

# Georgia Milestones

Assessment System



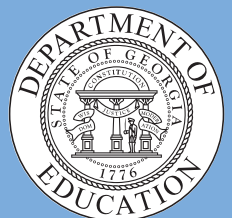
## **Study/Resource Guide for Students and Parents Economics/Business/ Free Enterprise**



The Study/Resource Guides are intended to serve as a resource for parents and students. They contain practice questions and learning activities for the course. The standards identified in the Study/Resource Guides address a sampling of the state-mandated content standards.

For the purposes of day-to-day classroom instruction, teachers should consult the wide array of resources that can be found at [www.georgiastandards.org](http://www.georgiastandards.org).

# Study/Resource Guide



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# THE GEORGIA MILESTONES ASSESSMENT SYSTEM



## Dear Student,

The **Georgia Milestones Economics/Business/Free Enterprise EOC Study/Resource Guide for Students and Parents** is intended as a resource for parents and students.

This guide contains information about the core content ideas and skills that are covered in the course. There are practice sample questions for every unit. The questions are fully explained and describe why each answer is either correct or incorrect. The explanations also help illustrate how each question connects to the Georgia state standards.

In addition, the guide includes activities that you can try to help you better understand the concepts taught in the course. The standards and additional instructional resources can be found on the Georgia Department of Education website, [www.georgiastandards.org](http://www.georgiastandards.org).

**Get ready—open this guide—and get started!**

## GEORGIA MILESTONES END-OF-COURSE (EOC) ASSESSMENTS

The EOC assessments serve as the final exam in certain courses. The courses are:

### English Language Arts

- Ninth Grade Literature and Composition
- American Literature and Composition

### Mathematics

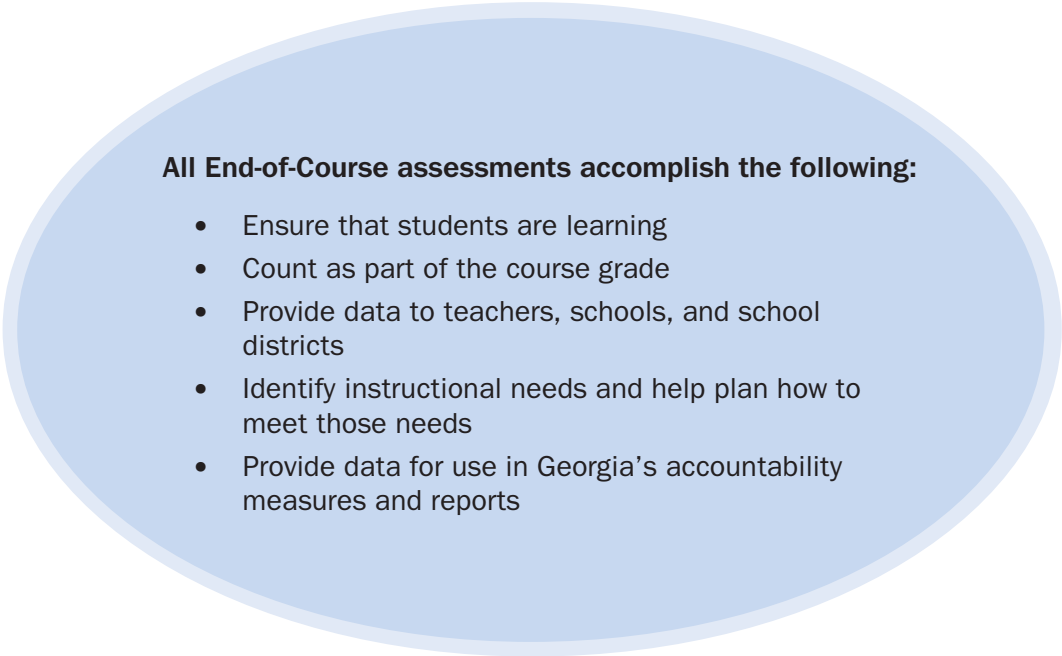
- Algebra I
- Analytic Geometry
- Coordinate Algebra
- Geometry

### Science

- Physical Science
- Biology

### Social Studies

- United States History
- Economics/Business/Free Enterprise



#### All End-of-Course assessments accomplish the following:

- Ensure that students are learning
- Count as part of the course grade
- Provide data to teachers, schools, and school districts
- Identify instructional needs and help plan how to meet those needs
- Provide data for use in Georgia's accountability measures and reports

## HOW TO USE THIS GUIDE

### Let's get started!

First, preview the entire guide. Learn what is discussed and where to find helpful information. Even though the focus of this guide is Economics/Business/Free Enterprise, you need to keep in mind your overall good reading habits.

- 💡 Start reading with a pencil or a highlighter in your hand and sticky notes nearby.
- 💡 Mark the important ideas, the things you might want to come back to, or the explanations you have questions about. On that last point, your teacher is your best resource.
- 💡 You will find some key ideas and important tips to help you prepare for the test.
- 💡 You can learn about the different types of items on the test.
- 💡 When you come to the sample items, don't just read them, *do* them. Think about strategies you can use for finding the right answer. Then read the analysis of the item to check your work. The reasoning behind the correct answer is explained for you. It will help you see any faulty reasoning in the ones you may have missed.
- 💡 Use the activities in this guide to get hands-on understanding of the concepts presented in each unit.
- 💡 With the Depth of Knowledge (DOK) information, you can gauge just how complex the item is. You will see that some items ask you to recall information and others ask you to infer or go beyond simple recall. The assessment will require all levels of thinking.
- 💡 Plan your studying and schedule your time.
- 💡 Proper preparation will help you do your best!



## OVERVIEW OF THE ECONOMICS/BUSINESS/ FREE ENTERPRISE EOC ASSESSMENT

### ITEM TYPES

The Economics/Business/Free Enterprise EOC assessment consists of **selected-response** and **technology-enhanced** items.

A **selected-response** item, sometimes called a multiple-choice item, is a question, problem, or statement that is followed by four answer choices. These questions are worth one point.

A **technology-enhanced** item has a question, problem, or statement. You may be asked to select more than one right answer. Or, you may be asked to answer the first part of the question. Then, you will answer the second part of the question based on how you answered part one. These questions are worth 2 points. Partial credit may be awarded if you select some but not all of the correct answers or if you get one part of the question correct but not the other.

### DEPTH OF KNOWLEDGE DESCRIPTORS

Items found on the Georgia Milestones assessments, including the Economics/Business/Free Enterprise EOC assessment, are developed with a particular emphasis on the kinds of thinking required to answer questions. In current educational terms, this is referred to as Depth of Knowledge (DOK). DOK is measured on a scale of 1 to 4 and refers to the level of cognitive demand (different kinds of thinking) required to complete a task, or in this case, an assessment item. The following table shows the expectations of the four DOK levels in detail.

The DOK table lists the skills addressed in each level as well as common question cues. These question cues not only demonstrate how well you understand each skill but they relate to the expectations that are part of the state standards.

### Level 1—Recall of Information

Level 1 generally requires that you identify, list, or define. This level usually asks you to recall facts, terms, concepts, and trends and may ask you to identify specific information contained in documents, maps, charts, tables, graphs, or illustrations. Items that require you to “describe” and/or “explain” could be classified as Level 1 or Level 2. A Level 1 item requires that you just recall, recite, or reproduce information.

Skills Demonstrated	Question Cues
<ul style="list-style-type: none"> <li>• Make observations</li> <li>• Recall information</li> <li>• Recognize formulas, properties, patterns, processes</li> <li>• Know vocabulary, definitions</li> <li>• Know basic concepts</li> <li>• Perform one-step processes</li> <li>• Translate from one representation to another</li> <li>• Identify relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Tell what, when, or where</li> <li>• Find</li> <li>• List</li> <li>• Define</li> <li>• Identify; label; name</li> <li>• Choose; select</li> <li>• Compute; estimate</li> <li>• Express</li> <li>• Read from data displays</li> <li>• Order</li> </ul>

### Level 2—Basic Reasoning

Level 2 includes the engagement (use) of some mental processing beyond recalling or reproducing a response. A Level 2 “describe” and/or “explain” item would require that you go beyond a description or explanation of recalled information to describe and/or explain a result or “how” or “why.”

Skills Demonstrated	Question Cues
<ul style="list-style-type: none"> <li>• Apply learned information to abstract and real-life situations</li> <li>• Use methods, concepts, theories in abstract and real-life situations</li> <li>• Perform multi-step processes</li> <li>• Solve problems using required skills or knowledge (requires more than habitual response)</li> <li>• Make a decision about how to proceed</li> <li>• Identify and organize components of a whole</li> <li>• Extend patterns</li> <li>• Identify/describe cause and effect</li> <li>• Recognize unstated assumptions; make inferences</li> <li>• Interpret facts</li> <li>• Compare or contrast simple concepts/ideas</li> </ul>	<ul style="list-style-type: none"> <li>• Apply</li> <li>• Calculate; solve</li> <li>• Complete</li> <li>• Describe</li> <li>• Explain how; demonstrate</li> <li>• Construct data displays</li> <li>• Construct; draw</li> <li>• Analyze</li> <li>• Extend</li> <li>• Connect</li> <li>• Classify</li> <li>• Arrange</li> <li>• Compare; contrast</li> </ul>

### Level 3—Complex Reasoning

Level 3 requires reasoning, using evidence, and thinking on a higher and more abstract level than Level 1 and Level 2. You will go beyond explaining or describing “how and why” to justifying the “how and why” through application and evidence. Level 3 questions often involve making connections across time and place to explain a concept or a “big idea.”

Skills Demonstrated	Question Cues
<ul style="list-style-type: none"> <li>• Solve an open-ended problem with more than one correct answer</li> <li>• Create a pattern</li> <li>• Generalize from given facts</li> <li>• Relate knowledge from several sources</li> <li>• Draw conclusions</li> <li>• Make predictions</li> <li>• Translate knowledge into new contexts</li> <li>• Compare and discriminate between ideas</li> <li>• Assess value of methods, concepts, theories, processes, formulas</li> <li>• Make choices based on a reasoned argument</li> <li>• Verify the value of evidence, information, numbers, and data</li> </ul>	<ul style="list-style-type: none"> <li>• Plan; prepare</li> <li>• Predict</li> <li>• Create; design</li> <li>• Ask “what if?” questions</li> <li>• Generalize</li> <li>• Justify; explain why; support; convince</li> <li>• Assess</li> <li>• Rank; grade</li> <li>• Test; judge</li> <li>• Recommend</li> <li>• Select</li> <li>• Conclude</li> </ul>

### Level 4—Extended Reasoning

Level 4 requires the complex reasoning of Level 3 with the addition of planning, investigating, applying significant conceptual understanding, and/or developing that will most likely require an extended period of time. You may be required to connect and relate ideas and concepts *within* the content area or *among* content areas in order to be at this highest level. The Level 4 items would be a show of evidence, through a task, a product, or an extended response, that the cognitive demands have been met.

