taking over their jobs.

A later variation on the traditional strike was the sit-down strike. In a sit-down strike workers actually occupy the factory in which they work. This prevents the company from bringing in replacement workers and can cost employers a great deal of money. How-

ever, the strikers can be charged with trespassing on company property. Instead of striking, workers sometimes stay on the job but work much more slowly than usual. This union action is called a slowdown. Any kind of slowdown, or action short of a strike, is called a **job action**.

### Methods Used by Employers

Business owners often viewed union workers as troublemakers. To fight the unions, employers sometimes locked workers out so they could not work. Employers also sent lists of names of workers who were active in the unions to other companies and asked them not to hire anyone named on the list.

In addition, business owners often hired armed guards to protect their property from striking workers. Sometimes these company men attacked union members. Also, in several major strikes, employers asked government officials for help. In some cases, the government ordered strikers back to work and used police and state militias to end the strikes.

#### READING CHECK

**Summarizing** Why did labor unions develop, and what methods have they used?

#### ACADEMIC VOCABULARY

**contract:**  
a binding legal agreement



**1955**

In 1955 the AFL, which was formed in 1886, merged with the CIO, which had been formed in 1935.



**1962**

César Chávez formed the National Farm Workers Association in 1962.

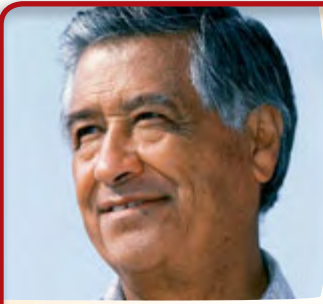


In 2005 one-third of the AFL-CIO membership left the organization to form a new group.

#### ANALYSIS SKILL

#### READING TIME LINES

**Evaluating** As the number of U.S. manufacturing jobs declines, do you think that labor unions still serve a purpose?



## FOCUS ON César Chávez (1927-1993)

César Chávez was born in Arizona, but he lived in dozens of towns as his family moved in search of farm work. His early experiences led him to help form unions for migrant

workers. Chávez viewed union work as a part of a larger fight for human rights, a goal he called *La Causa*, or “The Cause.” His successes included the formation of the United Farm Workers and a nationally publicized hunger strike against grape growers that led to a better labor contract for farmworkers.

Chávez’s patience and dedication to the cause of human rights inspired many people and won him many supporters. He helped make migrant farmworkers’ rights a national issue. Before his death in 1993, Chávez insisted, “It’s not me who counts, it’s the movement.”

**Elaborate** How did Chávez’s youth influence his goals in *La Causa* later in his life?

## Labor Laws

In the late 1800s conflicts between labor and management grew more violent. National strikes in the coal, railroad, and steel industries threatened the country’s economy. These problems worried political leaders. They attempted to bring labor and employers together. In 1902, President Theodore Roosevelt even helped end a national coal strike. This was the first time a president had supported labor unions.

### Congress Acts

Few gains were made on a national level, however, until the Great Depression. The economy was struggling, millions of people were out of work, and the public demanded answers. In response, Congress passed a number of labor laws. These and later laws regulate union organizing, labor negotiations, and strikes. One reason for these laws is to protect the public from violence between unions and management. They also reduce the likelihood of strikes in industries vital to the national economy.

Congress also has passed several other laws. Some prevent employers from using unfair practices in dealing with workers. Other laws make unions act fairly in their disputes with employers. Congress has tried to stop dishonest actions by some union leaders and to ensure that unions are run democratically.

### National Labor Relations Act

Congress passed the National Labor Relations Act (NLRA), sometimes called the Wagner Act, in 1935. It guarantees the right of workers to organize and bargain collectively through representatives. The law also provides specific ways of settling disputes between labor unions and employers.

In addition, this act set up an independent government agency, the National Labor Relations Board (NLRB). The board judges the fairness of the activities of unions and employers toward each other.

### Labor-Management Relations Act

The Labor-Management Relations Act, often referred to as the Taft-Hartley Act, was passed in 1947. It served to revise the Wagner Act in several ways. The Taft-Hartley Act allows the president to order any union to delay a strike for 80 days if such a strike would threaten the national welfare. During this “cooling-off” period, a fact-finding commission may meet and recommend a settlement. At the end of the 80 days, if no settlement is reached, the union may go ahead with its strike.

### Landrum-Griffin Act

The Landrum-Griffin Act was passed in 1959 to prevent certain abuses by union officials. It prohibits convicted criminals from serving as union officials for a period of five years after being released from prison. In addition, the law requires unions to file reports of their finances with the secretary of labor each year. Finally, it guarantees union members the right to a secret ballot in union elections and to freedom of speech in meetings.

#### READING CHECK

**Summarizing** What do the major pieces of labor legislation provide?



## Labor Today

Today violent conflicts between unions and employers are rare in the United States. Many Americans, including union members, enjoy much better working conditions than they did in the past. Still, there are disputes between unions and employers. Major issues of concern include employer-provided health insurance, retirement plans, and preserving jobs in the United States.

### Settling Disputes

Unions and employers today generally prefer to settle their differences through collective bargaining, with representatives of the two sides negotiating directly. However, if they are unable to reach an agreement, they may call for help.

For example, the National Hockey League went on strike during the 2004–05 season. In 2002 the shippers association started a lockout that kept dockworkers out of 29 West Coast ports for 10 days. When a strike or lock-

out happens, both sides may suffer. Workers do not get paid, and their companies lose sales. Other people also are hurt by strikes. For example, during the season-long hockey strike, small businesses located near the hockey arenas lost business. During the shipping lockout, cargo piled up on ships and some manufacturers had to shut down because they could not get raw materials. Some economists estimated that the U.S. economy lost about one billion dollars a day from this dispute.

Sometimes, to resolve a dispute, an expert on relations between labor and management may be asked to examine the issue and recommend a solution. This method is called **mediation**. The recommendations of the mediator are not legally binding on either the union or the employer. They are simply suggestions for a solution to the issues at hand.

Sometimes another method, called **arbitration**, is used instead. In these cases the decision of the expert arbitrator is binding on both sides.

## Linking to Today

### Organized Labor

Unions have been a part of U.S. labor history since the late 1700s. Early Americans formed local craft unions based on the craft guilds of Europe. In the early 20th century, as American industry expanded, more workers organized to improve their labor conditions. Many workers formed national industrial unions. The power of collective bargaining enabled union members to gain better pay, shorter hours, and safer workplaces.

Workers continue to organize in order to negotiate better labor conditions. In southwest Florida, a group of agricultural workers formed the Coalition of Immokalee Workers (CIW) in 1993. Many of the CIW's approximately 4,000 members work as tomato pickers. The CIW has spent several years negotiating a major pay increase, from 45 cents to 77 cents for every 32-pound bucket of tomatoes harvested. In 2010, they finally reached an agreement with Florida's major tomato growers for a pay increase and improved workplace conditions.



**ANALYSIS  
SKILL**

#### ANALYZING VISUALS

**Drawing Conclusions** How might organizing into a union or advocacy group benefit workers?

## Labor Struggles

In recent years labor unions have struggled. One problem has been the gradual loss of American manufacturing jobs to overseas competition. These jobs formed the core of the union movement. In addition, many states have right to work laws that ban the closed shop. A closed shop is a workplace where all employees are required to belong to a union.

The right to work is a legal principle. It means that all employees who are qualified for their job are entitled to work at unionized workplaces, whether they join the union or not. Right to work does not mean that every person is entitled to a job.

Labor leaders have been divided on how to rebuild union strength. Some union officials want to put union money into political campaigns, typically in support of Democrats. They hope to influence labor laws by helping elect helpful congressional and presidential candidates. However, many other union members disagree with this approach.

In 2005 conflict among labor leaders led to a split in the nation's largest association of unions, the AFL-CIO. Five unions representing more than one-third of the AFL-CIO's membership broke away. They banded together in a new coalition called the Change to Win Federation. Its leaders claimed that many AFL-CIO policies had weakened the labor movement in the United States. This had led to reduced union membership. They also believed that AFL-CIO leaders spent too much time dealing with politics and too little trying to improve the lives of workers.

The effects of the split in the labor movement remain to be seen. Some feel that conflict between groups will lead to discontent and a further decline in union membership. Others, however, believe that the existence of a new large labor organization will reenergize the movement. This would lead to major improvements for American workers.

### READING CHECK

**Finding the Main Idea** How are most labor disputes settled today?

## SECTION 3 ASSESSMENT



hmhsocialstudies.com  
ONLINE QUIZ

### Reviewing Ideas and Terms

- Define** Write a brief definition for the terms **labor unions**, **collective bargaining**, **strike**, **picketing**, and **job action**.
  - Summarize** Why did American workers form labor unions during the 1800s?
  - Compare and Contrast** What methods do labor unions use to persuade employers to agree to union demands? What methods did employers use in the early years of labor unions to fight the unions?
- Explain** What is the purpose of the Labor-Management Relations Act?
  - Defend a Point of View** Should the government get involved in disputes between labor and management? Why or why not?
- Define** Write a brief definition for the terms **mediation** and **arbitration**.
  - Predict** Which method of increasing union influence do you think will have the most success? Can either option work? Explain your answer.

### Critical Thinking

- Contrasting** Use your notes and a chart like this one to identify the different methods used by labor and employers in collective bargaining.

Labor's Methods	Employer's Methods

### FOCUS ON WRITING

- Decision Making** Imagine that you head the nurses' union in a large hospital. You and the other nurses are unhappy with the level of your pay. How do you think the union should address its problems with its employer?



# STUDENTS TAKE ACTION

PROJECT Citizen



## Restoring School Recess

**T**raditionally, students in Madison, Wisconsin, had two recess periods. Then to save money, about \$650,000 per year, the Madison Metropolitan School District decided to replace morning recess with a shorter indoor break. The school board did not predict students' reactions, however.

**Community Connection** At one school in the district, a Project Citizen class of 36 students believed that the recesses helped students focus. The lack of exercise during the morning made students restless before lunchtime. Some parents and teachers agreed. To get recess restored, however, the students needed to convince the school board to change its policy, without losing money.

**Taking Action** The students contacted members of the media. Several newspapers and television stations came out in favor of the "Recess Rebels." The students also created a public service announcement for radio. They put up posters in the community. After surveying school and community members about the recess cut, they graphed the results. The students appealed to the school board and state officials. The board decided to let the teachers' union vote on the issue. Partly because the change would cause much disorder in the middle of the school year, most teachers voted against it. Despite this setback, the students realized that they could make a difference and decided to continue their campaign. One student said, "Before I thought a citizen was someone who flew a flag and voted. I now know that I am a citizen and I have a voice."



Students can have a voice and take action to try to change school policies.

### SERVICE LEARNING



1. How did the students go about getting support for their campaign? Were they successful?
2. What do you think the students might do differently next time?

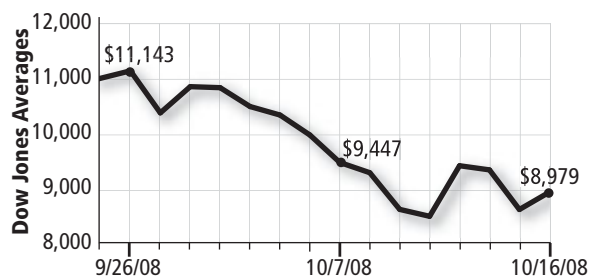
[hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**

# CHAPTER 20 REVIEW



## FLORIDA CIVICS EOC PRACTICE

1. The graph below describes stock market movement in the autumn of 2008.



What economic situation is indicated?

- A. the end of a depression
  - B. the possible beginning of a recession
  - C. a rise in stock prices
  - D. the peak of economic expansion
2. Of the following, which would be a use of the Taft-Hartley Act?
- A. delaying a strike by a doctors' union
  - B. naming César Chávez a national hero
  - C. revoking the NLRB
  - D. regulating union elections

## Reviewing Key Terms

For each term below, write a sentence explaining its significance to facing economic challenges.

- |                        |                           |
|------------------------|---------------------------|
| 1. business cycle      | 10. fiscal policy         |
| 2. expansion           | 11. monetary policy       |
| 3. inflation           | 12. labor unions          |
| 4. costs of production | 13. collective bargaining |
| 5. peak                | 14. strike                |
| 6. contraction         | 15. picketing             |
| 7. recession           | 16. job action            |
| 8. trough              | 17. mediation             |
| 9. depression          | 18. arbitration           |

## Comprehension and Critical Thinking

### SECTION 1 (Pages 534–537)

19. a. **Recall** What is the business cycle?
- b. **Describe** What was government's response to the Great Depression?
- c. **Elaborate** How did the government's role in the economy change during the Great Depression?

### SECTION 2 (Pages 538–541)

20. a. **Explain** What is the difference between fiscal policy and monetary policy?
- b. **Describe** What measures does the Federal Reserve take to control the amount of money in the economy, and why does it do so?
- c. **Evaluate** How important are the actions of consumers in affecting the economy? Explain your answer.

### SECTION 3 (Pages 543–548)

21. a. **Recall** What first caused workers in the United States to form labor unions?
- b. **Describe** What methods do unions and employers use to try to achieve their goals?
- c. **Evaluate** Why is it important for workers and management to compromise?

## Using the Internet



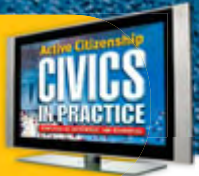
22. **Contributing to the Economy** Citizens play an important role in developing and maintaining a healthy economic climate in the country. Through your online textbook, explore some of the ways you can contribute to working toward a healthy economy. Then make up a crossword puzzle and answer key using economic terms that are important for students to know.





### Active Citizenship video program

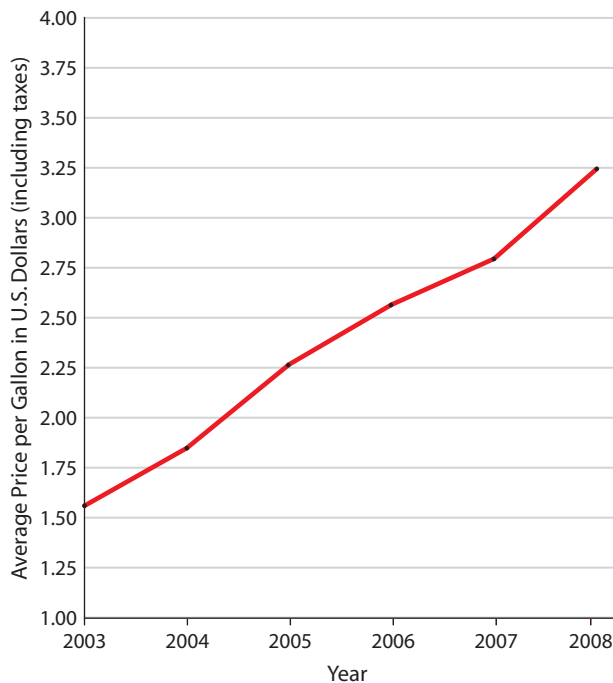
Review the video to answer the closing question:  
*What are some creative ways you can make your voice heard in the school community?*



## Civics Skills

**Line Graphs** Use the Civics Skills taught in this chapter to answer the question about the line graph below.

**Retail Gasoline Prices, 2003–2008**



Source: Energy Information Administration

- 23.** During which year was the price of gasoline highest?
- a. 2007
  - b. 2006
  - c. 2008
  - d. 2003
- 24.** Between which years did the price of gasoline rise most sharply?
- a. 2007–2008
  - b. 2003–2004
  - c. 2005–2006
  - d. 2004–2005

## Reading Skills

**Conducting Cost-Benefit Analyses** Use the Reading Skills taught in this chapter to answer the question about the reading selection below.

In 2002 the shippers association started a lockout that kept dockworkers out of 29 West Coast ports for 10 days. When a strike or lockout happens, both sides may suffer. Workers do not get paid, and their companies lose sales. Other people also are hurt by strikes . . . During the shipping lockout, cargo piled up on ships and some manufacturers had to shut down because they could not get raw materials. (p. 549)

- 25.** Food products, electronic goods, and toys are often delivered by ships. Knowing this, predict how the lockout might have been harmful to U.S. consumers in general.

### FOCUS ON WRITING

- 26. Writing Your Memo** Look back over your notes about economic challenges the country has experienced and what was done to solve the problems. Decide which of these problems you will include in your first financial news segment. Then draft a one- to two-paragraph memo to your boss briefly describing the segment. Remember to explain the problem and show how it was solved.



# FLORIDA...

## The Story Continues

### CHAPTER 21, The U.S. Economy and the World

#### PEOPLE

**1881: Hamilton Disston.** Hamilton Disston was one of Florida's first real estate developers. In 1881, he bought four million acres of land in south and central Florida. This was an area larger than the state of Connecticut. He attempted to drain the land around Lake Okeechobee and the Everglades for agriculture, but was not successful. However, he deepened the Kissimmee River to enable cargo shipments to pass into the Gulf of Mexico. His efforts opened much of central Florida to development and settlement.

#### EVENTS

**Law of supply and demand impacts Florida's tourist industry.** The law of supply and demand states that prices rise as the demand for goods and services increase. Conversely, prices fall with decreased demand. The changing prices of hotel rooms in Florida demonstrate this economic law. Room prices are highest in southern Florida in the winter months, when tourists pour into that part of the state. In northern Florida, hotel prices are relatively modest during winter. However, in the summer, which is tourist season for northern Florida, the situation is reversed.

#### EVENTS

**2011: Threats to Florida's citrus crop.** Many factors can affect an economy. In 2011, Florida citrus producers lost some of their crop both to cold weather and to a dangerous bacterium. The bacterium produces citrus greening disease, which leaves fruit sour and misshapen. Citrus greening disease tends to kill young trees, making replacement difficult. Therefore, it is considered a greater threat than cold weather.



**PLACES**

**Florida's seaports.** Florida is home to 14 deepwater seaports. Billions of dollars worth of goods such as citrus fruit, phosphate rock, petroleum products, foodstuffs, and motor vehicles flow in and out of Florida's seaports annually. Tampa is Florida's largest port by tonnage. Jacksonville is the leader in dollar value. Miami is the country's chief port for cruise ships. Other major ports are located at Canaveral, Panama City, and Ft. Lauderdale. Florida's deepwater seaports are well-positioned to take advantage of our economy's increasing dependence on foreign trade.

**EVENTS**

**International trade and Florida.** International trade is the fastest-growing segment of Florida's economy. Florida is one of the top exporting states in the country.

In 2010, Florida exported over \$55 billion worth of goods. In addition to agricultural products such as citrus fruits, Florida exports goods such as motor cars; fertilizers; turbojets; medical, surgical, and dental instruments; and electronic integrated circuits. More than 55,000 Florida companies export products.

**PLACES**

**Foreign trade zones.** A foreign trade zone (FTZ) is an area within a country where imported goods can be stored or processed without being subject to import fees. FTZs are designed to promote international trade by lowering its cost. Several FTZs are located in Florida. The Miami Free Zone and Port Everglades Foreign Trade Zone are perhaps the most prominent.



## Unpacking the Florida Standards <...>

Read the following to learn what this standard says and what it means. See FL8-FL20 to unpack all the other standards related to this chapter.

**Benchmark SS.7.E.1.3** Review the concepts of supply and demand, choice, scarcity, and opportunity cost as they relate to the development of the mixed market economy in the United States.

### What does it mean?

Explain key concepts related to the development of a mixed market economy in the United States, such as supply and demand, choice, scarcity, and opportunity cost. Go to Chapter 17, The Economic System, and Chapter 21, The U.S. Economy and the World, for help.



## CHAPTER 21

# THE U.S. ECONOMY AND THE WORLD

**Essential Question** What concepts and relationships can be used to describe the U.S. economy and the world economy?



### Florida Next Generation Sunshine State Standards

**SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit. **SS.7.E.1.3** Review the concepts of supply and demand, choice, scarcity, and opportunity cost as they relate to the development of the mixed market economy in the United States. **SS.7.E.1.5** Assess how profits, incentives, and competition motivate individuals, households, and businesses in a free market economy. **SS.7.E.2.1** Explain how federal, state, and local taxes support the economy as a function of the United States government. **SS.7.E.2.2** Describe the banking system in the United States and its impact on the money supply. **SS.7.E.2.3** Identify and describe United States laws and regulations adopted to promote economic competition. **SS.7.E.3.1** Explain how international trade requires a system for exchanging currency between and among nations. **SS.7.E.3.2** Assess how the changing value of currency affects trade of goods and services between nations. **LA.7.1.6.1** The student will use new vocabulary that is introduced and taught directly. **LA.7.1.7.1** The student will use background knowledge of subject and related content areas, prereading strategies, graphic representations, and knowledge of text structure to make and confirm complex predictions of content, purpose, and organization of a reading selection. **LA.7.1.7.3** The student will determine the main idea or essential message in grade-level or higher texts through inferring, paraphrasing, summarizing, and identifying relevant details.







Teddy Roosevelt vs.  
Corporate America

[hmhsocialstudies.com](http://hmhsocialstudies.com) VIDEO

# WHY CIVICS Matters

Whenever you buy a new game or new clothes, chances are high that what you are buying came—at least in part—from another country. The U.S. economy is the largest and strongest in the world, but it is also a part of global business and global trade.

PROJECT  Citizen



## STUDENTS TAKE ACTION

**EDUCATING THE PUBLIC** Some students are proud of their schools. What if you learned that your favorite school was no longer necessary and was going to be torn down? What could you do to save it? As you read this chapter, think about steps you could take to convince the authorities to save your school.

## FOCUS ON WRITING

**A JOB DESCRIPTION** You run a small company that makes computer games and wants to expand. You need to hire a new employee to help sell your computer games internationally. Read this chapter and then use what you learn to write a job description that would allow you to find good candidates for this job.



# Reading Skills

In this chapter you will read about how goods and services flow through the U.S. economy. You will learn how the marketplace affects the price of goods, about the business cycle, and about factors that affect the national economy.

You will also learn how and why the government influences the economy. Finally, you will read about how international trade affects the U.S. economy and creates interdependence among the world's countries.

## Analyzing Essential Information

### FOCUS ON READING

To be informed about important U.S. economic policies, you will need to read many facts, statistics, terms, and descriptions. You do not want to become distracted by unimportant details.

**Identifying Relevant and Essential Information** Whether you are reading a textbook, an editorial, or political campaign literature, the information should be relevant. It should also be verifiable and essential to understanding the subject. Anything else distracts from the material you are reading.

The September 11 attacks, which happened on a beautiful morning, hurt several industries. Many Americans were afraid to travel by airplane, causing airlines to lose business. Many businesses reported that their sales dropped in the weeks after September 11. Today, people remember where they were when they heard the news about the attacks. As a result, the unexpected tragedy of September 11 weakened the U.S. economy. With better security, the attacks never would have happened. As Americans began to feel more confident, economists predicted that the economy would again be on the upswing.

The weather on September 11 is not essential information.

How people remember September 11 is not relevant to the topic of the impact of the attacks on the economy.

This is an opinion that cannot be proved or verified. It is also not relevant to discussing the economic impact.

### Helpful Hints for Analyzing Essential Information

1. Look out for opinions that cannot be proven.
2. Make sure the facts and information support the main idea. Anything else is not relevant.
3. Draw your own conclusions by focusing only on the essential and relevant information.





LA.7.1.7.3

21<sup>ST</sup>  
CENTURY

## You Try It!

The following passage is adapted from the chapter you are about to read. As you read, look for irrelevant, nonessential, or unverifiable information.

### Discount Rate

*adapted from  
Chapter 21,  
p. 568*

The Fed also uses a tool called the discount rate, which is the interest rate the Fed charges banks to borrow money. When the Fed changes this rate, it signals commercial banks that the Fed wants to loosen or tighten the money supply. There are thousands of banks across the country. For example, when the Fed lowers the discount rate, banks may borrow and loan more money. The money supply increases, and the economy expands. That helps the economy grow. Canada and Mexico have different economic problems. Raising the discount rate has the opposite effect. If the Fed wants to slow economic growth, it may raise the discount rate. Recently, the Fed raised the discount rate too quickly. The money supply contracts, and the economy may not grow as quickly. Economists love to argue about whether the Fed is doing a good job regulating the economy.

**After you have read the passage, answer the following questions.**

1. Which sentence in this passage is unverifiable and should be cut?
2. Find two sentences in this passage that are irrelevant to the discussion of the discount rate. What makes those sentences irrelevant?
3. Look at the last sentence of the passage. Do you think this sentence is essential to the discussion? Why or why not?

**As you read Chapter 21,** ask yourself what makes the information you are reading essential to a study of the U.S. economy.

## KEY TERMS

### Chapter 21

#### Section 1

consumer (p. 557)  
producer (p. 557)  
circular-flow model (p. 558)  
competition (p. 558)

#### Section 2

leading indicators (p. 563)  
coincident indicators (p. 563)  
lagging indicators (p. 563)

#### Section 3

tax incentives (p. 567)  
easy-money policy (p. 568)  
tight-money policy (p. 568)  
open-market operations (p. 568)  
reserve requirement (p. 568)

#### Section 4

absolute advantage (p. 570)  
comparative advantage (p. 570)  
opportunity cost (p. 570)  
trade barrier (p. 572)  
balance of trade (p. 574)  
trade surplus (p. 574)  
trade deficit (p. 574)

### Academic Vocabulary

Success in school is related to knowing academic vocabulary—the words that are frequently used in school assignments and discussions. In this chapter, you will learn the following academic words:

development (p. 560)  
agreement (p. 572)

## SECTION 1



SS.7.E.1.3; SS.7.E.1.5; SS.7.E.2.1; LA.7.1.6.1; LA.7.1.7.1

# Overview of the U.S. Economy

## BEFORE YOU READ

### The Main Idea

In a market economy, buyers and sellers interact in the marketplace and respond to changes in prices by changing the amounts demanded and the amounts supplied.

### Reading Focus

1. What are four basic economic systems?
2. What is the free-enterprise economic system?
3. What are three ways to invest in the economy?