Skills Demonstrated	Question Cues
<ul style="list-style-type: none"> <li>• Analyze and synthesize information from multiple sources</li> <li>• Examine and explain alternative perspectives across a variety of sources</li> <li>• Apply mathematical models to illuminate a problem or situation</li> <li>• Design a mathematical model to inform and solve a practical or abstract situation</li> <li>• Combine and synthesize ideas into new concepts</li> </ul>	<ul style="list-style-type: none"> <li>• Design</li> <li>• Connect</li> <li>• Synthesize</li> <li>• Apply concepts</li> <li>• Critique</li> <li>• Analyze</li> <li>• Create</li> <li>• Prove</li> </ul>



## DEPTH OF KNOWLEDGE EXAMPLE ITEMS

Example items that represent the applicable DOK levels across various Economics/Business/Free Enterprise content domains are provided on the following pages.

**All example and sample items contained in this guide are the property of the Georgia Department of Education.**

### Example Item 1

#### Selected-Response

**DOK Level 1:** This is a DOK level 1 item because it requires the student to recall information concerning credit worthiness.

**Economics/Business/Free Enterprise Content Domain:** Personal Finance Economics

**Standard:** SSEPF4. Evaluate the costs and benefits of using credit.

- a. Describe factors that affect credit worthiness and the ability to receive favorable interest rates including character (credit score), collateral, and capacity to pay.

**Which factor is used to determine a person's credit worthiness?**

- A. work ethic
- B. home location
- C. yearly income
- D. level of education

**Correct Answer:** C

**Explanation of Correct Answer:** The correct answer is choice (C) yearly income. A person's yearly income is a major factor that helps banks determine what the likelihood is that a person will pay back the loan. While having a high yearly income is not a definite guarantee the loan will be paid back, it does show that the person has the ability to pay back the loan. Choices (A), (B), and (D) are incorrect because they are not factored into the decision to give a person a loan. Work ethic, home location, and level of education are not factors that affect a person's credit worthiness.

## Example Item 2

### Selected-Response

**DOK Level 2:** This is a DOK level 2 item because it requires the student to compare two companies based on the provided scenario.

**Economics/Business/Free Enterprise Content Domain:** Microeconomic Concepts

**Standard:** SSEMI3. Explain the organization and role of business and analyze the four types of market structures in the U.S. economy.

- a. Compare and contrast three forms of business organization—sole proprietorship, partnership, and corporation with regards to number of owners, liability, lifespan, decision-making, and taxation.

**Use the scenario to answer the question.**

Ron Statler is the single owner of Hi-Tech Computers. Its store sells computers to the general public. Ron Statler is the president and runs the company; his son Jason works in the store. Digital World, a national chain whose stock trades on the stock market, opened a new store near Hi-Tech Computers. To keep its customers, Hi-Tech reduced the prices on its computers. Sales tripled and Hi-Tech's entire computer inventory sold out. In order to raise cash to buy more computers, Hi-Tech applied for a business loan using Ron's property assets for collateral. Digital World soon closed its store and moved its inventory to a larger Digital World store in another city.

**Based on the scenario, which statement BEST describes the two companies?**

- A. Hi-Tech Computers is a partnership, and Digital World is a corporation.
- B. Hi-Tech Computers is a sole proprietorship, and Digital World is a corporation.
- C. Digital World is a partnership of investors, and Hi-Tech Computers is a family partnership.
- D. Digital World is a sole proprietorship of entrepreneurs, and Hi-Tech Computers is incorporated.

**Correct Answer:** B

**Explanation of Correct Answer:** The correct answer is choice (B) Hi-Tech Computers is a sole proprietorship, and Digital World is a corporation. In a sole proprietorship the owner is responsible for any business debt and receives all of the profits. Digital World is a corporation because it has stocks that are publicly traded. Choices (A) and (C) are incorrect because Ron does not own Hi-Tech Computers in a partnership; Ron is the "single owner" of the company. Choice (C) is also incorrect because Digital World is not a partnership. Choice (D) is incorrect because Digital World is not a sole proprietorship; it is a corporation.

### Example Item 3

#### Selected-Response

**DOK Level 3:** This is a DOK level 3 item because it requires the student to draw a conclusion about why countries trade with one another.

**Economics/Business/Free Enterprise Content Domain:** International Economics

**Standard:** SSEIN1. Explain why individuals, businesses, and governments trade goods and services.

- b. Explain that most trade takes place because of comparative advantage in the production of a good or service.

**Use the information to answer the question.**

Brazil grows coffee efficiently, and coffee is the country's largest agricultural product. Brazil also has an automobile industry but does not efficiently manufacture automobiles. The United States efficiently manufactures automobiles and grows a small amount of coffee in Hawaii. The United States has the largest economy in the world. Brazil has an economy that is ranked eighth in the world.

**Which statement BEST explains why Brazil would want to trade with the United States?**

- A. Brazil has a capital advantage over the United States in the growing of coffee.
- B. Brazil has a comparative advantage over the United States in the growing of coffee.
- C. Brazil has a technological advantage over the United States in the manufacturing of automobiles.
- D. Brazil has an absolute advantage over the United States in the growing of coffee and the manufacturing of automobiles.

**Correct Answer:** B

**Explanation of Correct Answer:** The correct answer is choice (B) Brazil has a comparative advantage over the United States in the growing of coffee. Brazil grows coffee with a lower opportunity cost than the United States; therefore, Brazil has a comparative advantage over the United States. The United States manufactures automobiles with a lower opportunity cost. Choice (A) is incorrect because Brazil does not have a capital advantage in growing coffee. The United States has a larger economy and is wealthier. Choice (C) is incorrect because Brazil does not have a technological advantage over the United States in manufacturing automobiles. Choice (D) is incorrect because Brazil does not have an absolute advantage in both the growing of coffee and the manufacturing of automobiles. It has only an absolute advantage in the growing of coffee.

## DESCRIPTION OF TEST FORMAT AND ORGANIZATION

The Georgia Milestones Economics/Business/Free Enterprise EOC assessment consists of a total of 76 items. You will be asked to respond to selected-response (multiple-choice) and technology-enhanced items.

The test will be given in two sections.

- You may have up to 70 minutes per section to complete Sections 1 and 2.
- The total estimated testing time for the Economics/Business/Free Enterprise EOC assessment ranges from approximately 90 to 140 minutes. Total testing time describes the amount of time you have to complete the assessment. It does not take into account the time required for the test examiner to complete pre-administration and post-administration activities (such as reading the standardized directions to students).
- Sections 1 and 2 may be administered on the same day or across two consecutive days, based on the district's testing protocols for the EOC measures (in keeping with state guidance).

### Effect on Course Grade

It is important that you take this course, and the EOC assessment, very seriously.

- For students in Grade 10 or above beginning with the 2011–2012 school year, the final grade in each course is calculated by weighing the course grade 85% and the EOC score 15%.
- For students in Grade 9 beginning with the 2011–2012 school year, the final grade in each course is calculated by weighing the course grade 80% and the EOC score 20%.
- A student must have a final grade of at least 70% to pass the course and to earn credit toward graduation.




## **PREPARING FOR THE ECONOMICS/BUSINESS/ FREE ENTERPRISE EOC ASSESSMENT**

### **STUDY SKILLS**

As you prepare for this test, ask yourself the following questions:





- \* How would you describe yourself as a student?
- \* What are your study-skills strengths and/or weaknesses?
- \* How do you typically prepare for a classroom test?
- \* What study methods do you find particularly helpful?
- \* What is an ideal study situation or environment for you?
- \* How would you describe your actual study environment?
- \* How can you change the way you study to make your study time more productive?

### **ORGANIZATION—OR TAKING CONTROL OF YOUR WORLD**

-  Establish a study area that has minimal distractions.
-  Gather your materials in advance.
-  Develop and implement your study plan.

### **ACTIVE PARTICIPATION**

The most important element in your preparation is *you*. You and your actions are the key ingredient. Your active studying helps you stay alert, interact with the course content, and be more productive. Here's how you do it.

-  Carefully read the information and then DO something with it. Mark the important material with a highlighter, circle it with a pen, write notes on it, or summarize the information in your own words.
-  Ask questions. As you study, questions often come into your mind. Write them down and actively seek the answers.
-  Create sample test questions and answer them.
-  Find a friend who is also planning to take the test and quiz each other.

## TEST-TAKING STRATEGIES

Part of preparing for a test is having a set of strategies you can draw from. Include these strategies in your plan:

- \* Read and understand the directions completely. If you are not sure, ask a teacher.
- \* Read each question and all the answer choices carefully.
- \* If you use scratch paper, make sure you copy your work to your test accurately.
- \* Underline important parts of each task. Make sure that your answer goes on the answer sheet.
- \* Be aware of time. If a question is taking too much time, come back to it later.
- \* Answer all questions. Check your answers for accuracy.
- \* Stay calm and do the best you can.

## PREPARING FOR THE ECONOMICS/BUSINESS/ FREE ENTERPRISE EOC ASSESSMENT

Read this guide to help prepare for the Economics/Business/Free Enterprise EOC assessment.

The section of the guide titled “Content of the Economics/Business/Free Enterprise EOC Assessment” provides a snapshot of the Economics/Business/Free Enterprise course. In addition to reading this guide, do the following to prepare to take the assessment:

- Read your textbooks and other materials.
- Think about what you learned, ask yourself questions, and answer them.
- Read and become familiar with the way questions are asked on the assessment.
- Answer the practice Economics/Business/Free Enterprise questions.
- Do the activities included in this guide. You can try these activities on your own, with a family member or friend, in a small group, or at home.
- There are additional items to practice your skills available online. Ask your teacher about online practice sites that are available for your use.

## CONTENT OF THE ECONOMICS/BUSINESS/ FREE ENTERPRISE EOC ASSESSMENT

Up to this point in the guide, you have been learning how to prepare for taking the EOC assessment. Now you will learn about the topics and standards that are assessed in the Economics/Business/Free Enterprise EOC assessment and will see some sample items.

- ✍ The first part of this section focuses on what will be tested. It also includes sample items that will let you apply what you have learned in your classes and from this guide.
- ✍ The next part contains a table that shows the standard assessed for each item, the DOK level, the correct answer (key), and a rationale/explanation of the right and wrong answers.
- ✍ You can use the sample items to familiarize yourself with the item format found on the assessment.

**All example and sample items contained in this guide are the property of the Georgia Department of Education.**

The Economics/Business/Free Enterprise EOC assessment will assess the Economics/Business/Free Enterprise standards documented at [www.georgiastandards.org](http://www.georgiastandards.org).

The content of the assessment is organized into five groupings, or domains, of standards for the purposes of providing feedback on student performance.

- ✍ A content domain is a reporting category that *broadly* describes and defines the content of the course, as measured by the EOC assessment.
- ✍ On the actual test, the standards for Economics/Business/Free Enterprise are grouped into five domains: Fundamental Economic Concepts; Microeconomic Concepts; Macroeconomic Concepts; International Economics; and Personal Finance Economics.
- ✍ Each domain was created by organizing standards that share similar content characteristics.
- ✍ The content standards describe the level of understanding each student is expected to achieve. They include the knowledge, concepts, and skills assessed on the EOC assessment, and they are used to plan instruction throughout the course.

## SNAPSHOT OF THE COURSE

This section of the guide is organized into five units that review the material covered within the five domains of the Economics/Business/Free Enterprise course. The material is presented by topic rather than by category or standard. In each unit, you will find sample items similar to what you will see on the EOC assessment. The next section of the guide contains a table that shows for each item the standard assessed, the DOK level, the correct answer (key), and a rationale/explanation about the key and distractors.

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The more you understand about the topics in each unit, the greater your chances of getting a good score on the EOC assessment.

The organization of units for this guide is based on Frameworks developed by the Curriculum and Instruction Division of the Georgia Department of Education. These Frameworks can be accessed at <https://www.georgiastandards.org/Georgia-Standards/Pages/Social-Studies-Economics.aspx>.



## **UNIT 1: INTRODUCTION TO ECONOMIC THEMES**

The first unit of the course is important because it focuses on the concepts and enduring understandings that will be taught throughout the course. This unit is not assessed on the Economics/Business/Free Enterprise EOC assessment.

## UNIT 2: FUNDAMENTALS

### SSEF1; SSEF2; SSEF3; SSEF4; SSEF6

In this unit, you will build a basic foundation in economics. You will have opportunities to connect basic economic fundamentals to past, present, and future life choices. You will identify the benefits enjoyed and the costs incurred from past decisions. You will describe the limited nature of your own productive resources. You will analyze how your own choices reflect allocation of scarce resources.

### KEY IDEAS

- Scarcity, tradeoffs and opportunity cost (SSEF1a, c)
- Response to incentives (SSEF2c)
- Examples of productive resources (SSEF1b)
- Choices made with resources (SSEF1b)
- Resource allocation (SSEF4c)
- Rational decision making—cost/benefit analysis (SSEF2b)
- Economic systems—command, market, traditional, mixed (SSEF4a)
- Ways the various economic systems answer the 3 basic economic questions about the use of productive resources (SSEF4b)
- Role of government (SSEF5a)
- Production possibilities curve—tradeoffs, opportunity cost and economic growth (SSEF6d)
- Division of labor and specialization (SSEF3a)

### KEY TERMS

The term *economics* is flexible. It can be used when a bank decides to raise its prime lending rate or when a wheat farmer decides to plant one more bushel of wheat this year than he did last year. However, if you had to boil down economics to one definition, you would have something like:

**Economics:** a social science studying the allocation of scarce resources and goods.

**Allocate:** to distribute according to some plan or system. (SSEF4c)

**Scarce:** limited productive resources. (SSEF1a, SSEF4c)

**Productive resources:** the inputs—land (natural), labor (human), capital (physical and human), and entrepreneurship—used by a society to produce outputs. **Natural resources**, also known as **land resources**, are the gifts of nature we use to produce goods and services. **Human resources** are the people involved in the production of goods and services. People offer their time to production as well as their physical abilities, knowledge, and skills. The abilities each person brings to the production process is known as their **human capital**. **Physical capital** refers to tools, machines, and structures used over and over again in the production of goods and services. **Entrepreneurs** take risks by using their own financial resources to create new products or start new businesses. (SSEF1b)

Those outputs, which are often finished products such as hamburgers and cars, are called **goods**.

The decision to produce one good instead of another often relates to **choice** and **opportunity cost**. (SSEF1d)

**Incentives:** In economics, an **incentive** motivates individuals, businesses, and/or governments to undertake an action or avoid an action. Incentives are positive when individuals, businesses, and/or governments choose an option associated with a perceived benefit or gain. For example, an income tax credit for purchasing a home will most likely lead to more people buying homes so they can take advantage of the tax credit. Incentives are negative, sometimes called disincentives, when individuals, businesses, and/or governments avoid a particular option because they associate it with a cost that is too high. Fines and penalties for breaking laws are negative incentives or disincentives. People are less likely to break a law if they know it might cost them financially. Traditionally, economists believe individuals, businesses, and governments will respond predictably to positive and negative incentives. (SSEF2c)

Most economic situations can be discussed using the concepts of scarcity and opportunity costs. It doesn't matter if the subject is a nation or a person. Basic economic decision-making processes center on deciding how best to allocate the scarce resources at hand.

Every day, consumers and producers everywhere compare marginal benefits to marginal costs in order to make economic decisions.

**Marginal cost:** the cost of procuring one more item. (SSEF2a)

**Marginal benefit:** the benefit associated with that one additional item. (SSEF2a)

**Productivity** looks at the relationship between inputs and outputs. An input is something that goes into making a good. An output is the amount of a good or service produced. (SSEF6a)

Investment in human capital, physical capital, and new technology are ways to increase economic growth.

**Human capital** is the economic value of an employee's skill set. Investing in human capital can be done through education, training, and enhanced benefits. Investing in human capital by companies or by governments can lead to a higher standard of living. **Physical capital** is one of the factors of production. It includes man-made goods that assist in the production process, such as machinery or buildings. Investments in physical capital as well as technology can lead to economic growth. (SSEF1b, SSEF6b, SSEF6c)

A **production possibilities curve** is used to show the maximum combination of goods and services that can be produced from a fixed amount of resources. The production possibilities curve can show **trade-offs**. Trade-offs are what was exchanged for the use of something else. The production possibilities curve shows the opportunity cost of any trade-offs made. (SSEF6d)

**Economic growth** is increasing production of goods and services over time. Economic growth can be shown by an outward shift of the production possibilities curve. **Economic efficiency** has to do with how well factors of production are allocated to uses desired by consumers and how they are used in production to keep costs low. (SSEF6)

A **rational decision making model** is a multistep process for choosing between two or more alternatives. Some steps of the rational decision making model include: identifying the decision, establishing criteria for making the decision, identifying and evaluating alternatives, predicting outcomes, and concluding with implementation and evaluation of the option selected. (SSEPF1a)

**Specialization** allows people to concentrate on a single activity or area of expertise. For an entire society, specialization helps boost overall productivity and leads to an efficient use of resources. People gain knowledge and skills in a certain area, which allows them to do that job better than other non-specialists. This specialized knowledge might allow them to build a product faster, increasing output. It could also allow them to complete something that others could not even attempt. Either way, specialization expands the efficiency of a society and usually helps boost overall production ability. Furthermore, this "skilled labor" can charge more for their services, which allows individual wealth to increase. An assembly line utilizes the benefits of specialization by allowing individual workers to concentrate on a certain task. As each of these workers gains experience in one particular part of the production process, the entire factory

is able to produce more without increasing the number of workers it employs or the time each employee spends on the job. This is also known as **division of labor**. (SSEF3a)

The United States is primarily a **market-based system**, but this is not the only economic system being used in the world today. All economies must answer three questions: what to produce, how to produce, and for whom to produce. The following provides a brief description of four major economic systems.

### Major Economic Systems (SSEF4a, b)

**1. Market:** This is also called a **capitalistic** or **free-market** system. In a market system, private individuals and firms control all resources, and the price and quantity of all goods are determined by the interaction of demand and supply in unrestricted, open markets. Ownership of property and goods is determined in the private sector, and the government does nothing to interfere with any market. Instead, this system relies on the belief that a market system naturally leads to efficient results (called the “invisible hand”) that theoretically correct any inequalities in resource allocation. The United States is very market oriented, but it is not a purely capitalistic system. In a market system, it is easy to open a new business. Customer tastes drive which goods and services will be produced. There is a high level of competition in a market system. Competition incentivizes firms to lower prices, increase quality, and/or use resources more efficiently.

**2. Command:** A command economy is the opposite of a market economy. In this case, the government commands all markets, determining what to produce, how to produce, and for whom to produce. Centralized planning committees take into account all the resources a nation has to offer (labor, land, and capital) and then set up an economic system to produce this predetermined mixture of goods and services. Since the government is in charge of everything, citizens should all receive equal amounts of basic goods and services. In theory, this means that there should be no problems with high unemployment or poverty. In a command economy, the government is meant to provide for the welfare of its citizens. Because the government makes all economic decisions, there is little opportunity or reward to pursue individual economic success. There is little to no competition among individual firms so there is little incentive to innovate, increase quality, or lower prices.

**3. Mixed:** While the command and market economy describe theoretical concepts of how an economy might function, in the real world most economies blend two or more systems together. For instance, while China is considered a command economy, it has rapidly begun to incorporate many aspects of a market structure into its economy. Likewise, while the United States is considered to have one of the most capitalistic economies in the world, the government still intervenes in some markets. Therefore, there is a third economic system known as a mixed economy. Individuals, firms, and the government all have the right to own property. Laws determine how disputes about property are resolved. Entrepreneurs can freely start businesses. Businesses produce goods that consumers want. Competition is encouraged in a mixed economy, unless there is a compelling reason to allow a monopoly. Businesses have to follow laws set by the government and may be required to acquire licenses and to complete other government paperwork before opening.