### Key Terms

consumer, *p. 557*  
producer, *p. 557*  
circular-flow model, *p. 558*  
competition, *p. 558*



Use the graphic organizer online to take notes on the U.S. economy.



The forces of supply and demand affect every business transaction.

## CIVICS IN PRACTICE

Economics is about choices. Whenever you buy something, you are making a choice about the product and the price. Your choice, plus the choices of other consumers, helps determine what sellers will produce and what they will charge for it. Why do some brands of jeans cost more than others? Why can't you get a summer job that pays \$100 an hour? Economics helps answer these questions. By studying your choices and those of others, you can see how all of those choices together combine to form an economy.

## Basic Economic Systems

There are three basic types of economic systems. They are the traditional economy, command economy, and market economy. At least one of these systems is found in every country in the world. What are the characteristics of each type of economic system?

**Traditional Economy** In a traditional economy, economic decisions, such as what to produce, are based on customs and traditions. Goods and services are also distributed according to custom. It is hard to find a true traditional economy in today's world.



**Command Economy** In a command economy, government officials decide what goods will be made and how. They also decide who can own these goods. A command economy is highly centralized because a small number of people control the economy. This centralization tends to be inefficient.

**Market Economy** In a market economy, basic economic questions, such as what to produce, depend on the interaction of producers and consumers. Producers supply goods, services, and resources. Consumers demand goods, services, and resources.

**Mixed Economy** Most economies today—including the U.S. economy—are sometimes called mixed economies. A mixed economy can include elements of traditional, command, and market economies. Countries with mixed economies that are closely related to the pure market model are called capitalist. The United States, which has some government involvement in the economy, is a capitalist country.

**READING CHECK**

**Summarizing** What are the main features of traditional, command, market, and mixed economies?

## The Free-Enterprise System

The U.S. economic system is also referred to as a free-enterprise system. Under a free-enterprise system, individuals have the right to own private property and to make individual choices about how to use that property and their own creativity to make money.

There are two major groups that make decisions affecting the free enterprise economy. A person who buys goods or services is called a **consumer**. A person or company that provides goods or services is called a **producer**. Many people act as both consumers and producers. For example, when you buy food, clothing, or music, you are a consumer. When you work after school or mow a neighbor's lawn, you are a producer providing a service.

## Supply and Demand

**QUICK FACTS**

In a free-market economy, the laws of supply and demand determine prices and the amount of goods available. In this illustration, the arrows represent the rise and fall of demand.

As demand for goods and services increases, prices rise. At higher prices, producers will produce more.

The laws of supply and demand work together to keep prices at a balanced point where consumers are willing to buy and producers can make a profit.

If demand for goods and services decreases, prices fall. At lower prices, producers will produce less.

**ANALYSIS SKILL**

**ANALYZING VISUALS**

1. How does demand for a good affect the price of that good?
2. How does the supply of a good affect the price of that good?

**SS.7.E.1.3** Review the concepts of supply and demand, choice, scarcity, and opportunity cost as they relate to the development of the mixed market economy in the United States.

## Circular-Flow Model

In a free-enterprise economy, different groups interact with each other to pursue profits and to acquire goods, services, and resources through markets. Among these groups are individuals, households, businesses, government, financial institutions, and charities. The relationships between groups in the economy can be illustrated by the **circular-flow model**. Here is a description of how individuals, households, businesses, and government interact in the marketplace.

Individuals and households sell resources to businesses and the government. In return, they receive payment, called income, for those resources. For example, when an individual sells labor to businesses or the government, he or she receives wages in payment. Wages are one form of income.

Businesses sell goods and services to individuals, households, and the government. In return, businesses receive payment, called revenue, for the goods and services sold.

The government receives tax revenue from businesses, individuals, and households.

It uses this tax money to provide government goods and services, as well as financial support for citizens with limited income.

The circular flow consists of goods, services, and resources moving in one direction, with money moving in the opposite direction. This makes sense because we use money as payment for goods, services, and resources.

## Prices and Supply and Demand

In a free-enterprise system, consumers and producers are free to act in their own interests. Consumers want low prices while producers prefer higher prices. Supply and demand affect prices. In economics, the quantity demanded is the amount of a good or a service that a consumer is willing and able to buy at various possible prices during a given time period.

The connection between quantity demanded for a good or service and its price is described by the law of demand. When prices go up, quantity demanded drops. When prices go down, quantity demanded often increases.

Supply is the quantity of goods and services that producers are willing to offer at various possible prices during a given time period. Prices and quantity supplied are related. According to the law of supply, producers supply more goods and services when they can sell them at higher prices. When prices are lower, producers supply fewer goods and services. The interaction of supply and demand in the marketplace establishes a price at which consumers are willing to buy all of the goods that producers are willing to make.

## Competition

Another factor that affects prices is competition. **Competition** is the economic rivalry among businesses selling similar products. Producers compete to satisfy the wants of consumers. Producers may invent new products or improve existing products to get ahead of their business rivals.

### READING CHECK

**Evaluating** What are the most important elements of a free-enterprise system?



## FOCUS ON Adam Smith (1723–1790)

Adam Smith was born in a small village in Scotland. His mother raised him until he entered the University of Glasgow at age 14.

In 1776 Smith published his book on economic theory, *The Wealth of Nations*. Smith's book explains how rational self-interest leads to economic well-being. This happens when people make reasoned decisions about what to buy and sell.

Smith had an interesting theory about the free market. It may appear to be without controls, but it is actually guided to produce the right amount of goods. For example, if a good is in short supply, its price will rise because people will pay more to get it. This increased price motivates others to enter the market, which will in time cure the shortage.

**Make Inferences** How does the U.S. economic system reflect Smith's theories?



# The Circular Flow of Resources and Money

QUICK  
FACTS

This chart illustrates the exchange of resources, products, and money payments in the U.S. economy.



## Investment and the Economy

In the United States you are free to spend your money on whatever you want. You are also free to save your money or to invest it.

There are many ways to invest your money. One popular method is to invest in stocks. Stock represents partial ownership of a business. For example, if a company issues 100,000 shares of stock, and you own 100 shares, you

own 1/1,000th of the company. If the company does well, this entitles you to a share of its profits based on the amount of stock you own. You can also purchase bonds. A bond is a loan from you to the business issuing the bond. When you buy the bond you receive a certificate from the corporation promising to pay you back. In addition, the corporation promises to pay you interest for the use of your money. Governments also issue bonds to raise funds.

## Venture Capital

You can also invest directly in starting a new business. Money invested by outsiders to help new businesses grow is called venture capital. Venture capital helps entrepreneurs develop an idea into a new product. Venture capital might be used to finish developing a marketable product, build or improve production facilities or to pay for product distribution.

## Investment and Technology

Venture capital is just one of the ways in which investment can bring about new technology. Many companies use their own money to invest in technological research and **development**. If they are successful, they will be able to bring new products to market based on the new technology. They can also license their technology to other companies. News that a company is close to an important technology breakthrough also encourages individuals to buy that company's stock. This flow of money for

investment helps promote continued technological development. That technology in turn helps the economy grow.

## Risk and Return

Most financial investment involves some level of risk. When businesses are profitable, demand for their stock tends to rise. This higher demand increases the stock price. That means a greater return on investment for those who hold the stock. However, if a business is not profitable, its stock value typically falls. Investing in property such as real estate holds a similar risk that prices will fall. Investors then lose money.

Careful investors always research whatever investments they are planning to make. Their goal is to be able to judge its prospects for success. If all goes well, both individual investors and the economy as a whole will profit from wise investments.

### READING CHECK

**Drawing Inferences and Conclusions** How might investment help the economy?

### ACADEMIC VOCABULARY

**development:**  
creation

## SECTION 1 ASSESSMENT



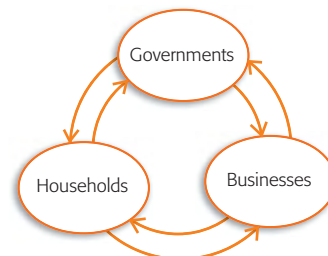
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ONLINE QUIZ

### Reviewing Ideas and Terms

- Recall** What are the differences between a command economy and a market economy?
  - Analyze** Why is the ownership of private property so important to a market economy?
- Define** Write a definition for the terms **consumer**, **producer**, **circular-flow model**, and **competition**.
  - Explain** Why are consumers and producers both important to a free-enterprise economic system?
  - Evaluate** In your opinion, how important is the government's role in the U.S. economy? Explain your reasoning.
- Summarize** How does investment help the economy?
  - Predict** What might happen to new technology products if investors decided to invest only in safe, risk-free businesses? Explain your answer.

### Critical Thinking

- Analyzing Information** Copy the graphic organizer. Use it to describe the flow of goods and services among consumers, producers, and the government in the U.S. economy.



### FOCUS ON WRITING

- Summarizing** Write a short paragraph that explains how various factors work together to influence prices. Be sure to consider the role of supply and demand.



## SECTION 2



LA.7.1.6.1; LA.7.1.7.1

# Factors Affecting the U.S. Economy

## BEFORE YOU READ

### The Main Idea

Sometimes the economy performs well. Sometimes economic activity is not as strong. Many factors affect the performance of the economy. Economists try to understand how the economy is doing and predict its direction in order to advise businesses and the government.

### Reading Focus

1. What is the business cycle?
2. Why are human and capital resources important to the economy?
3. How do current events affect the economy?

### Key Terms

leading indicators, *p. 563*  
coincident indicators, *p. 563*  
lagging indicators, *p. 563*



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### TAKING NOTES

Use the graphic organizer online to take notes on factors affecting the U.S. economy.



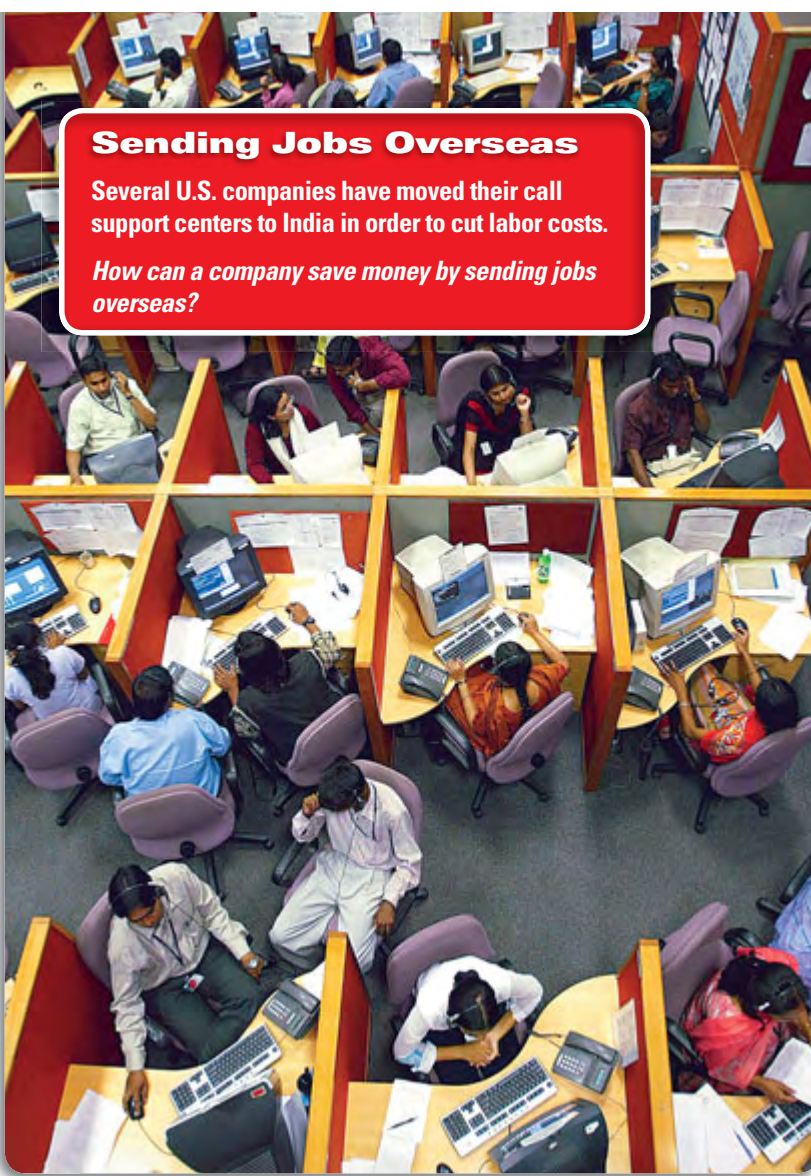
Changes in the economy can have a direct effect on you. For example, when the economy is slow, you may have trouble finding a job.



Goods and services are constantly flowing through the U.S. economy. Prices increase and prices fall. At times, your choices of available goods and services increase. At other times, you have fewer choices. The number of jobs available may also vary from year to year. Sometimes you may feel like all the news about the economy is just too much noise. You should try to understand what is happening because how much you pay for a gallon of gasoline or the latest computer game depends on so many different factors—even the weather!

## The Business Cycle

As you have learned, free-enterprise economies go through something called the business cycle. The business cycle is the repeated series of periods of growth, or expansion, and contraction through which an economy goes. It reflects the changes in economic activity.