**4. Traditional:** In a traditional economy, economic decisions are made based on history and tradition. The goods and services provided by people are most likely the same goods and services their ancestors provided to people. Production and distribution of goods and services are based on how past generations made and distributed goods. The consumer will have little control in what is produced. Even as consumer preferences change or as new producers enter the market, the economy will continue to operate in the same manner as it has in the past. Traditional leaders, like councils of elders or tribal chiefs, will most likely resolve business disputes between members of the community. Their decisions will be based on how these disputes were solved in the past.

There are many different ways economic systems can allocate scarce resources. The following describes some ways to allocate these resources:

- **Price:** allows the forces of supply and demand to determine market price of goods, services, and factors of production.
- **Majority rule:** occurs when a group of people who have control over a good, service, or factor of production vote to decide how the good, service, or factor of production will be distributed.
- **Contests:** an allocation strategy where the “winner” gets the good, service, or factor of production.
- **Force:** giving or taking away productive resources by using threats.
- **Sharing:** the owner of the good, service, or factor of production determines who and how to distribute them.
- **Lottery:** also known as random selection. A lottery gives everyone who wants a good, service, or factor of production equal odds of achieving it.
- **Authority:** when the decisions about who gets to obtain a good, a service, or a factor of production are made by the person or group in power.
- **First-come-first-served:** an allocation strategy that allows people to receive a good, service, or factor of production if they get there first or are one of the people close enough to the front of the line to receive the good, service, or factor of production before they are all gone.
- **Personal characteristics:** an allocation strategy that allows resources to be distributed based on a need or merit. Ideally the person who gets the good, service, or factor of production will be the one who puts it to the best use. (SSEF4c)

## SAMPLE ITEMS

### Item 1

#### Selected-Response

##### Opportunity cost means individuals

- A. pay sales taxes to make a purchase.
- B. replace land and labor with capital resources.
- C. make purchases that require them to consider the environmental impact.
- D. make decisions that require them to give up the next best alternative.

### Item 2

#### Selected-Response

##### Use the scenario to answer the question.

Consumers make rational decisions about what they purchase every day. For example, Esther went to the supermarket to buy apples to make two pies. She needed at least five apples for each pie. Golden Delicious apples cost 25 cents each; a bag of 16 Golden Delicious apples costs \$3.25. She bought the bag of Golden Delicious apples, even though she would have six apples left after making the pies.

##### Which statement BEST describes Esther's choice?

- A. Esther decided the marginal benefit of having six more apples exceeded the marginal cost of paying 75 cents extra.
- B. Esther decided the marginal benefit of having six more Golden Delicious apples did not exceed the marginal cost of paying 75 cents extra.
- C. Esther compared the price per apple and decided the most expensive apples would be the best to buy, so she bought the bag.
- D. Esther compared the prices of the individual apples and the bag of apples and bought exactly the number of apples she needed to make two pies.

**Item 3****Multi-Select Technology-Enhanced**

**A local grocery store has decided to charge customers for bags. Which TWO statements describe how customers will MOST LIKELY respond to this change?**

- A.** Customers will buy more goods in bulk.
- B.** Customers will purchase more goods.
- C.** Customers will visit the store more often.
- D.** Customers will shop at other grocery stores.
- E.** Customers will bring reusable bags to the store.
- F.** Customers will exclusively use grocery delivery services.

## ACTIVITY

### Production Possibilities Curve

**Standard:** SSEF6d

To better understand trade-offs, opportunity cost, growth, and efficiency, you will create a production possibilities curve using the information below. After you created your graph, you will use your graph and the scenarios listed to explain trade-offs, opportunity cost, growth, and efficiency to a classmate, friend, or family member.

Step 1: Plot the data for the graph. This data represents the maximum combinations of goods and services that can be produced from a fixed amount of resources at a specific time. The number of rings should be represented by the y-axis and the number of bracelets will be represented by the x-axis. Each point should be labeled. This curve should be labeled  $P_1$ .

Point	Number of Rings	Number of Bracelets
A	25	0
B	20	5
C	15	10
D	10	15
E	0	20

Step 2: Use your production possibilities curve to do the following.

- Identify the number of rings and bracelets that would be an unattainable production combination for this company. Label this point F.
- Identify the number of rings and bracelets that represent inefficient production. Label this point G.
- Identify the trade-off of producing 15 bracelets.
- Identify the opportunity cost of moving from Point D to Point E.
- The company has added some human resources and capital resources which will increase production. Plot the new points on your graph and label it  $P_2$ . Describe what this new curve represents.

Point	Number of Rings	Number of Bracelets
H	30	5
I	25	10
J	20	15
K	15	20
L	5	25

- Share your graph with a classmate, friend, or family member.



## UNIT 3: MICROECONOMICS

### SSEF5; SSEMI1; SSEMI2; SSEMI3

In this unit, you will demonstrate your knowledge of microeconomic concepts. You will learn what motivates trade and why businesses and individuals specialize in a specific skill. You will learn how decisions made by one person, business, or group affect others and how scarcity drives decision-making. You will also learn that many people or parties respond predictably to both positive and negative incentives.

### KEY IDEAS

- Desire to trade/voluntary exchange (SSEF3b)
- Circular flow diagram (SSEMI1a)
- Role of money as it facilitates the circular flow (SSEMA2a)
- Law of supply and law of demand (SSEMI2a)
- Role of prices as incentives (SSEF2c)
- Role of profit as incentive (SSEF1c)
- Determinants of supply and demand (SSEMI2e, f)
- Equilibrium (SSEMI2c)
- Disequilibrium caused by price controls—price floors and price ceilings (SSEMI2g)
- Competition and market structures (SSEMI3b)
- Deciding on a business organizational structure (SSEMI3a)
- Externalities, market failures and government intervention (SSEF5a, b)

### KEY TERMS

**Microeconomics:** the study of people and businesses within a single market. This small focus—on only one particular market—is one way microeconomics (literally “small economics”) is different from **macroeconomics** (“large economics”).

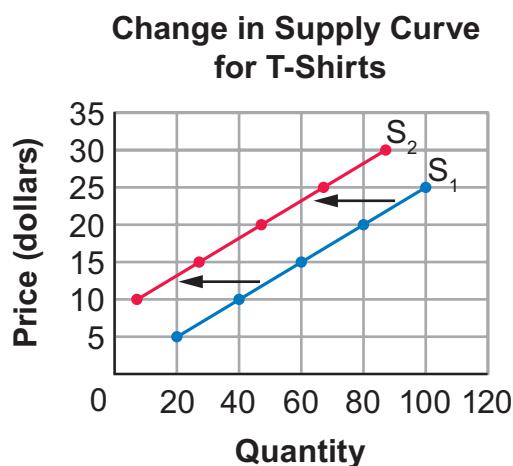
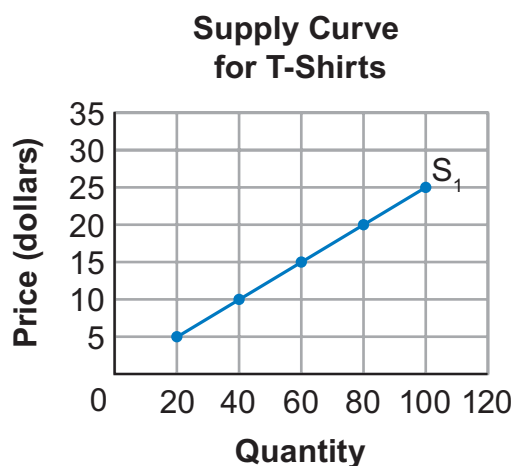
**Law of supply:** an economic principle stating that as price rises, the quantity a seller is willing and able to sell increases. (SSEMI2a)

**Law of demand:** an economic principle stating that as the price of a good rises, the quantity of the good consumers are willing and able to buy decreases. (SSEMI2a)

Prices are rarely stable over a long period of time. Many factors can affect the supply or demand curves within a market. Here are some of the factors that can affect the price and quantity of a good.

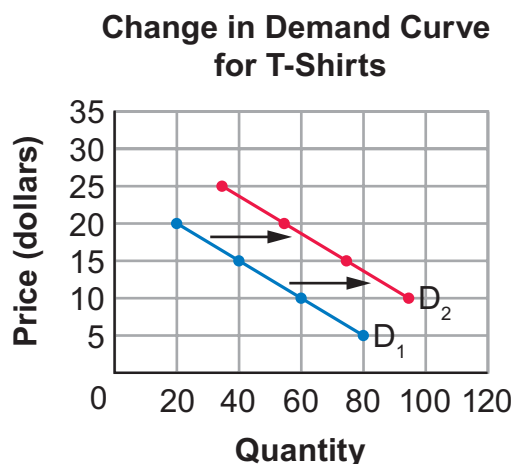
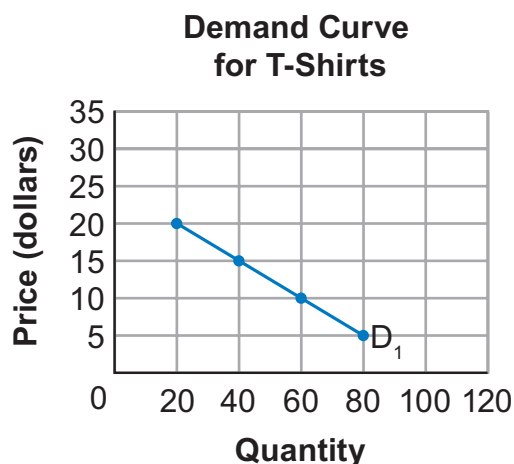
## Determinants (Shifters) of Supply

- **Changes in . . .**
  - **Costs of productive resources**—When input prices rise, producers must spend more of their revenue to buy the inputs and therefore are forced to reduce their supply of the good because of the greater expense associated with the input. When input prices become cheaper, sellers can increase their supply because it is cheaper to produce their product.
  - **Government regulations**—If more taxes are imposed, most businesses will not be willing to supply as much as before.
  - **Number of sellers**—The supply of a particular good may increase or decrease because of change in the number of sellers in the market for a good.
  - **Producer expectations**—When sellers believe the price for a good will go lower in the future and they can increase their supply now, they will sell all they can before the price decreases. If they believe prices will go up in the future and they can delay the sale of their goods, they will supply less of the good now and wait for the price increase.
  - **Technology**—Technological improvements in the tools or processes used to make goods and services increase the supply of those goods and services. New technology eventually makes production cheaper.
  - **Education**—A better-educated and better-trained workforce should be able to produce more goods in less time. This should lower costs and increase supply.
- A shift of the supply curve to the left indicates a decrease in supply. A shift of the supply curve to the right indicates an increase. (SSEMI2e)



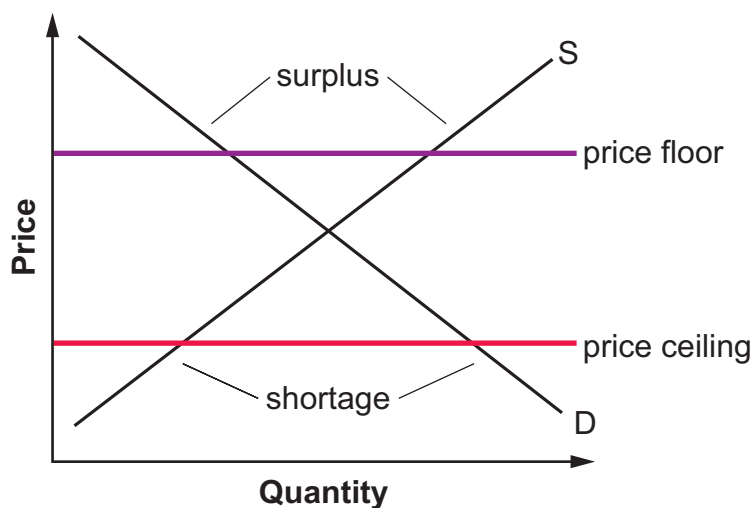
## Determinants (Shifters) of Demand

- **Changes in . . .**
  - **Related goods**—Based on the law of demand, we know that when the price of a good rises, consumers will buy less of that good. If the price of a complementary or related good changes, this could change the demand curve.
  - **Income**—When a large number of consumers in the market for a good experience a change in income, the entire demand curve may shift.
  - **Consumer expectations**—When consumers believe a change in price will occur, they may hold off on purchasing the good until the price drops or buy more of the good before the price rises.
  - **Preferences/tastes**—When a large number of consumers experience a change in preference toward or away from a good, the demand will change.
  - **Number of consumers**—The demand for a good may increase or decrease depending on the number of people in the market for the good.
- A shift of the demand curve to the left indicates a decrease. A shift of the demand curve to the right indicates an increase. (SSEMI2f)



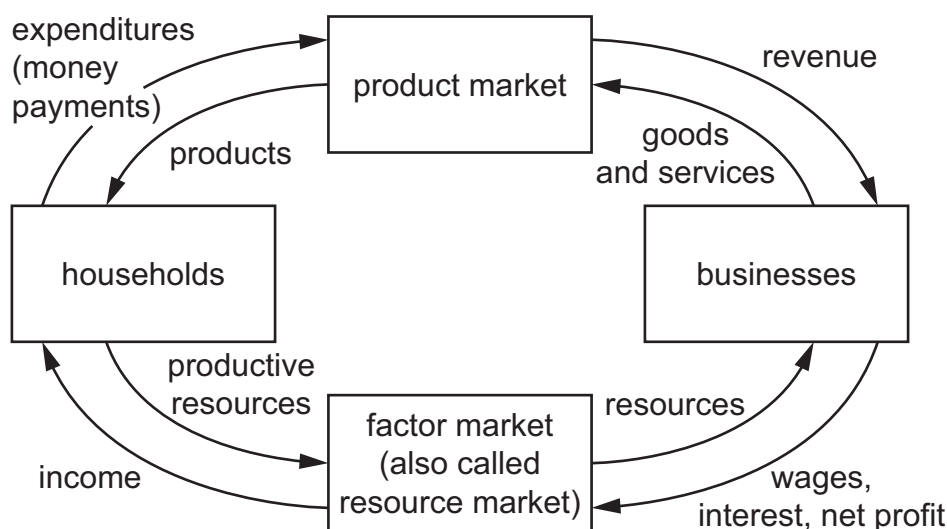
**Equilibrium price** or **market clearing price** is found at the intersection of the market demand and supply curves. It is the point at which the quantity demanded by consumers is equal to the quantity supplied by producers. (SSEMI2c)

A government may set a price floor or price ceiling on a good or service. A **price floor** sets a minimum price for which a product can be sold. Price floors often lead to a surplus of a good. An example of a price floor is a minimum wage. A **price ceiling** sets a maximum price at which a good can be sold. A price ceiling often leads to a shortage. An example of a price ceiling would be rent control. (SSEMI2g)



When buyers and sellers freely and willingly engage in market transactions, it is known in economics as **voluntary exchange**. The transactions are made in such a way that both the buyer and seller benefit from the exchange. (SSEF3b)

The **circular flow diagram** shows the interactions between buyers and sellers in different markets. Here is one example of a circular flow diagram.



**Households in the factor market** own productive resources. They sell land, labor, and capital to businesses in the factor market in exchange for **income**. **Households in the product market** are the consumers of goods and services. They use their income to buy goods and services from businesses. **Businesses (firms) in the factor market** consume productive resources (land, labor, capital, and entrepreneurship). **Businesses (firms) in the product market** produce the goods and services purchased by households. The money received by businesses from households is revenue. (SSEMI1a, b)

There are many different types of business organizations, and each type has its advantages and disadvantages.

1. **Sole proprietorship:** A sole proprietorship has a single owner. (SSEMI3a)
2. **Partnership:** A partnership divides up the risk and reward among a group of people. (SSEMI3a)
3. **Corporations:** Corporations issue stock, and anyone who owns stock in the corporation owns a portion of that corporation. (SSEMI3a)

**Monopoly:** a market structure in which a commodity is supplied by one firm. (SSEMI3b)

**Oligopoly:** a market structure of imperfect competition in which an industry is dominated by a small number of suppliers. (SSEMI3b)

**Monopolistic competition:** a market structure in which there are a large number of sellers who are supplying goods that are close, but not perfect, substitutes. Sellers have a degree of control over price. There are few long-term barriers of entry and exit. (SSEMI3b)

**Pure (perfect) competition:** a market structure in which there are a large number of sellers who are supplying goods but not a large enough number to set the price of the goods. There are no barriers of entry and exit. (SSEMI3b)

Governments in the United States provide **public goods and services** only when there is a reason that the private market is unable to provide that good or service at a level that would benefit society. Public goods and services are usually paid for through the collection of taxes. Public goods are “shared consumption” goods. This means that when one person uses the good it does not lessen the value of the good for another person. They also are non-exclusionary. This means that it is difficult to prevent someone from enjoying the benefit from that good even though they are unwilling to pay for that good. (SSEF5a)

Sometimes governments choose to **redistribute income**. This means using the tax money from one group and giving it to other groups. Social welfare payments and unemployment compensation are examples of the government redistributing income. (SSEF5a)

The government is also responsible for the protection of **private property rights**. If consumers or businesses are uncertain that they will be able to hold on to their physical or intellectual property, they are less likely to purchase goods or invest in or expand their business. Private property rights are protected by intellectual property laws, such as patents and copyright laws. Deeds for property and titles for cars are examples of how physical property is protected by the government. (SSEF5a)

**Market failures** occur when the private market is unable to produce goods and services in a way that the marginal benefit to society from the production of the good is equal to or greater than the marginal cost to society for producing the good. **Externalities** are a type of market failure. They occur when a third party other than the consumer or producer of a good is hurt or benefits from the production or consumption of that good. Another type of market failure is **market power**. Market power refers to a market failure resulting from the formation of monopoly and oligopoly market structures. (SSEF5a)

**Government regulation** takes many forms. Some regulations protect citizens from corporate abuse. Other government regulations help businesses recover from external problems by offering money to help offset an unforeseen disaster. **Deregulation** is the reduction or elimination of government power in an industry. Deregulation may help increase competition, which could improve business profits and reduce costs for consumers. (SSEF5b)

## SAMPLE ITEMS

### Item 4

#### Selected-Response

Which of these describes a characteristic of a monopoly?

- A. few barriers of entry
- B. rarely affected by government regulations
- C. strong control over price
- D. face strong competition for customers

### Item 5

#### Selected-Response

Read the scenario.

Juanita and Sarah made 100 T-shirts with a picture of their school's basketball team to celebrate winning the division championship. They initially sold the T-shirts for \$5 each. The T-shirts began selling quickly. Juanita and Sarah realized that \$5 a shirt would not cover their costs, so they raised the price to \$8 a shirt. As a result, sales declined and they had 20 unsold T-shirts at the end of the year.

Which term **BEST** describes what happened when Juanita and Sarah raised the price of the T-shirts?

- A. law of supply
- B. law of demand
- C. opportunity cost
- D. comparative advantage

### Item 6

#### Selected-Response

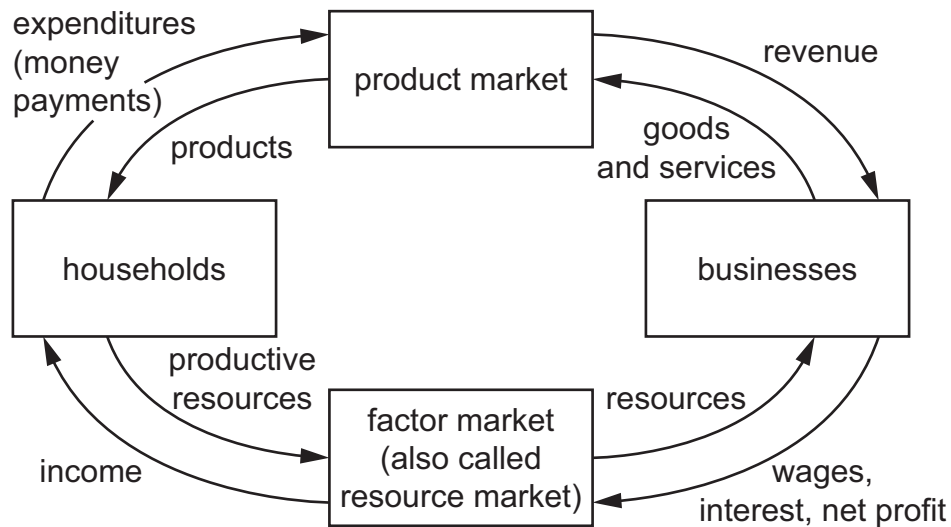
In the U.S. economy, a few firms dominate the wireless telephone provider industry. Which type of market structure does this represent?