### **Sending Jobs Overseas**

Several U.S. companies have moved their call support centers to India in order to cut labor costs.

*How can a company save money by sending jobs overseas?*

### **Stages of the Business Cycle**

Economists generally divide the business cycle into four stages. The first stage is called expansion. During the expansion phase, the economy grows. Eventually, the economy reaches a peak, or a high point. In this stage, the economy—including production and employment—is at its strongest.

After the economy peaks, it enters a period of business slowdown. This third phase is called a contraction, or a recession. A lengthy period of contraction is called a depression. The final stage in the business cycle is the trough, when demand, production, and employment are at their lowest levels. After the economy bottoms out, the business cycle usually starts over.

### **Influences on the Business Cycle**

Many factors influence the business cycle. These factors include the level of business investment, the availability of money and credit, public expectations about the future, and external factors.

**Business Investment** Businesses invest in capital goods such as new production facilities and new machinery. Business investment promotes economic expansion in three ways. First, by purchasing new capital goods, businesses contribute to the demand for such goods. Second, businesses can invest in new equipment to improve efficiency, which can lead to growth. Third, investment can support research into new technologies that increase production and lower costs.

**Money and Credit** The availability of money and credit also affects the business cycle. Individuals and businesses generally borrow more money when interest rates are low.

**Public Opinion** Public expectations about the future of the economy also play a role in the business cycle. For example, if consumers believe the economic future looks good, they are more willing to spend, which promotes economic growth. The expectations of business owners also affect the economy. If the owners believe that the economy will be strong, they are more willing to make investments.

**International Events** World events can also affect business. For example, the terrorist attacks of September 11, 2001, led to declines in private investments as Americans were left uncertain about the future. The subsequent war in Iraq led to a reduction in oil production and higher oil prices, leaving companies less money for corporate investment.

### **Predicting the Business Cycle**

Predicting changes to the business cycle is a critical job for economists. Economists



typically use three types of indicators, or sets of information, to study the economy. These are called leading, coincident, and lagging indicators. Indicators determine what phase the business cycle is in to determine if the economy is likely to expand or contract.

**Leading Indicators** Economists make predictions about future economic growth with the help of **leading indicators**. They come before, or lead, major changes in the business cycle. An example of a leading indicator is the number of building permits issued. An increase in building permits usually means that more buildings will be built. This means that more jobs will be created.

**Coincident Indicators** The second group of indicators is called **coincident indicators**. These are signs that show economists how the economy is doing at the present time. Coincident indicators tell economists if an upturn or downturn has begun. For example, if people's incomes have increased, the economy may have entered an upturn.

**Lagging Indicators** The final group of indicators is called **lagging indicators**. These are economic signs that lag behind, or follow, major changes in the business cycle. They help economists determine how long the current phase of the business cycle may last. For example, if the economy is expanding, more people may decide to start new businesses. It takes several months before they can get these businesses started. So, an increase in new businesses comes after, or lags behind, the trend.

**READING CHECK**

**Summarizing** What are the stages of the business cycle?

## Human and Capital Resources

The availability of resources also plays a key role in the U.S. economy. Human resources, that is labor, and capital resources often come from different locations. The location and movement of these resources can affect the economy in a number of ways.

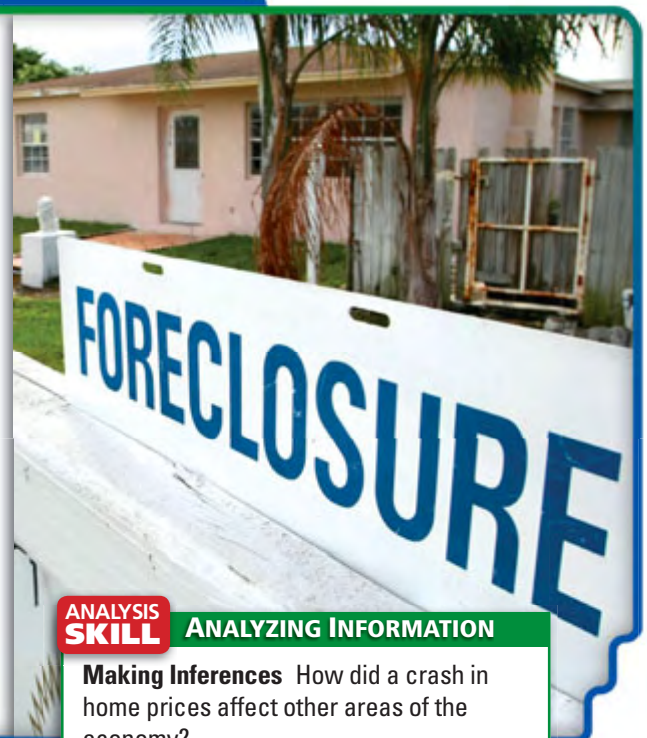
### Linking to Today

#### From Housing Bubble to Bust

From 2001 to 2006, the United States experienced a "housing bubble." During a housing bubble, property prices increase rapidly. Unfortunately, bubbles are usually followed by a sudden drop in prices called a "bust" or a "crash."

Many areas of the United States were affected, but Florida, Arizona, Nevada, and California were particularly hard hit. For example, the median home price in Fort Meyers, Florida, rose 44 percent in one year, from \$192,700 in 2004 to \$278,200 in 2005. By 2009, however, the median home price in Fort Meyers had dropped to \$90,400.

The crash helped trigger a major recession. Real estate sales, mortgage loans, construction, and retail sales slowed. Many people in these industries lost their jobs. Homeowners were especially devastated. Many found that they owed more money for their homes than their homes were worth. Those, who could no longer afford their homes, were forced to sell them at a loss or face foreclosure.



**ANALYSIS SKILL**

**ANALYZING INFORMATION**

**Making Inferences** How did a crash in home prices affect other areas of the economy?

For example, in recent years, the desire for labor at a lower cost has led some American companies to open factories in foreign countries. Workers in some countries are willing to work for much less than the common American wage. As a result, some American computer and Internet-related companies have also begun to use foreign labor. Some American companies have set up customer-service call centers in foreign countries like India where labor costs are lower.

**READING CHECK** **Analyzing Information** In what ways does the movement of resources affect the U.S. economy?

## Current Events and the Economy

Economists and government officials use economic indicators to plan changes to make the economy perform well. However, there are some events for which economists cannot prepare. At times, current events can affect the economy in ways no one expected.

For example, the terrorist attacks of September 11, 2001, affected many businesses in New York City and caused the New York Stock Exchange to close for several days. The attacks also hurt the airline industry, because many Americans were afraid to fly after the hijackings. The overall U.S. economy was weakened. As Americans began to feel more confident, however, spending increased and businesses returned to normal.

Even weather may affect the economy. For example, in 2005 Hurricane Katrina struck New Orleans, Louisiana, and many other cities along the Gulf of Mexico. From Louisiana to Florida, the hurricane disrupted port facilities and highways. Imports and exports were almost halted. Oil and gas refineries were shut down. As a result of Katrina's devastation, consumers had to pay higher prices for gasoline and petroleum-based products ranging from tires to paint.

**READING CHECK** **Analyzing** How can a major storm in one area affect the entire U.S. economy?

## SECTION 2 ASSESSMENT

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**ONLINE QUIZ**

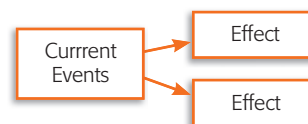
### Reviewing Ideas and Terms

1. **a. Define** Write a definition for the terms **leading indicators**, **coincident indicators**, and **lagging indicators**.
- b. Explain** What tools do economists use to explain the business cycle?
- c. Predict** What would you predict for the economic cycle if leading economic indicators were negative and coincident economic indicators were positive? Explain your reasoning.
2. **a. Analyze** Why would a computer manufacturer consider moving its 24-hour a day technical support center to a foreign country?
- b. Support a Point of View** Do you think that U.S. companies should move jobs overseas in order to save money? Why or why not?
3. **a. Find the Main Idea** How do current events affect the economy?

- b. Predict** How would a long spell of extremely cold winter weather, including heavy snow and ice storms, affect the economy? Explain your answer.

### Critical Thinking

4. **Identifying Cause and Effect** Use your notes and a graphic organizer like this one to identify the effects that current events have on the U.S. economy.



### FOCUS ON WRITING

5. **Summarizing** Conduct research about the terrorist attacks of September 11, 2001. Write two paragraphs explaining how the tragedy of 9/11 affected the U.S. economy.



## SECTION 3



SS.7.E.1.2; SS.7.E.2.1; SS.7.E.2.2; SS.7.E.2.3; LA.7.1.6.1; LA.7.1.7.1

# Government's Role in the U.S. Economy

## BEFORE YOU READ

### The Main Idea

The government affects the economy through regulation and policy, the Fed through fiscal monetary policy. Proper use of these tools helps keep the economy functioning more smoothly and effectively.

### Reading Focus

1. What are the goals of government regulation?
2. How is fiscal policy used to influence the economy?
3. How does the Federal Reserve use monetary policy to influence the economy?

### Key Terms

tax incentives, *p. 567*  
easy-money policy, *p. 568*  
tight-money policy, *p. 568*  
open-market operations, *p. 568*  
reserve requirement, *p. 568*



Use the graphic organizer online to take notes on how the government regulates the U.S. economy.



The federal Environmental Protection Agency inspects toxic-waste sites to protect citizens from negative effects.

## CIVICS IN PRACTICE

Government plays several important roles in the U.S. economy. You have read about the circular-flow model. So you know the government creates millions of jobs and buys many goods and services. The government also affects the economy. It collects taxes and provides services to the people. In addition, the government regulates the growth of the economy directly in many ways. The money that the government spends is really your money. It comes from your taxes. So it is a good idea for you to know how government policies on regulation, taxing, and spending work.

## Government Regulation

In the United States, all levels of governments—federal, state, and local—regulate business. Government regulation has five main goals. It protects workers, protects consumers, limits negative effects, encourages competition, and regulates property.

**SS.7.E.2.3** Identify and describe United States laws and regulations adopted to promote economic competition.

### Protecting Workers

Government tries to prevent businesses from using workers in ways that are unsafe or unfair. For example, the Equal Employment Opportunity Commission (EEOC) makes and enforces rules that prohibit businesses from discriminating against people when hiring and promoting workers. The government also sets standards for safe working conditions. The Occupational Safety and Health Administration (OSHA) makes certain that employees work under safe conditions.

### Protecting Consumers

The second goal of government regulation is to protect consumers. For example, the Food and Drug Administration (FDA) protects people from unsafe medicines and foods. The Consumer Product Safety Commission (CPSC) makes certain that items such as toys are not dangerous. The federal government also insures people's savings and checking accounts.

### Limiting Negative Effects

The government also uses regulation to limit the negative effects of economic activities. For example, the Environmental Protection Agency (EPA) regulates industries to prevent air and water pollution.

### Encouraging Competition

At various times, the U.S. government has used laws, such as the Sherman Antitrust Act, to break up large companies that threaten competition. To enforce these laws, the U.S. Department of Justice and the Federal Trade Commission (FTC) supervise corporate behavior, such as mergers, to make certain that companies compete fairly with one another. Many states also regulate competition.

### Regulating Private Property

Generally, in a free-enterprise system property owners may use their property in any way that they wish. However, government does have the power to regulate the use of property in some cases.

## MEDIA INVESTIGATION

### PHOTOJOURNALISM

## Understanding Photographs and Video

*The media helps to keep us informed about our government. Because so much of our news and information comes from photographs, it is important to understand how and why they are used.*

Photographs are used to illustrate and tell news stories because they can convey a great deal of information in one glance. They are also an effective way to communicate concepts that are new or difficult to describe by words alone. Dramatic photos have the power to leave lasting impressions on the public. Some images may be too shocking for a particular audience, so news editors must select photos and video footage carefully.

Study photographs and videos to see if they are informative and truthful. Ask yourself: Why was this picture or video chosen? What story does it tell? Is the subject posing or is the shot candid? Does any part of the video seem rehearsed?

The Coast Guard patrols a cargo ship as part of increased homeland security efforts.



**ANALYSIS SKILL**

### MEDIA INVESTIGATION

**What does the picture above say about the Coast Guard's role in homeland security?**

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A main way that local governments regulate property is by controlling land use. Zoning laws limit certain types of economic activities to specific areas. For example, a zoning law may allow a factory to be built in an industrial area while banning it in a residential neighborhood.

### READING CHECK

#### Finding the Main Idea

How does the government try to regulate the U.S. economy?

## Fiscal Policy

Fiscal policy—government taxing, spending, and making payments—is one tool that the government uses to influence the economy. For example, in 2008, the federal, state, and local governments employed more than 22 million people. Governments may also loan money to small businesses, which helps the economy to grow.

### Taxes

The federal government can change tax rates to affect the nation's economy. If taxes are raised, consumers have less money to spend. They buy fewer goods and services. When spending slows, the economy slows. On the other hand, lower taxes mean that people give less money to government and have more in their pockets. With more money to spend, many people buy more goods and services. Businesses sell more, and they hire new employees, so the economy speeds up. The government can also offer **tax incentives**. These are special tax reductions that help lower a company's tax bill if it follows certain policies the government favors.