- A. oligopoly
- B. monopoly
- C. pure competition
- D. monopolistic competition

## Item 7

## Multi-Part Technology-Enhanced

Use the diagram to answer the questions.



## Part A

What benefit do households provide for businesses?

- A. They supply consumers and workers.
- B. They dictate the supply of certain goods.
- C. They develop scarce resources for business use.
- D. They help businesses save money by looking for bargains.

## Part B

Which interaction illustrates the flow of services between a household and a business?

- A. A city operates and maintains public parks.
- B. A discount store establishes a clearance aisle.
- C. A disabled worker draws benefits from the government.
- D. A pizza business provides delivery for an additional fee.

## Item 8

### Selected-Response

**Which statement BEST describes the role of the government in a mixed economic system?**

- A.** It dictates what is to be produced.
- B.** It determines for whom goods are to be produced.
- C.** It restricts the industrial purchases of raw materials.
- D.** It monitors the safety of goods and services through regulatory agencies.



## ACTIVITY

### Supply and Demand

#### Standard: SSEMI2

To better understand the laws of supply and demand, you will create a graph showing supply and demand for a product using the supply and demand schedules below. After you have created your graph, use your graph to explain to a classmate, friend, or family member how the shifters of supply and demand will affect the curves.

Step 1: Plot the data from the supply schedule below on a graph. The supply schedule shows the quantity available at each price. Supply curves are always upward sloping because when prices are higher, firms produce more goods. The y-axis is price, and the x-axis is quantity.

Step 2: Connect the plots to see your supply curve.

Step 3: Add the demand schedule below to the graph on which you plotted the supply curve. The demand schedule shows the quantity that will be demanded at every price level. Demand curves are always downward sloping because consumers buy less as the price goes up.

Step 4: Connect the plots to see your demand curve.

#### Supply Schedule for T-Shirts    Demand Schedule for T-Shirts

Quantity	Price (\$)
0	0
20	5
40	10
60	15
80	20
100	25

Quantity	Price (\$)
100	0
80	5
60	10
40	15
20	20
0	25

Step 5: Now share your graph with someone you know. First, select a determinant of supply (i.e., changes in costs of productive resources, government regulations, number of sellers, producer expectations, technology, or education) and explain how the determinant of supply will affect the supply curve. Be sure to include what will make the supply curve shift to the left and to the right. Now, select a determinant of demand (i.e., changes in related goods, income, consumer expectations, preferences/tastes, or number of consumers) and explain how the determinant of demand will affect the demand curve. Be sure to include what will make the demand curve shift to the left and to the right.

## UNIT 4: MACROECONOMICS

### SSEF5; SSEF6b, c; SSEMA1; SSEMA2; SSEMA3

In Unit 4, you will study the fundamental concepts of macroeconomics. You will analyze how various tools of fiscal and monetary policy can be used to improve economic performance. You will discuss the impact of fiscal and monetary policies, the trade-offs policy makers must consider, and how different policy options increase or reduce the national deficit/debt. You will discuss how a nation's economic system and its prioritization of social economic goals will influence policy options as well as the type of, and distribution methods for, public goods and services.

### KEY IDEAS

- Government distribution of goods and services (SSEF5a)
- Macroeconomic measures—GDP, inflation (CPI) and unemployment (SSEMA1b)
- Types of unemployment (SSEMA1e)
- Unanticipated inflation—real vs. nominal (SSEMA1d)
- Business cycle and relationship to unemployment (SSEMA1f)
- Aggregate demand and aggregate supply (SSEMA1c)
- Fiscal policy (SSEMA3a)
- Taxing decisions and impact on GDP through households and businesses (SSEMA3b)
- Deficits/surpluses and long-run debt (SSEMA3c)
- Functions of money (SSEMA2a)
- Federal Reserve system (SSEMA2b)
- Tools of the Federal Reserve and monetary policy (SSEMA2d, e)
- Productivity and economic growth (SSEMA1a)

### KEY TERMS

**Macroeconomics:** a term meaning “large economics” that covers large-scale economic issues. While a single company has employees, a nation has a national employment rate. While a single firm produces a set of goods or services, a nation has a Gross Domestic Product (GDP), which is the sum of *all* goods and services produced.

#### Key Economic Indicators (SSEMA1b, c, f)

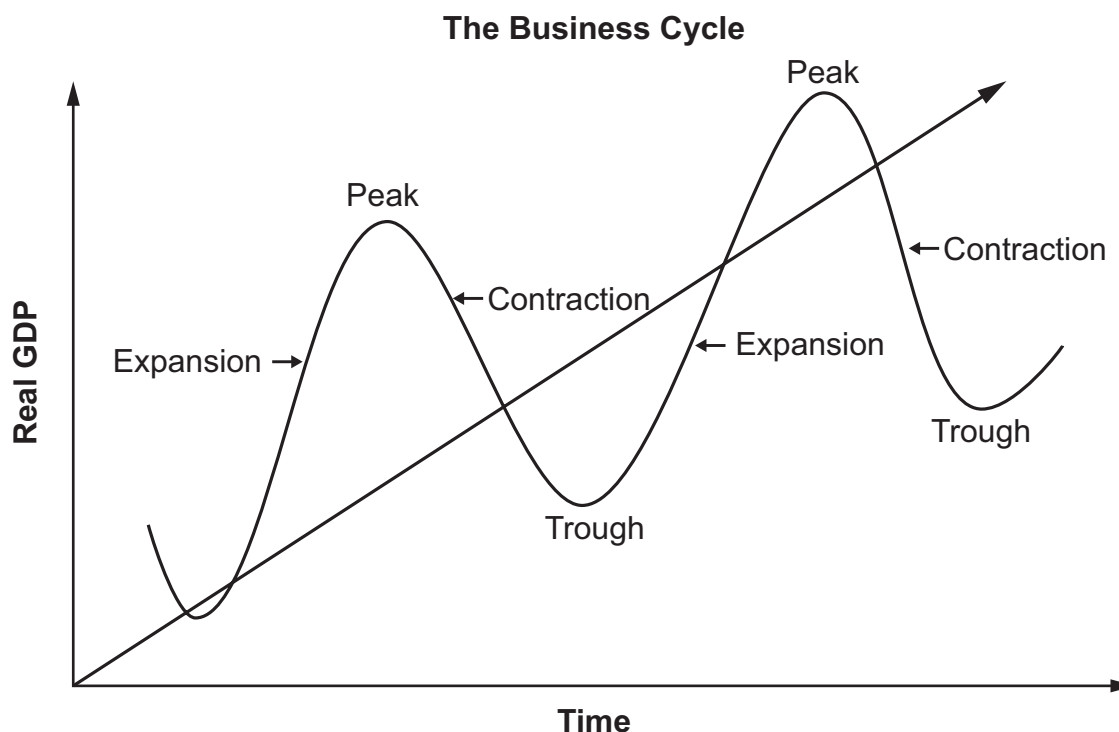
- **Gross Domestic Product (GDP):** refers to the total market value of all final goods and services produced within a country in a given time period. The Gross Domestic Product (GDP) is the sum of consumer spending, investment in business, government expenditures, and net exports.
- **Net Exports:** refers to the value of a country's exports minus the value of a country's imports in a given time period.
- **Inflation:** a rise in the price level.
- **Consumer Price Index (CPI):** the average price of a market basket of goods used to measure inflation.
- **Aggregate supply and demand:** macroeconomic ideas that parallel supply and demand in microeconomics. Total demand for goods and services within a nation combines to form **aggregate demand**, while the total supply of goods and services within a country is its **aggregate supply**.

### Forms of Unemployment (SSEMA1e)

1. **Structural:** Structural unemployment occurs when someone has job skills that no one wants or when a company wants to hire someone but can't find anyone who has the required skills.
2. **Frictional:** Unemployed people don't always take the very first job they can find. They often wait to find a job that fits their talents and preferences. While they search for a job that is a good fit, these people are frictionally unemployed.
3. **Cyclical:** Most economies encounter cyclical periods of growth and recession. People who are laid off as a result of a contracting economy are cyclically unemployed.
4. **Seasonal:** Some people are unemployed at certain times of the year because of the industry they are in. There is a limited need for some work to be performed year round, such as lawn care.

**Business cycle:** The economy goes through a cycle of expansion and contraction. (SSEMA1f)

- **Peak:** the highest point in the business cycle, marking the end of an economic expansion and the start of a contraction in the business cycle.
- **Contraction:** a stage in the business cycle in which the economy as a whole is in decline.
- **Trough:** the lowest point in the business cycle, marking the end of an economic contraction and the start of a recovery.
- **Recovery:** a stage in the business cycle that signals the beginning of economic growth and the end of a recession.
- **Expansion:** a stage in the business cycle in which the economy as a whole grows until it reaches a peak.