### Government Spending

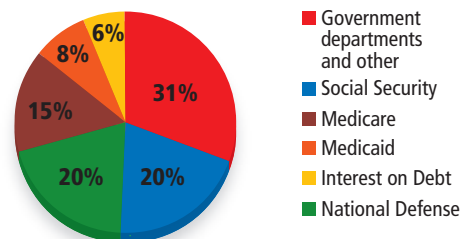
The federal government can also affect the economy by adjusting its own spending. When the government buys more goods and services, it puts more money into circulation. This stimulates the economy. When the government purchases fewer goods and services, the result may be that the economy slows.

## Federal Government Expenditures

QUICK FACTS

About one-third of federal spending goes to support the government in funding its operations and paying wages.

### Federal Expenditures 2010



Source: U.S. Office of Management and Budget

Government programs that are meant to protect people from hardship are called social insurance.

### ANALYSIS SKILL

#### ANALYZING CHARTS

What is the total percentage of federal expenditures for social insurance?

### Public Transfer Payments

Another tool of fiscal policy is public transfer payments. For example, governments provide tax dollars to people who are not working by offering unemployment compensation. By providing assistance to unemployed workers, governments make certain that these workers can still buy goods and services.

### READING CHECK

#### Analyzing Information

What are some ways fiscal policy can affect the U.S. economy?

## Monetary Policy

The Federal Reserve System uses monetary policy to promote economic stability. Monetary policy controls the amount of money in the economy. By controlling the money supply, the Fed can promote or slow economic growth.

## The Federal Reserve and Monetary Policy

The Federal Reserve Bank, also called the Fed, decides monetary policy in the United States. An **easy-money policy** increases the growth of the money supply. This increases demands for goods and services, encouraging economic growth. A **tight-money policy** reduces the growth of the money supply, thus slowing economic growth.

The Fed has three main tools it uses to carry out the monetary policy it decides upon. **Open-market operations** involve the buying and selling of government bonds. If the Fed wants to lower the money supply, it sells more government bonds. The money people spend on the bonds is taken out of the money supply. If the Fed wants to increase the money supply, it buys government bonds back from investors, putting more money into circulation.

The Fed also uses a tool called the discount rate, which is the interest rate the Fed charges banks to borrow money. When the Fed changes this rate, it signals commercial

banks that the Fed wants to loosen or tighten the money supply. For example, when the Fed lowers the discount rate, banks may borrow and loan more money. That helps the economy grow. Raising the discount rate has the opposite effect.

Finally, the Fed makes use of the **reserve requirement**. This reserve is the amount of money banks must have available at all times. By lowering the reserve requirement, the Fed frees up banks to loan more money. By raising the reserve requirement, the Fed forces banks to keep more of their money.

Timing is important to monetary policy. First, the Fed must determine the current state of the economy. Second, Fed members must decide the best way to use monetary policy at that time. Finally, it takes time for businesses and investors to adjust to changes in monetary policy. This is why the economy usually does not react instantly to the Fed's policy changes.

### READING CHECK

**Summarizing** What are the goals of monetary policy, and how quickly does monetary policy affect the economy?

## SECTION 3 ASSESSMENT



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ONLINE QUIZ

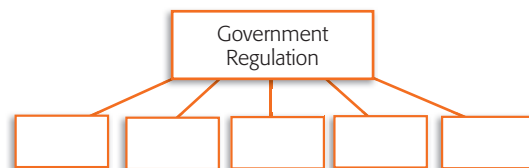
### Reviewing Ideas and Terms

- a. Recall** What are the five main goals of government regulation of the economy?  
**b. Explain** Why is it necessary for the government to regulate the safety of drugs and medicine?
- a. Define** Write a definition for the term **tax incentives**.  
**b. Evaluate** Which government policy might be better for the economy in the long term, a policy that pays unemployment benefits to people who are not working or a policy that trains people for jobs and helps them find work? Explain your reasoning.
- a. Define** Write a definition of the terms **easy-money policy**, **tight-money policy**, **open-market operations**, and **reserve requirement**.  
**b. Predict** During a period of inflation, how might a change in the Federal Reserve's

policy, from easy money to tight money, affect consumer confidence?

### Critical Thinking

- Analyzing Information** Use your notes and a graphic organizer like this one to identify the different ways in which the government regulates the economy.



### FOCUS ON WRITING

- Summarizing** Compare and contrast fiscal policy and monetary policy.



## Analyzing Music Videos

### Learn

What was the last music video you saw? Did it have a message behind it, or was it created purely for entertainment? While some music videos are just plain entertainment, many music videos today have a lesson behind them. They make viewers think and react to important issues. For example, a music video may show touching images of soldiers returning from war or of families struggling to make ends meet. Videos like these send messages to their viewers. An important part of understanding today's mass media is being able to understand music videos. Use the tips below to help you analyze a music video.

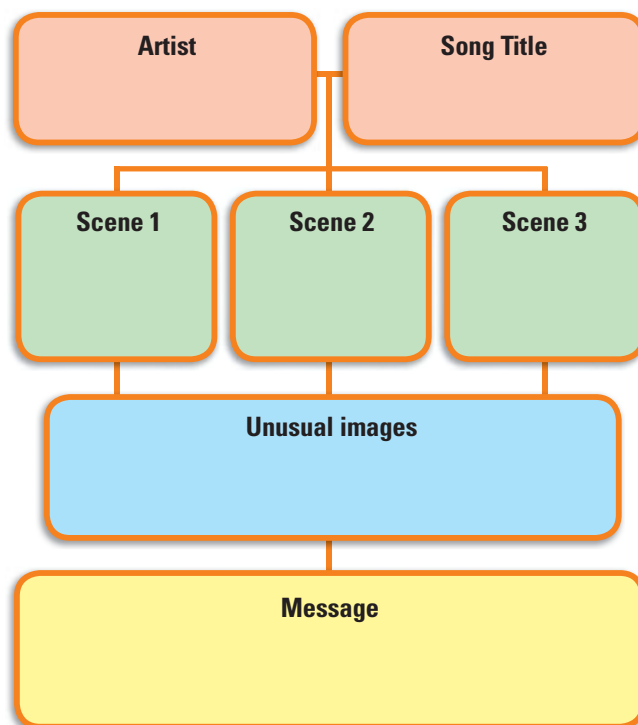
### Practice

- 1 Notice how the song lyrics connect to the images. The meaning of the lyrics will probably be clearer if you look at how they fit with the video images. The images may help you better understand the words to the song. They often make the message of the video clearer.
- 2 Pay attention to how the artist or band appears. Are the performers simply shown singing the song? Are they acting out some other storyline as they sing the song? Maybe the song is only playing in the background of the video.
- 3 Take note of any surprising images. Watching a music video, you may see images you would not expect to go with the music. In your analysis, consider why these images were chosen and whether you think they are appropriate or not.
- 4 Identify the video's message. Use the information you have collected to identify the message of the video. What do you think the artist or band is trying to say?

### Apply

Copy the graphic organizer below on your own paper. Think of a video that you have seen recently, then analyze that video by completing the graphic organizer. Use the information to answer the questions that follow.

1. How do you think the images in the video connect with the song lyrics? Why do you think the makers of the video chose the images they did?
2. Does the artist or band appear in the video? If so, in what role?
3. What do you think is the purpose of this video? Does it succeed? Why or why not?



## SECTION 4



SS.7.E.1.3; SS.7.E.2.2; SS.7.E.3.1; SS.7.E.3.2;  
LA.7.1.6.1; LA.7.1.7.1

# Living in a World Economy

## BEFORE YOU READ

### The Main Idea

International trade allows countries to specialize in producing the goods and services where they are most efficient. Trade gives people access to more goods and services. Trade also makes countries interdependent.

### Reading Focus

1. Why do countries trade with one another?
2. What are the differences between free trade and protectionism?
3. How does international trade affect jobs and consumers?

### Key Terms

absolute advantage, p. 570  
comparative advantage, p. 570  
opportunity cost, p. 570  
trade barrier, p. 572  
balance of trade, p. 574  
trade surplus, p. 574  
trade deficit, p. 574



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### TAKING NOTES

Use the graphic organizer online to take notes on living in a world economy.



Make a list of all the goods you use in a week, from clothing to electronic equipment to food. Then consider how many of these goods came from other countries. Without international trade, you probably would not have the choices you do or you would pay a lot more for what you buy.

## Why Nations Trade

### FOCUS ON



In 2008, Florida's exports of goods and services totaled about \$84.6 billion and supported about 1 million jobs in the state.

**SS.7.E.1.3** Review the concepts of supply and demand, choice, scarcity, and opportunity cost as they relate to the development of the mixed market economy in the United States.

Almost no country can meet all its needs without outside help. As a result, almost every country in the world engages in some international trade.

### Specialization and Interdependence

Countries trade because they need goods and services that they would not otherwise have. For example, the United States has to import coffee to meet its domestic demand. Many countries tend to specialize—to concentrate on producing certain kinds of goods or services. The resources available in a country often determine the kinds of goods it produces.

Countries that specialize in production and then engage in trade with each

other are interdependent. Interdependence means that peoples depend on each other for different goods and services.

### Trade and Comparative Advantage

Countries decide what goods and services to provide by examining their absolute and comparative advantages. A nation has an **absolute advantage** when it can produce more of a given product than another country can. Even if a country has an absolute advantage in several goods and services, it will usually specialize and produce goods and services in which it has a comparative advantage. A country has a **comparative advantage** when it can provide a product more efficiently—at a lower opportunity cost—than another country can. **Opportunity cost** is the value of the next best alternative that is given up when a country specializes. Why specialize? Countries specialize and trade because they can get more goods overall.

### READING CHECK

**Drawing Inferences and Conclusions** How does a country determine which goods and services it should produce and which it should import?



# The Global Economy

Manufacturing today is a global process. Products we think of as American are actually designed and built all over the world. An mp3 player, for example, may be made of parts from a dozen different countries.

QUICK  
FACTS

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INTERACTIVE ART

## MP3 Player

An mp3 player is stamped with a brand name, but the company that sells it most likely does not design, make, package, or ship it.



Hard drive, made by a company in Neuss, Germany

Scroll wheel, made by a company in Santa Clara, California

Firewire controller, made by a company in Dallas, Texas

Digital-to-analog converter, made by a company in Edinburgh, Scotland

Rechargeable battery, made by a company in San Jose, California

**1** The microchip that acts as the "brain" of the mp3 player carries the brand name of a company in **San Jose, California**.

**4** The custom design is sent to two companies in **Taiwan** to be manufactured. The chips are coated in plastic by a third Taiwanese factory and cleaned up by a **South Korean** factory.

**2** The San Jose company buys the chip's basic design from a company in **London**.

**3** The San Jose company shares information between two offices—one in **California** and one in **India**—which work around the clock customizing the chip.

**5** The chips are stored in **Hong Kong** before going to a plant in **Shanghai** that builds and ships the player for sale in the **United States**.



ANALYSIS  
SKILL

ANALYZING VISUALS

How many countries are involved in the design and manufacturing of this mp3 player?

## Free Trade Versus Protectionism

Even though international trade allows countries to gain wealth, countries often limit the exchange of goods across their borders. This is called protectionism. Governments use trade barriers to protect domestic jobs and industries from foreign competition. A **trade barrier** is a limit on the exchange of goods.

### Trade Barriers

Countries use a variety of trade barriers to limit trade. Trade barriers include import quotas, voluntary restrictions, and embargoes.

**Tariffs** Goods and services purchased by one country from another are called imports. A tax on imports is called a tariff. There are two kinds of tariffs. Revenue tariffs are a tax used to raise money for a government. A protective tariff makes foreign goods cost more and reduces demand. Consumers will then choose goods manufactured domestically instead. The United States has used such protectionist policies for much of its history.

### Import Quotas and Voluntary Restrictions

Governments also use import quotas and voluntary trade restrictions to limit imports. An import quota is a law that limits the amount of a particular imported good. A voluntary trade restriction is an **agreement** between two countries to limit certain trade. Both of these forms of regulation help domestic businesses. Because the amount of the import is limited, domestic businesses face less competition from foreign goods.

There are additional barriers to trade. For example, Japan requires that all imports be tested and inspected. This process is expensive and time-consuming. Other countries require companies exporting to their country to first get special licenses before goods can be imported. These licenses can be difficult to obtain, which limits imports to such countries.

**Embargoes** An embargo bans trade with specific countries. Embargoes are often enacted for political rather than economic reasons. For example, the United States has had a trade embargo against Cuba since 1960 because of its opposition to Cuban president Fidel Castro.

### International Cooperation

Although many countries enact trade barriers, they still support international trade. Some examples of trade cooperation are reciprocal trade agreements, regional trade organizations, and international trade agreements.

**Reciprocal Trade Agreements** These agreements between countries usually reduce protective tariffs. For example, the U.S. Congress can grant Normal Trade Relations (NTR) status to other countries, which may give them lower tariff rates.

**Regional Trade Agreements** Many neighboring countries have formed regional trade organizations. These organizations reduce or eliminate trade barriers among members. The European Union (EU) is an example.