**Recession:** a decrease in total output that lasts for at least two consecutive quarters of a year.

**Depression:** a long downturn in economic activity in one or more than one economy.

## The Federal Reserve System

In 1913, Congress created the **Federal Reserve System** to act as the nation's central bank. The Federal Reserve System consists of 12 different banks located throughout the United States. Each bank covers a different district and has the right to print United States currency. The Federal Reserve System (also called the Fed) influences **monetary policy** for two main reasons. It wishes to maintain price stability and full employment. The Fed achieves these goals by buying and selling government securities in the open market. For example, suppose the Fed believes that a rapidly growing economy will cause inflation. To deter inflation, the Fed will sell securities at prices low enough to guarantee someone will buy it. This influx of securities causes bond prices to fall and interest rates to rise. Higher interest rates discourage business investment and consumer spending, which reduces real GDP and in turn slows economic growth and curbs inflation. If the Federal Reserve wanted to stimulate the economy to reduce unemployment, it could buy securities on the open market. (SSEMA2d, e)

The Federal Reserve can also manipulate the **discount rate**, which is the interest rate that the Fed charges on loans it makes to banks. (The Fed is like a banker's bank in many ways.) Altering this rate affects whether banks take loans from the Federal Reserve Bank. For example, a low discount rate encourages banks to borrow money, leading to more loans, which ultimately means more money in the economy. The Federal Reserve can influence the money supply by changing the **reserve requirement**. A lower reserve rate means banks can loan out more money. Finally, the Federal Reserve pays interest on the required reserves as well as the excess reserves of financial institutions. These financial institutions must determine whether they can earn more profit by loaning this money out to customers or by earning interest from the Fed by keeping the excess reserves. If the Fed changes the amount of interest earned on reserves it changes the incentives for institutions to keep or to loan out the money. (SSEMA2d, e)

The operations of the Federal Reserve is directed by the **Board of Governors**. It supervises the 12 Federal Reserve banks and regulates some activities of member banks. The **Federal Open Market Committee (FOMC)** has 12 members and meets throughout the year to make economic decisions such as whether to raise or lower interest rates. (SSEMA2b)

## Fiscal Policy

There is a difference between a government's fiscal policy and its monetary policy. **Monetary policy** refers to changes in the money supply of a nation in order to influence its economy. The actions taken by the Fed are monetary policies. **Fiscal policy** refers to expenditures, taxes, and borrowing made by a government in order to influence an economy. (SSEMA2c, SSEMA3a)

In addition to using monetary policy to influence the economy, the federal government can affect the national economy through taxes, expenditures, and borrowing. To boost GDP, the government can reduce taxes. This would encourage most consumers to purchase more because the government is taking a smaller portion of their income. When consumers spend more, producers increase their output and the GDP increases. Another way to increase GDP would be to increase government spending. (SSEMA3b)

A **deficit** occurs in the federal government's budget when the tax revenue received for a given fiscal year is less than the amount of spending done by the government during that year. The **national debt** for a country is the accumulation of annual deficits over the years plus any interest accrued on the money borrowed. A budget **surplus** exists when the amount of income received exceeds the amount of expenses paid. (SSEMA3c)

## Role of Money

Money in the United States economy primarily refers to the coins, currency, and checkable (demand) deposits available to consumers and producers to make purchases. This is known as the M1 definition of money which is the definition of money used for the money function “**medium of exchange.**” When we use money as a medium of exchange, we are using it to facilitate transactions. Households and businesses are willing to accept money as payment for resources and goods because they believe they will be able to use it for purchases in the future. Money can also serve as a **store of value.** You can sell something, such as your labor, and then save that money to buy something later. Money also functions as a **unit of account/standard of value.** The role of money as a unit of account/standard of value means money can be used to compare the values of goods and services in relation to each other. (SSEMA2a)

## **SAMPLE ITEMS**

### **Item 9**

#### **Selected-Response**

**Which statement BEST describes monetary policy and fiscal policy?**

- A.** Monetary policy reflects the Federal Reserve's authority to change the money supply; fiscal policy reflects the government's power to influence the economy through taxes, expenditures, and borrowing.
- B.** Monetary policy reflects the Federal Reserve's authority to change tax rates; fiscal policy reflects the government's power to influence the money supply by lowering the discount rate for loans to banks.
- C.** Monetary policy refers to the Federal Reserve's influence in the economy through borrowing and creating a deficit; fiscal policy refers to the government's authority to increase spending.
- D.** Monetary policy refers to the Federal Reserve's authority to increase spending; fiscal policy refers to the government's authority to increase the discount rate for loans to banks.

### **Item 10**

#### **Selected-Response**

**If the Federal Reserve wanted to stimulate the U.S. economy and reduce unemployment, it would**

- A.** cause interest rates to decrease because low interest rates encourage business growth and expansion.
- B.** cause interest rates to rise because high interest rates encourage business growth and expansion.
- C.** increase the discount rate it charges banks, which would increase the money supply.
- D.** increase consumer spending by reducing the money supply.

## UNIT 5: INTERNATIONAL ECONOMICS

### SSEIN1; SSEIN2; SSEIN3

In Unit 5, you will study the fundamental concepts of international economics. You will analyze how various trade policies, barriers, and agreements cause individuals, firms, and nations to respond in predictable ways. You will discuss how decisions made by one trading partner cause intended and unintended consequences for others and how international exchange rates affect the balance of trade between nations. You will apply the law of comparative advantage to their nation's production and specialization decisions. You will also evaluate the costs and benefits of their trading relationships and explain why and how various productive resources must often be redirected to other industries when new trading relationships develop.

### KEY IDEAS

#### Incentives

- Absolute and comparative advantage—specialization (SSEIN1a)
- Reasons for trade and balance of trade (SSEIN1b, c)
- Arguments for and against free trade (SSEIN2d)
- Trade barriers and protectionism—impact on households and businesses (SSEIN2a, b)
- Trading blocs (SSEIN2c)
- Exchange rates—who benefits and who is hurt (SSEIN3)

### KEY TERMS

A good way to think of Unit 5 is “macro-macroeconomics.” While microeconomics covers the interaction of a single market and macroeconomics views the larger national picture, international economics views an even larger picture: how the various national economies interact to form a world economy. The growth of massive multinational corporations is one sign that the world's economy is becoming more interconnected each year. As national economies become more interconnected, international economic issues such as trade agreements and trade barriers become more important.

International trade allows a country to concentrate on what it does best and trade for what it can't or doesn't produce. In effect, trade allows a country to specialize in certain goods, which leads to more efficient production.

When a country has an **absolute advantage** over another country, it simply means that the country can produce more of a good than another country. **Absolute advantage** refers to an individual, firm, or country using the fewest inputs to produce the same amount of output or the individual, firm, or country producing the largest number of units of output given the same productive resources. (SSEIN1a)

While large countries will probably have an absolute advantage in production over smaller countries, when any two countries are producing two goods (like cars and sugar), one country will always have a **comparative advantage** over the other in the production of one of the two goods. **Comparative advantage** in production of a good or service exists when one individual, firm, or country has the lowest opportunity cost for producing the good or service. (SSEIN1a)

A **balance of trade** records the value of all goods and services exported from a country minus the value of all goods and services imported from outside the country. This is often referred to as the “**trade surplus**” (if exports exceed imports) or the “**trade deficit**” (if imports exceed exports). (SSEIN1c)



Trading blocs are formed in order to reduce barriers to trade. In theory, this will lead to lower prices for buyers (citizens) within the trading nations as well as for firms that are more competitive on the international market (because of increased competition). **The North American Free Trade Agreement, NAFTA**, is one such trading bloc; its goal is to eliminate barriers to trade—most notably tariffs—between Canada, Mexico, and the United States. **The European Union (EU)** allows for free movement of goods and workers across country borders. **ASEAN** is the Association of Southeast Asian Nations. It was established to promote economic growth, free trade, and economic collaboration between member nations. (SSEIN2c)

#### **Arguments in Favor of Free Trade** (SSEIN2d)

- Free trade increases competition, which reduces costs for buyers and improves quality of goods.
- Free trade allows for domestic goods to be sold all over the world and protects export industries.
- Free trade allows the country to exercise comparative advantage through specialization.

#### **Arguments against Free Trade, or Promoting Restricted Trade** (SSEIN2d)

- Infant industries (new industries in the early stage of development) are protected by trade barriers. This allows infant industries to grow.
- Free trade hurts domestic workers. Companies may move overseas to utilize cheaper labor and increase profits.
- Labor standards are not the same in all countries. Some countries may treat their workers poorly.
- Some industries are critical to the country's national security. These industries should be protected even if they cannot compete internationally.

#### **Barriers to Trade** (SSEIN2a)

1. **Tariff:** A tariff is a tax on an imported good.
2. **Quota:** A quota is similar to a tariff, but instead of taxing the import, a quota limits the amount of a good that is allowed into the country.
3. **Embargo:** An embargo on a particular good is like a quota set at zero; a government completely prohibits the import of that item.
4. **Standards:** Governments employ standards to ensure the safety of imported goods and to make sure that these goods comply with local laws. For example, the use of lead in paint is prohibited in the United States.
5. **Subsidy:** With a subsidy, the government makes payments to a local supplier to reduce the production costs of the supplier.

Tariffs, quotas, and other trade agreements are international trade issues that entire countries must address. For individuals, the exchange rate is one of the most important international trade issues. The **exchange rate** measures the price of one nation's currency in terms of another nation's currency. (SSEIN3a)

Exchange rates move up and down to reflect the value of one country's currency in comparison to another. If there is a great demand for U.S. products, people need more U.S. dollars to purchase these goods. This drives the demand for U.S. dollars up, causing the dollar to **appreciate**, or strengthen. At the same time, the peso has **depreciated**, or weakened, relative to the dollar. (SSEIN3b, c)



**SAMPLE ITEMS****Item 11****Selected-Response**

If the U.S. government disagrees with a foreign country's politics and wants to prevent trading with that country, the **MOST** effective action the U.S. government can take is to

- A. place high tariffs on all goods from that country.
- B. place an embargo on all goods from that country.
- C. enforce safety standards on all goods from that country.
- D. enforce a quota on all goods shipped from that country.

**Item 12****Selected-Response**

Which definition **BEST** describes the term *balance of trade*?

- A. the difference between a country's exchange rate and the value of a country's imports
- B. the value of a country's goods and services that are exported divided by its per capita income
- C. the difference between the yearly value of a country's exports and the yearly value of goods it produces
- D. the value of a country's exported goods and services minus the value of goods and services a country imports

**Item 13****Selected-Response**

What is the **MOST LIKELY** result of an increase in the value of the U.S. dollar against the Chinese currency?

- A. U.S. workers in the United States would benefit.
- B. Chinese importers of U.S. goods would benefit.
- C. U.S. consumers of Chinese goods would benefit.
- D. Chinese consumers of Chinese goods would benefit.

## ACTIVITY

### Effects of Trading Blocs

#### Standard: SSEIN2

You will investigate examples of world trading blocs such as NAFTA, the EU, and ASEAN. To identify and understand how an international trade agreement affects businesses and economic activity in people's everyday lives, you will examine the specific effect NAFTA has had on agricultural products, clothing, and technology in the United States and especially in Georgia. Pick one of the three types of products and research how NAFTA has changed production and trading of that product. Select one item in your category. For example, for agriculture, you might choose the peanut industry; for clothing, the manufacturing of an item such as T-shirts; for technology, the manufacturing of a technology product such as televisions. Include in your research how NAFTA affects Georgia's overall economy.