**International Trade Agreements** Countries also enter into international trade agreements to reduce trade barriers. In 1947 the United States and 22 other countries signed the General Agreement on Tariffs and Trade (GATT). In 1995 the World Trade Organization (WTO) replaced GATT. In 2011, 153 countries belonged to the WTO.

The North American Free Trade Agreement (NAFTA) is an international trade agreement among Canada, Mexico, and the United States. It went into effect in 1994. The goal of NAFTA was to gradually remove all trade barriers between these three countries.

In 2004 the United States signed a similar agreement with five Central American countries. Called CAFTA, the Central American Free Trade Agreement, it now includes the Dominican Republic.

#### ACADEMIC VOCABULARY

**agreement:** a decision reached by two or more people or groups



## Counterfeiting and Consumer Protection

*Have you ever bought a high-fashion handbag or a fancy watch at a price too good to believe? Chances are the item is a cheap imitation of the real thing. If you know this ahead of time, you might decide that buying the item is not a big deal. But how would you feel if you paid full price and later learned you had bought a fake, or counterfeit, product?*

### Why it Matters

Counterfeiting goods is against the law, and can cause legitimate businesses to lose sales and profits. The U.S. government issues patents and trademarks to companies to make sure that they can control who manufactures them.

U.S. manufacturers must follow consumer protection laws to ensure the safety and quality of their products. But counterfeiters often try to pass off shoddy products, produced at a fraction of the cost, as the real thing. This can be dangerous, as well as illegal—counterfeit cosmetics or car parts made from inferior materials could endanger people's lives.

Counterfeit merchandise can also contribute to other illegal activity. Gangs and terrorists sometimes fund their activities by selling counterfeit merchandise. One job of the U.S. Customs Service is to protect Americans by preventing the importation of counterfeit goods.



Counterfeiters often copy well-known brand names and logos.

### ANALYSIS SKILL

#### EVALUATING THE LAW

1. Why is it illegal to counterfeit goods?
2. Who do you think is hurt the most by counterfeiting? Explain.

 [hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**

### Free Trade and Protectionism

The goal of NAFTA and other agreements is to promote free trade. Not everyone supports free trade, however. Some people support protectionism for a variety of reasons. These reasons include protecting industries and jobs, maintaining high wages, and national security. Some opponents of free trade argue that other countries are not as concerned as the United States about worker safety and environmental protection.

Protectionist policies may, however, harm the economy. Protectionism may lead to price increases and trade wars, which could mean that consumers would pay higher prices for their goods and services. Few governments have a trade policy that is completely protectionist or completely based on free trade. Most countries' policies are a mixture of the two.

### READING CHECK

**Summarizing** How can trade agreements help international trade?

**SS.7.E.3.1** Explain how international trade requires a system for exchanging currency between and among nations.

## The Value of Trade

Every country in the world has a form of currency. For example, the United States has the dollar, Mexico has the peso, and many European countries have the euro. While each currency can be used to buy goods and services in its own country, it is less useful in another country. For example, you could not pay for a purchase in this country with euro coins. You could, however, take the coins to a bank and exchange them for U.S. dollars, which you could then use to make your purchase.

Businesses must follow a similar procedure when conducting international trade. An American company buying products from a Chinese manufacturer, for example, cannot pay in dollars unless those dollars can be converted to Chinese yuan.

### Exchange Rates and Trade

How many yuan is a dollar worth? The answer to that question changes every day. It is expressed in the exchange rate, which identifies the price of one currency in the currency of another. A currency's exchange rate is influenced by several factors,

including inflation or political instability in the issuing country or the country's willingness to trade.

When a currency's value is low compared to other currencies, that currency is said to be weak. One country's weak currency allows other countries to buy goods from that country more cheaply. A weak currency therefore lowers the value of a country's exports and, at the same time, raises the price for imports. On the other hand, a strong currency can increase the cost of exports while making imports cheaper.

### Balance of Trade

Currency values play a major role in a country's balance of trade. **Balance of trade** refers to the difference between the value of a country's exports and imports. If a nation exports more than it imports, it has a **trade surplus**. If it imports more than it exports, it has a **trade deficit**. The United States typically has a trade deficit. For example, in 2010 the United States imported more than \$2.3 trillion in goods and exported over \$1.8 trillion. The U.S. trade deficit was thus about \$500 billion.

#### READING CHECK

**Summarizing** How does the value of a nation's currency affect trade?

**SS.7.E.3.2** Assess how the changing value of currency affects trade of goods and services between nations.

## SECTION 4 ASSESSMENT

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**ONLINE QUIZ**

### Reviewing Ideas and Terms

1. **a. Define** Write a definition for the terms **absolute advantage**, **comparative advantage**, and **opportunity cost**.
- b. Explain** Under what circumstances might a country continue to produce a good that it could purchase for less money from another country?
2. **a. Define** What is a **trade barrier**?
- b. Summarize** What is NAFTA, and how does it benefit the United States?
- c. Elaborate** Why do some countries use tests and inspections as trade barriers?
3. **a. Define** Write a definition for the terms **balance of trade**, **trade surplus**, and **trade deficit**.
- b. Predict** How might an inexpensive, advanced cell phone from China affect the U.S. economy?

### Critical Thinking

4. **Analyzing Information** Use your notes and a graphic organizer like this one to identify the ways that international trade affects jobs and consumers.



### FOCUS ON WRITING

5. **Making Comparisons** Suppose that you are a journalist writing a story on trade issues. Compare free trade and protectionism for your readers.



# STUDENTS TAKE ACTION

PROJECT Citizen



## Educating the Public

**B**yrd Community Academy was located in an old building in a poor area of Chicago. The school had no lunchroom. Students had to eat in the hallways. Its many problems included a leaky roof, missing doors in the bathrooms, and a broken heating system. Project Citizen students in teacher Brian Schultz's class decided it was time to act.

**Community Connection** The students discovered that several years earlier the local school board had promised to build the school an entirely new campus. However, the funds set aside for Byrd were used to rebuild a different worn-out school.

**Taking Action** The students wanted the school board to fulfill its promise. They researched and developed an 11-point action plan for achieving their goal. To gain public support, they took pictures of the building, produced a documentary video showing its problems, and wrote to government officials. The vice president of the United States, a U.S. senator, a U.S. representative, and an independent presidential candidate all expressed support for the plan. Donations poured in from private citizens. However, the school had low enrollment, and district resources were scarce. The school board made an economic choice to use the money it would cost to rebuild the school for other uses benefiting more students.

Byrd Community Academy closed, and its students were moved to another school. The students may not have achieved their goal. Yet, they attracted national attention to the issue of how a school's physical environment can affect student learning.



Ralph Nader visits with students at the Byrd Community Academy in Chicago.

### SERVICE LEARNING

21<sup>ST</sup> CENTURY

1. What inspired the Byrd students to follow up on the school board's past plan to rebuild the school?
2. How was the students' project successful, even though their school eventually closed?

 [hmhsocialstudies.com](http://hmhsocialstudies.com) **ACTIVITY**

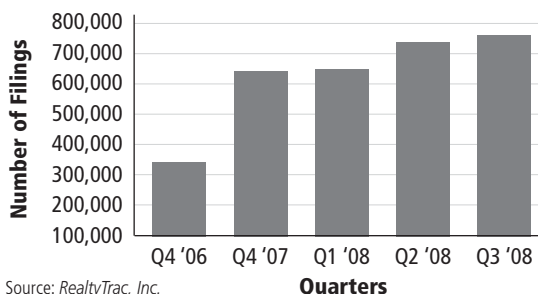
# CHAPTER 21 REVIEW



## FLORIDA CIVICS EOC PRACTICE

1. The chart below illustrates the number of homes repossessed by banks between 2006 and 2008.

**FORECLOSURE FILINGS: 2006–2008**



Source: RealtyTrac, Inc.

Which of the following economic indicators agrees with the information in the graph?

- A. People had more money to spend in 2008 than in 2006.
  - B. Incomes increased from 2006 to 2008.
  - C. Jobs became scarcer between 2006 and 2008.
  - D. More businesses started in 2007 than 2008.
2. Which of the following currencies would have the highest value?
- A. a currency that is low in demand and high in supply
  - B. a currency that is high in demand and low in supply
  - C. a currency that is low in demand and supply
  - D. a currency that is high in demand and supply

## Reviewing Key Terms

For each term below, write a sentence explaining its significance to the U.S. economy and the world.

1. consumer
2. producer
3. circular-flow model
4. competition
5. leading indicators
6. coincident indicators
7. lagging indicators
8. tax incentives
9. easy-money policy
10. tight-money policy
11. open-market operations
12. reserve requirement
13. absolute advantage
14. comparative advantage
15. opportunity cost
16. trade barrier
17. balance of trade
18. trade surplus
19. trade deficit

## Comprehension and Critical Thinking

### SECTION 1 (Pages 556–560)

- 20. a. Define** What is the circular flow model?
- b. Compare and Contrast** How do traditional economies differ from market economies?
- c. Elaborate** Why is investment important in a free-enterprise system?

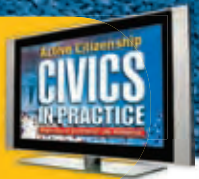
### SECTION 2 (Pages 561–564)

- 21. a. Describe** How does the location of capital and human resources affect the U.S. economy?
- b. Sequence** What are the stages of the business cycle?
- c. Predict** What are some possible ways that current events can affect a country's economy? Explain.



### Active Citizenship video program

Review the video to answer the closing question:  
*Why are students often the best people to identify problems with their school?*



### SECTION 3 (Pages 565–568)

- 22. a. Identify** What are the goals of government regulation?
- b. Explain** What is the role of the Federal Reserve System in the U.S. economy?
- c. Evaluate** Is there a place for government regulation in the free-enterprise system? Explain.

### SECTION 4 (Pages 570–574)

- 23. a. Recall** Why do countries have tariffs?
- b. Make Generalizations** What industries do protectionists believe should be protected from foreign competition? Why?
- c. Support a Point of View** Free trade brings many benefits to the U.S. economy. Should the United States end protectionism and eliminate all trade barriers? Why or why not?

## Civics Skills

**Analyzing Music Videos** Use the Civics Skill taught in this chapter to complete the activity below.

- 24.** Watch two or three music videos by different bands or artists. Then write a paragraph about each video analyzing its content. Consider:
- Does the video have a message?
  - If so, what is that message?
  - How do the images in the video connect with the lyrics of the song?

## Using the Internet

- 25. Explaining Currency Exchange** Imagine that you have been hired by a business to explore foreign markets for its products. Choose a country and investigate its currency and the current exchange rate. Determine whether the currency is stronger or weaker than it was a year ago. Prepare a multimedia presentation that will explain to the company's board of directors the importance of currency exchange and whether a strong or weak currency better suits the company's goals.

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## Reading Skills

**Analyzing Essential Information** Using the Reading Skill taught in this chapter, read the following passage and answer the question below.

Adam Smith was born in a small village in Scotland. His mother raised him until he entered the University of Glasgow at age 14.

In 1776 Smith published his book on economic theory, *The Wealth of Nations*. Smith's book explains how rational self-interest—people making reasoned decisions about what to buy and sell—leads to economic well-being.

One of Smith's theories is that the free market, while appearing unregulated, is actually guided to produce the right amount of goods. For example, if there is a shortage of some good, its price will rise because people will pay more to get it. This increased price is incentive for others to enter the market, which will eventually cure the shortage. (p. 558)

- 26.** Which sentence or sentences in this passage are irrelevant to the discussion of Smith's economic theories?

## FOCUS ON WRITING

- 27. A Job Description** Review your notes about the U.S. economy and the world. Pay special attention to international trade. Now write a job description for a salesperson that will help your company sell its computer games in other countries. Focus on the skills and knowledge this person will need to have for the position.

## Preventing Discrimination in Employment

*Every American should have an equal opportunity to work and succeed based on his or her abilities. Some jobs do require special skills or certain levels of education. But what if someone decided that you did not qualify for a job simply because of your race, gender, or age? Would this be fair?*

### Why it Matters

For many years job discrimination was common in the United States. For example, by law, African Americans and women could not hold certain jobs. Then Congress began to pass laws against such discrimination. The most important anti-discrimination employment law is Title VII of the Civil Rights Act of 1964. This law prohibits job discrimination based on race, color, religion, sex, or national origin. Since then, other federal laws have been passed to protect people from being discriminated against. They cannot be discriminated against because they are over 40 years of age. Nor can they be discriminated against because they have a physical disability that is not related to the skill requirements of the job. Most of these laws apply to companies that have more than 15 employees and take part in interstate commerce. This covers most businesses.

The federal government also established the Equal Employment Opportunity Commission (EEOC) to investigate suspected discrimination. The EEOC determines if discrimination took place. It also tries to get individuals or companies to follow the law. If necessary, the EEOC will sue employers who repeatedly break the law. Job discrimination is often hard to prove unless there is a pattern that can be shown over time. For example, a company may have never hired or promoted African American employees even though many qualified African Americans have applied for positions. If you ever think you are the victim of job discrimination, you can contact the EEOC for help.



President Lyndon B. Johnson shakes hands with civil rights leader Martin Luther King Jr. after signing the Civil Rights Act of 1964.

### ANALYSIS SKILL

#### EVALUATING THE LAW

1. Why it is important to prevent job discrimination based on race, religion, gender, age, or disability?
2. What might be evidence that an employer is practicing job discrimination?



# PERSONAL FINANCE HANDBOOK

Learn the basics about earning money and discover how to make the best choices for managing your finances.

Income ..... PF2

Money Management ..... PF8

More resources available @



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## Florida Next Generation Sunshine State Standards

**SS.7.E.1.6** Compare the national budget process to the personal budget process.



# Income

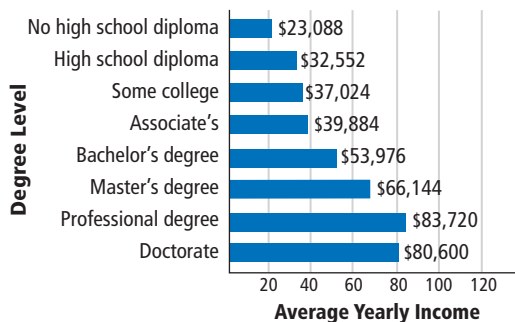
You deal with money every day. You make it, spend it, save it, and invest it. But how much do you really know about your money? Are you making the best decisions about how to use your money? Do you know how to make your money work for you? This **Personal Finance Handbook** was written to help you learn more about the basics of managing your money. You will also learn how to use tools such as checking accounts, budgets, and portfolios to make the most of the money you have.

## Why Money Matters

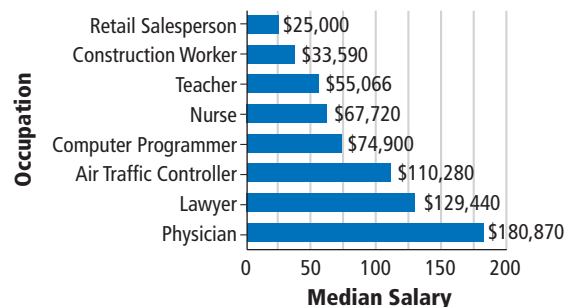
Imagine that you had never seen money. Wouldn't you wonder why people are interested in little green pieces of paper? After all, you can't eat money, wear it, or use it for shelter from the elements. When looked at that way, money doesn't seem very important at all. After some examination, however, you would probably realize that money is not important for what it is but for what it does.

Money is a medium of exchange. In other words, it allows people to trade one thing—money—for other items that they need or want. Imagine living in a world without money. What would life be like? If you wanted food, you couldn't run to a store or restaurant and purchase some. Instead, you would either have to grow or find your own or trade with someone who had food. If you didn't have anything that he or she wanted, then life could get very difficult.

### EDUCATION AND SALARY



### MEDIAN SALARIES FOR SELECTED CAREERS



### INTERPRETING CHARTS

What is the average annual salary for someone with a master's degree? For a teacher?



## Sources of Income

Because we all need certain goods and services, we each need a source of income, or a way to make money. For most people the primary source of income is a job. The types of jobs people have vary widely, from after-school positions as sales clerks, to full-time jobs as doctors that require years of training. As a result the amount of income that people earn also varies.

Though there are exceptions, jobs that require extensive education or training or that create high amounts of stress are generally the highest paid. This trend is illustrated by the graphs on the previous page. The first graph shows that a person's income can vary greatly depending on his or her education and career choice.

Not everyone, however, wants to work for another person. Some, called entrepreneurs, choose instead to create their own businesses. Entrepreneurs open businesses for many reasons. Some think that they can make more money or find more satisfaction by running a business than by working for someone else. Others have ideas for new types of businesses that do not currently exist.

Whatever the reason for starting a business, doing so can be a risky move. Many new businesses fail in their first few years of operation. Even those that succeed may not turn a substantial profit for several years. However, the right business can achieve great success and lead to wealth. Some of the largest businesses in the country today began as small companies.

Although most people depend on their jobs for income, jobs are not the only way in which people make money. In fact, most people earn at least some income from other sources during their lives. Among these other possible sources of income are

- interest on money saved or invested in accounts.
- gifts or inheritances from friends and relatives.
- winnings from games or contests.
- rent collected on property used by others.
- profit from selling possessions, such as a house.

## Factors Affecting Income

Imagine that you have obtained a part-time job working after school in a local restaurant. The job pays \$7 per hour, and you will be working 10 hours each week. You should make \$70 each week from the job, right? Yes and no. Although \$70 will be your total weekly income, or gross pay, your take-home pay will actually be less.



Most people earn their income through jobs, whether working for large companies or starting businesses of their own.

### VOCABULARY

**entrepreneur** an individual who begins and runs his or her own business

**profit** the money one has earned from a business or transaction after all expenses have been paid

**gross pay** the total amount a worker earns before any deductions have been calculated



**VOCABULARY**

**net pay** the money remaining from a paycheck after deductions

**tax** money collected by a government to pay for public programs or projects

**income tax** a form of tax based on the total income of an individual or business

Several factors affect how much money from your gross pay you get to keep. From that total your employer must make a number of deductions. Look on the stub of your paycheck for a list of them. The money left after all these deductions is called your net pay. This is the amount that you get to take home.

The money deducted from your paycheck covers many expenses. Part of it goes to the government in the form of taxes and contributions to programs like Social Security. Other deductions may be taken to pay for employer-sponsored programs. These include insurance benefits or charitable donations. In some jobs, union dues may also be deducted from your paycheck. Of these deductions, only the taxes and federal contributions are required. All other deductions are optional and require your written permission before any money can be taken from your paycheck. The following types of deductions are often taken from payroll checks.

**Federal and State Income Tax**

Everyone is required to pay federal income tax. The amount due is calculated as a percentage of your total income. In most cases your employer will deduct a certain percentage of your earnings to send to the government as your income tax. Then, when you file your income taxes each year, you will compare how much you owe to what you have already paid and reconcile the difference. If your state collects a state income tax, money will also be deducted from your paycheck for that tax.

**FINANCE 101****Reading a Tax Table**

Each year the Internal Revenue Service prints tax tables to help Americans calculate the amount of income tax they owe. To read a tax table, look down the left column to find the row with the range into which your income falls. Then find the column that matches your filing status—single, married filing jointly, and so on. Where the row and column meet will be the amount of income tax you owe.

**Skills  
FOCUS****UNDERSTANDING FINANCE**

How much income tax would a single worker who made \$20,645 have to pay? a married woman filing separately from her husband and who earned \$20,133?

If line 43 (taxable income) is —		And you are —			
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household
<b>20,000</b>					
20,000	20,050	2,626	2,249	2,626	2,466
20,050	20,100	2,634	2,256	2,634	2,474
20,100	20,150	2,641	2,264	2,641	2,481
20,150	20,200	2,649	2,271	2,649	2,489
20,200	20,250	2,656	2,279	2,656	2,496
20,250	20,300	2,664	2,286	2,664	2,504
20,300	20,350	2,671	2,294	2,671	2,511
20,350	20,400	2,679	2,301	2,679	2,519
20,400	20,450	2,686	2,309	2,686	2,526
20,450	20,500	2,694	2,316	2,694	2,534
20,500	20,550	2,701	2,324	2,701	2,541
20,550	20,600	2,709	2,331	2,709	2,549
20,600	20,650	2,716	2,339	2,716	2,556
20,650	20,700	2,724	2,346	2,724	2,564
20,700	20,750	2,731	2,354	2,731	2,571
20,750	20,800	2,739	2,361	2,739	2,579



## Barney's Burger Barn

Employers take deductions from employees' paychecks for federal and state taxes. In addition, many employees opt to have the cost of benefits deducted from their checks.

## Barney's Burger Barn

Employee Earnings Statement  
Week Ending April 28, 2007

EMPLOYEE: Timothy Taxpayer  
SSN: 000-00-0000

Taxes/Deductions		
Regular Earnings: \$376.00	Federal Taxes	\$54.40
Overtime Earnings: \$0	FICA	\$28.76
	State Tax	\$9.52
Gross Earnings: \$376.00	Insurance	\$17.60
	Retirement	\$8.30
<b>NET PAY</b>		<b>\$253.42</b>

The money that remains after all deductions have been made is called your net or take-home pay.

Detach and retain top portion for your records

### FICA

The Federal Insurance Contribution Act (FICA) requires that money be deducted from paychecks to help fund two programs that help support retired Americans: Social Security and Medicare. Between 7 and 8 percent of your gross income will usually be deducted for FICA. Full-time students may be exempt from paying FICA expenses.

### Benefit Costs

Many companies offer their employees certain benefits, such as subsidized life and medical insurance. In this case the company pays for a portion of the cost of the insurance. The employee pays only what remains.

### Retirement Funds

Most companies offer insurance benefits. Many of them also offer their employees the chance to create a retirement fund, such as a 401K account. A 401K is a special savings account that sets aside money for an employee to use after retiring. Some companies even contribute additional funds to their employees' retirement accounts. This is an added benefit. Contributions to a 401K account are deducted from each paycheck before taxes are calculated.

### Charitable Donations

Some companies offer their employees a chance to donate part of each paycheck to charitable organizations. Donations can be either a set amount or a percentage of the total check. In such cases these donations would also appear as deductions.

**VOCABULARY**

**inflation** a rise in general price levels over time

**purchasing power** a measure of how much people can buy with their income

**Union Dues**

Many members of labor unions have their membership dues deducted from their paychecks.

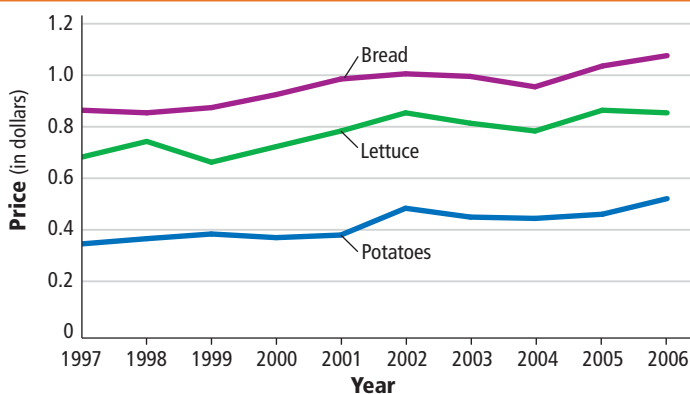
**Other Deductions**

Your employer may offer other programs that will lead to payroll deductions. You will learn about such programs when you are hired.

**Inflation and Purchasing Power**

On average, people today make considerably more money than people did in the past. It would seem, then, that people could afford to buy more than people in the past, wouldn't it? In reality, however, that is not necessarily the case. While wages were increasing, prices increased as well. For example, in 1960 the average price of a gallon of gasoline was about 25 cents. In 2007 that price rose to just over \$3. Economists call the trend of prices rising over time inflation.

If prices rise faster than salaries, then people can afford less with the same amount of money. Look at the graph on this page for an example. It shows an increase in the price of certain foods between 1997 and 2006. If a person's income did not increase during this period, then he or she would not be able to purchase as much food each month. The measurement of how much people are able to buy with their income is called purchasing power. Simply put, if prices increase while salaries stay level, purchasing power decreases. If prices drop and salaries stay level, purchasing power increases.

**AVERAGE PRICE OF SELECT GOODS OVER TIME**

Source: U.S. Department of Labor, Bureau of Labor Statistics

**INTERPRETING CHARTS**

During which period did the average price of these goods decrease slightly?



## FINANCE 101

## Calculating Discretionary Income

Your discretionary income is the amount of money you have left to spend after you have paid for all necessary expenses, such as housing, food, utilities, and so on. To calculate this figure, simply subtract your total expenses from your total income during the period. For example, suppose you earn \$2,000 each month and your expenses total \$1,500. To calculate, perform this simple operation:

$$\$2,000 - \$1,500 = \$500$$

Your discretionary income would total \$500.



## UNDERSTANDING FINANCE

Suppose your monthly income was \$1,250. What would your discretionary income be if your expenses totaled \$925? if your expenses totaled \$575?

## Discretionary Income

When economists talk about incomes, they look at different figures. One is disposable income. This is the amount of money people have left after all deductions have been taken from their paychecks. In other words, disposable income is the same as net pay.

However, just because you take a certain amount of money home each month does not mean you can spend it on whatever you would like. People have certain expenses that they must pay each month. Such expenses are paying a mortgage or rent, buying food, and paying bills. The money you have left after all of these expenses are calculated is called your discretionary income. If you are aware of your discretionary income, you can plan your purchases wisely and avoid financial troubles.

## VOCABULARY

**disposable income** another name for net pay; the money remaining from a paycheck after deductions

**discretionary income** the money that remains after one's expenses have all been paid

## Assessment

- 1. Describe** Why do people need money? How do they get that money?
- 2. Explain** Why do employers make deductions from employees' paychecks? How do these deductions affect the employees' net pay?
- 3. Apply** Make a list of five jobs that you might be interested in having during your lifetime. For each job on your list, write down what you think the educational requirements and average salary are. Then use the library or other sources to conduct research into the actual requirements and salary. What factors might influence that salary?

# Money Management

Once you have money in your pocket, what do you do with it? Do you immediately rush out to buy all the latest CDs and movies? Do you set the money aside to pay for future needs or bills? Do you give some of it to charity? Do you deposit it in a bank account to collect interest in the meantime? All of these choices are valid options, each with its own benefits and drawbacks. As a consumer, though, you must decide which option is the best for you. In other words, it is your responsibility to manage your money.

## Making Financial Choices

Personal finance is largely a matter of choices. As consumers, we are constantly faced with ways to spend money. You must decide how to use your money to satisfy your wants and needs.

To many people, getting a first job is an exciting experience. When they receive their first paycheck, they may go on shopping sprees and spend their cash on various items. This kind of impulse shopping can be quite fun in the short term. However, it is generally better to consider a longer-term approach to financial decisions.

For example, suppose that you have just received your first paycheck from a part-time job. While out with some friends, you see a shirt that you love and want to buy. Since you now have cash from your job, buying the shirt should be no problem, right?

Suppose that you have also decided that you want to purchase a new computer. You don't currently have enough money, but if you wait a few more weeks and save the money from your paychecks, you will. Any money you spend on other items (like the shirt you want) will mean a longer wait for the computer. Now you are faced with a tougher choice—buy the shirt or save for the computer.

The choice becomes even tougher when you look at longer-term goals. In the future you might like to buy a car, which will require substantial savings. You may want to attend college, which is also very expensive. The more money you spend on clothes, CDs, and other such items now, the less you will have to fulfill your goals later. You have to decide which is more important to you: satisfying your immediate wants or working toward fulfilling your long-term goals. Setting priorities like these is the kind of decision you face when planning how to spend your money.



## Financial Planning

One of the best ways to make good financial decisions is to make a budget, or a plan for how you will spend your money. A budget lists your total income over a period of time and your anticipated expenses for the same period. By comparing how much money you will make with how much you will have to spend, a good budget can help you make better use of your money.

A budget is not hard to prepare, but it does take some careful thought. First, you must decide how long a period you want your budget to cover. Most people prefer to create monthly budgets, because many of the most common expenses in their lives—rents and mortgages, automobile payments, utility bills, and so on—are charged once each month. Other people prefer weekly or yearly budgets.

Next, you must decide how to record your budget. Some people like handwritten records. Other people prefer to keep track of their budgets on their home computers. A basic spreadsheet program can easily keep track of the numbers involved in a budget. In addition, many companies make special software that makes keeping track of your personal budget easier than ever.

Once you have decided how you will keep track of your budget, you must gather information for it. Collect all of your financial records together—paycheck stubs, receipts, bills, and so forth—and prepare to organize your financial goals.

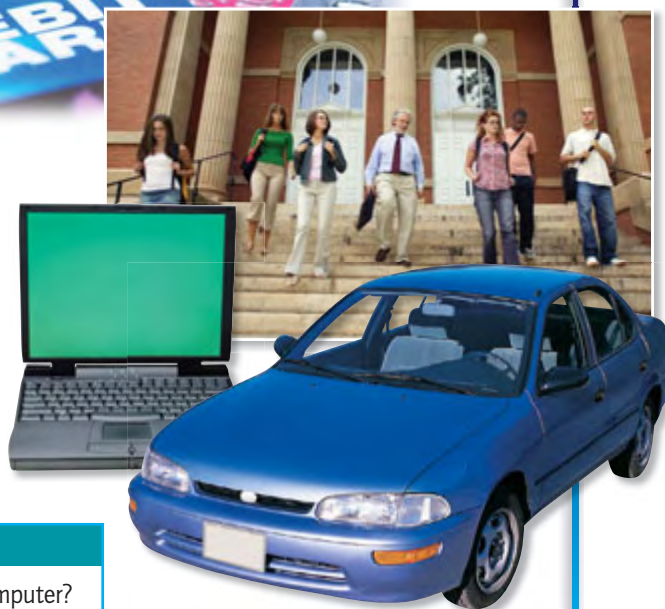
### VOCABULARY

**budget** a spending plan based on an individual or family's income

## FINANCE 101

### Making Financial Choices

Making financial decisions is largely a matter of setting priorities. You often must decide which of several purchases is most important to you. For example, suppose your grandfather gave you \$1,000. How would you spend it? You could buy the computer you want, but you could also add the gift to the money you are saving toward buying a car. Or you could set it aside for college.



**Skills  
FOCUS**

#### UNDERSTANDING FINANCE

What would be the advantages of buying the computer? of saving the money? How would you decide to use the money? Give reasons to support your answer.

**VOCABULARY**

**expenditures** money that you have spent

**Calculate Income**

The first step in preparing your budget is to estimate your total income. Remember that your income includes your salary, as well as any other money received. For example, look at the sample household budget on the next page. This family brought \$7,000 home in their paychecks. They also earned money as interest during this month.

**Calculate Expenditures**

Once you have calculated your total income, you must estimate your total expenditures. Start by totaling all of your fixed expenditures. These are expenses that do not change over time. Mortgage and rent payments, for example, are usually the same from month to month. So are payments on a car loan or student loan. Record your total fixed expenses on your budget sheet.

Now comes the trickier part: calculating your monthly living expenses. These expenses include everything you have not already recorded, from food to gasoline to entertainment. Living expenses can be difficult to estimate. Some vary from month to month. For example, gasoline costs vary based on the price of gas and on how much you drive during a given period.

Look at the sample budget on the next page to see what kinds of costs are included as living expenses. Not all of these categories will apply to every budget. Some people may have other regular expenses that do not fit into these categories. Your budget should reflect your own personal expenses. So put some careful thought into this part of the budgeting process.

Save copies of all of your bills and store receipts to help estimate your monthly living expenses. Examine these documents to help you figure out how much you spend on each type of expense in an average month. The amounts you fill in do not have to be exact. However, they must reflect your typical spending habits.

**Figure Your Budget**

Once you have completed your budget, compare your total income to your total expenses. Any money you have left over from your income is yours to spend or save as you see fit. However, your monthly expenses may be higher than your total income. If so, then you may need to make some changes in your routine.

If you spend more money than you earn, you need to revise your budget. Or if you would like to save more money than you currently are, you may need to revise your budget. Start by examining your spending habits. Where do you spend the most? Can you cut back on how much you spend? If so, by how much? Each cutback you make to your spending will yield greater savings in the end.



# FINANCE 101

## Preparing a Budget

Preparing a budget is the best way to keep track of your spending. By detailing how much money you have and how you spend it, you can often find ways to improve your spending habits.

The total income you record on your budget should include paychecks and any other money you make during the period.

Fixed payments are those that you cannot change, such as rent or loan payments.

Living expenses may vary from month to month, so it is important that you carefully estimate how much you spend in each category.

**Skills Focus**

### UNDERSTANDING FINANCE

Imagine this was your budget. What adjustments would you make to increase your discretionary income by \$200?

## Household Budget Plan April, 2007

### INCOME

Salaries/Wages/Tips	\$7,000
Social Security/Retirement	
Interest	\$10
Other Income	
<b>Total Take Home Income</b>	<b>\$7,010</b>

### MONTHLY FIXED PAYMENTS

Mortgage/Rent	\$1,250
Student Loans	\$323
Auto Loans/Leases	\$568
Other Debts	\$200
Other Loans	
<b>Total Fixed Payments</b>	<b>\$2,341</b>

### MONTHLY LIVING EXPENSES

Auto Gas and Repair	\$200
Auto Insurance	\$150
Cable TV/Satellite Fees	\$65
Charitable Contributions	\$25
Child Care	\$300
Childrens' Activities	\$150
Clothing	\$300
Credit Card Bills	\$400
Electric Bill	\$150
Dining and Entertainment	\$400
Gas and Oil Bills	\$100
Groceries	\$500
Internet	\$65
Insurance	\$125
Medical Expenses	\$90
Subscriptions	\$30
Telephone (Home, Cell, Pager)	\$75
Trash Disposal	\$10
Tuition and School Supplies	\$300
Water Bill	\$45
Other Expenses	\$100
<b>Total Monthly Living Expenses</b>	<b>\$3,580</b>

### SUMMARY

Total Take Home (Income )	\$7,010
Total Fixed Payments (-)	\$2,341
Total Monthly Living Expenses (-)	\$3,580
<b>Discretionary Income **</b>	<b>\$1,089</b>



As an example, look back at the sample household budget on the previous page. Suppose that the family who created this budget decided that they wanted to save additional money to pay for a family vacation. Where could they cut back on their expenses? In examining their budget, they see that their largest single expense is their mortgage, but that is a fixed expense. They will have to look for other opportunities to save.

In the end, the family decides to cut back on several expenses. They agree to dine out less often, which should cut their dining expenses in half. Dad decides to bicycle to work rather than take a car, which will save about \$50 in gasoline money. In addition, the family agrees to conserve electricity and hopes to cut their electric bill by \$25 a month. By following this new budget, the family should save an extra \$275 each month toward their vacation.



### Determining Net Worth

A family's possessions, such as their home, car, and clothing, factor into their net worth. Other factors that shape net worth include savings and investments.



Following a budget is not always easy. Cutting back on your spending sometimes means passing up things that you really want. In the end, however, staying within a budget can be a key step in becoming a responsible financial citizen.

## Calculating Net Worth

Following a budget can help you increase your savings. In turn, increased savings will improve your net worth, or financial standing. To calculate your net worth, you first need to add up the value of all your assets, including your savings, investments, and property. From that total you then subtract your liabilities, or money you owe.

Knowing your net worth can be important when you want to borrow money from a bank or credit card company. These institutions look at applicants' net worth as part of their process for deciding to whom they will lend money.

To better understand how to calculate net worth, let's look at a hypothetical couple, George and Martha Jackson. As a couple, the Jacksons have the following assets:

- bank accounts totaling \$14,235
- stocks and bonds totaling \$5,332
- two cars worth a total of \$38,985
- a house valued at \$165,000
- the contents of their house, valued at \$5,877

The Jacksons' liabilities include the following:

- a remaining balance on their mortgage of \$84,938
- a remaining balance on a car loan of \$6,873
- other loans totaling \$4,083
- credit card debt totaling \$2,945

Adding up these figures, we learn that the Jacksons' assets total \$229,429, and their liabilities total \$98,839. By subtracting their liabilities from their assets, we find that the Jackson's net worth is currently \$130,590.

## Risk Management

No matter how carefully you plan your finances, the chance always exists that unforeseen circumstances will cause financial hardship. For example, a member of your family might become ill or injured, your car might be wrecked in an accident, or your house might catch fire. Good financial planning involves preparing for the unexpected. Among the best steps you can take in this preparation are purchasing insurance and understanding warranties.

### VOCABULARY

**net worth** a person's overall financial standing, equal to assets minus liabilities

**assets** the total value of all your money and possessions

**liabilities** the total amount of money you owe

### VOCABULARY

**insurance** a system of protection in which smaller periodic payments are used to ensure compensation for future losses

**warranty** a written guarantee of a product's quality and the manufacturer's responsibilities to the buyer

## Types of Insurance



**Health insurance** helps cover the cost of medical bills in case of illness or accidents.



**Home insurance** helps pay for the repair of damage to your home or its contents.



**Car insurance** helps pay for the repair of damages to your automobile.



**Pet insurance** helps pay veterinary bills should a family pet become ill.

**SS.7.E.1.6** Compare the national budget process to the personal budget process.

## Insurance

An insurance policy reduces the costs you have to pay in case of an accident. For example, you may pay \$150 every month for car insurance. Yet, that is a low cost compared to the \$20,000 you might have to pay if your car were wrecked. Similarly, health insurance can be a big savings. If you have no health insurance, you could pay hundreds or even thousands of dollars in unexpected medical bills. Life insurance helps families who have lost loved ones. Life insurance policies provide cash to the families of the insured person after his or her death.

## Warranties

Like insurance policies, warranties are a form of risk management to consumers. Laws require most manufacturers to issue warranties. These are written guarantees that products will stay in working condition. They protect customers from shoddy and defective products. As a result, a warranty includes a lot of information about the product. It lets consumers know about the product's life span and its properties. In the warranty, the manufacturer spells out its plan to assure proper product performance. For example, a warranty may include an agreement to replace or repair a product that breaks.

Take full advantage of a warranty. Always read it carefully and thoroughly. Many warranties have restrictions that limit the manufacturer's responsibilities. For example, if the consumer tries to repair a product at home, the warranty may be voided. Or if the consumer did not take proper care of the product, then the warranty may be no good. In addition, many warranties do not cover all parts of a product. A television warranty might cover only the electronic components of the set and not its external casing. Always read warranties carefully.

## Assessment

- 1. Identify** What are some key factors that influence the financial decisions people make?
- 2. Explain** Why do people buy insurance and take advantage of warranties? Why are insurance policies and warranties considered forms of risk management for consumers?
- 3. Apply** Prepare a monthly budget for yourself. If you do not have a part-time job or allowance, choose a reasonable figure to represent your income. Carefully estimate your monthly expenses for housing, food, leisure activities, communication, and any other categories of spending that you think are important. Add those figures into your budget. Then write a paragraph comparing your personal budget process to the national budget process described in Chapter 12. Be sure to discuss sources of income, categories of spending, and where you think adjustments could be made to save money.