After completing your research, you should be able to answer the following questions:

- Prior to NAFTA, where were the products you researched produced?
- How did the growing or manufacturing of these goods in the United States affect the economy in Georgia?
- What happened to the growing or manufacturing of these goods after NAFTA was initiated, and how did that affect the economy in Georgia?
- What influence has NAFTA had on your personal spending?

After your research is complete, share your findings with a friend or a member of your family.

## UNIT 6: PERSONAL FINANCE

### SSEPF1; SSEPF2; SSEPF3; SSEPF4; SSEPF5; SSEPF6

In Unit 6, you will study the fundamental concepts of personal finance economics. You will analyze how the household can gain and lose through various forms of personal savings/investment, insurance, credit, and skill development. You will evaluate how the potential gains and losses they predict could be affected by changing economic factors.

### KEY IDEAS

- Importance of budgeting, saving, and personal investment (SSEPF1b)
- Compound interest (SSEPF4c)
- Risk vs. return of different types of personal investment options (SSEPF2c, d)
- Cost/benefit of credit (SSEPF4)
- Importance of education to future earnings (SSEPF6)
- Financial institutions and how interest is determined (SSEPF4a, b)
- Role of insurance (SSEPF5)
- Tax system and who is affected (SSEPF3)

### KEY TERMS

**Savings** are monetary deposits secured for a later, undetermined use. Money in savings might eventually be spent on groceries, a vacation, or some other form of consumption.

An **investment** is money used with the expectation of some future return or benefit.

**Interest** is money paid regularly at a particular rate. One way banks make profits is by taking the money deposited by bank customers and loaning out a portion to people who want to borrow. By charging interest on the loans, banks make money. The more money on deposit, the more loans they can make, which is why some banks offer very generous checking account services. The interest on the loans is always more than the interest paid out to depositors.

Commercial banks and other financial institutions offering loans are businesses. They must make a profit if they expect to continue operating. Banks make money by charging interest on loans. Banks are able to give loans because of the money that consumers have deposited with them. Banks encourage deposits by paying interest on money a depositor has in a savings account. The **interest charged** on loans is always higher than the **interest earned** on deposits. Banks make revenue by charging borrowers a higher rate of interest than they are paying to depositors. (SSEPF2b)

#### Types of Financial Institutions (SSEPF2a)

- **Bank:** For most consumers, banks provide a safe means to store earnings. Typically, banks also offer direct deposit (where a person's paycheck goes directly into his or her account), check-writing services, debit and credit cards, loans of all sorts (personal, home equity, business), and a host of other services. In their basic form, banks take the money deposited in them and loan out a portion of these savings to people who apply for them. By charging interest on the loans, banks make money.
- **Credit union:** A credit union provides services similar to those of a bank; the main difference is that a credit union only provides these services to its members, and these members own and control the institution.

- **Payday lenders:** A payday loan company will give out small loans in return for a portion of an upcoming paycheck.
- **Title pawn lenders:** A title pawn lender will grant loans where borrowers can use their vehicle title as collateral or as security for repayment.

### Savings and Investment Options

Some people like to take their earnings and attempt to increase their wealth through an investment. To accomplish this, they might buy government securities. These are quite safe, but they do not offer a very high return. Other types of investments are also known as securities. For example, **bonds** are regularly offered by governments and other entities (companies); by investing in them, the investor gets a promise that his or her investment will be repaid with interest. (SSEPF2d)

**Savings accounts** are bank accounts that people put money into, which they are able to access at any time. Savings accounts are insured through the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, so there is no risk, but a savings account usually has a low interest rate. (SSEPF2d)

A **certificate of deposit** is a savings certificate issued by a bank to a person depositing money for a specific length of time. The maturity date and the interest rate are fixed when the certificate is issued. (SSEPF2d)

A **retirement account**, such as a 401K, is a plan/investing tool used by people to earn and designate funds for retirement savings. These have little risk but money in the account usually cannot be used without penalty until the owner reaches a designated age. (SSEPF2d)

People who believe in the business prospects of a certain corporation can buy **stocks** in that company. In return for partial ownership of the company, the investor gives that corporation his or her money to spend. If the company does well, its stock price usually rises, which translates to an increase in the wealth of its stockholders. Some companies also pay out dividends to their stockholders, which are a portion of their profit. (SSEPF2d)

Another form of investment is the **mutual fund**, which is usually a collection of various investments (stocks, bonds, and other forms of securities). The goal of a mutual fund is to have many people pool their earnings, thereby giving these individual investors much greater purchasing power as a unit. The accrued earnings are then used to buy a range of investment options, and any earnings made by the fund are distributed among the individuals. (SSEPF2d)

Whatever the investment, in finance, with risk comes reward. People willing to invest money in riskier ventures—such as young companies in emerging fields—run a high chance of losing their entire investment, but they also stand to make the most of their investment if the venture is successful. (SSEPF2c)

**Inflation** is the increase in the price level of goods and services in an economy over time. It generally harms an individual because wages tend to rise more slowly than prices. There are a variety of factors involved. Over time, workers will demand more money to keep up with having to pay higher prices, but in the short run inflation causes an increase in prices. If this increase is not matched by a similar increase in wages, workers will find that their paycheck can no longer purchase all the items it once purchased. (SSEMA1d)

**Unanticipated inflation** hurts lenders who lend at fixed rates. Borrowers who borrow at fixed rates will benefit from unanticipated inflation. Their interest rates remain stable as prices rise, and they pay back their loans with money that has less purchasing power than the money they borrowed. (SSEMA1d)

**Credit worthiness** is a measure of a variety of factors, but it boils down to an attempt to determine whether you'll be able to pay back a loan properly. (SSEPF4a)

**Some factors that affect credit worthiness:**

- character (credit score)
- capacity to pay
- collateral

The “**Three C’s of Credit**” are **character**, **capacity**, and **collateral**. Since most lenders do not know potential borrowers personally, they evaluate a potential borrower’s character using the information on the borrower’s **credit report**. It details the past seven years of a person’s borrowing and repayment history as reported to the three main consumer credit reporting companies by a person’s previous and current lenders. A potential borrower who has “paid as agreed” on all credit accounts has good credit **character**. The credit report also shows some aspects of **capacity**. While income is one factor in assessing capacity, the amount it takes to service current debt is also a concern. If the debt-to-income ratio is high, the borrower may not be able to handle additional debt payments. Finally, **collateral** is something of value a borrower can use to back the loan if the borrower can no longer pay the scheduled payments. For example, a home mortgage is available to people with lower incomes because the bank can seize the home if the mortgage is not paid.

When you use a credit card and do not pay the balance off in full each month, you will be charged interest. If you place your savings in a savings account or other investment option, you will earn interest. The APR or **annual percentage rate** is the yearly rate charged for borrowing or the yearly rate earned through an investment. (SSEPF4b, c)

There are different types of interest rates. With a **simple** interest rate, the interest is determined annually with the *original* loan amount. With a **compound** interest rate, future interest is determined with the *existing* amount owed. Compound interest rates could lead to you owing more money in order to pay off the loan. (SSEPF4b, c)

The type of interest to be paid is determined when the loan is opened. With a **fixed rate**, the interest rate is determined when the loan is originated, and it does not change. With a **variable rate**, the interest rate fluctuates over time because it is based on an index that changes periodically. (SSEPF4b, c)

Overall, taking out a loan or using some other form of credit can be very helpful in a variety of instances. In every case, a consumer must balance the benefit of having access to additional money with the cost associated with the interest and the financial difficulties that can result from defaulting on a loan.

**Insurance**

In general, all **insurance policies** allow a person or business to pay a relatively small amount of money (a **premium**) in the present to purchase **asset protection** against the possibility of a future financial loss caused by an unforeseen event. Assets that can be protected range from one’s home to one’s health. Most insurance policies include a **deductible** that stipulates the amount of money the insured must pay when a claim is filed with the insurance company. Purchasing insurance involves **shared liability** between the insurer and the insured.

**Automobile insurance** is required by most states. At a minimum you need liability insurance to pay for the other vehicle(s) when you are at fault for an accident. You can purchase more insurance that will cover your own car in case of an accident. **Health insurance** is designed to pay for medical costs; **disability insurance** provides people with income in case they become injured or are unable to work at a job; **life insurance** provides a monetary payment when the insured person dies; and **property insurance** such as homeowners insurance pays for damages sustained to your real estate and for injuries to others that happen on your property. Another type of property insurance is renters insurance. It protects your personal property assets when you live in a rental property instead of a home you own. (SSEPF5a, b)

### Factors That Affect Earnings

In general, the two factors that can boost the wages of a particular job are demand for that service and the training requirements needed for the job. High demand raises wages because it allows the limited supply of labor force in that area to ask for more money and get it. Additional training (educational or job specific) frequently raises wages and standards of living.

There are some skills or traits that will help you find success in the workplace, regardless of occupation. These include having a positive work ethic, punctuality or being on time, time management, teamwork, communication skills, and good character. (SSEPF6a, b)

### Taxes

A **progressive tax** is a tax rate that increases as income increases, meaning the wealthy pay a higher percentage of their earnings than people less financially well-off. (SSEPF3a)

A **regressive tax** is a tax rate that decreases as income increases. (SSEPF3a)

A **proportional tax**, also known as a flat tax, does not change with respect to changes in income. (SSEPF3a)

A **property tax** is the taxation of the value of real property (buildings and land) and personal property (stocks, bonds, etc.). This tax is collected at the state and local level. (SSEPF3c)

Like the different types of income taxes, a change to the **sales tax** affects different income groups in different ways. Since all consumers purchase essential goods like food, a high sales tax on food would affect poor people more than wealthy people because both groups will be paying the same tax rate for the same good. For this reason, economists usually classify sales tax as a regressive tax because it takes a greater percentage of income from a low-income person than from a high-income person. (SSEPF3b)

**SAMPLE ITEMS****Item 14****Selected-Response**

Fifteen-year-old Calvin has inherited \$3,000 from an aunt. He wants to invest in an option that has a very low risk but still increases the amount of money. He doesn't plan to access the money until he attends college in two years.

Based on Calvin's requirements, in which option would he MOST LIKELY invest?

- A. precious metals
- B. corporate stocks
- C. a savings account
- D. a certificate of deposit

**Item 15****Selected-Response**

A bank charges 6% interest on personal loans and pays 3% interest on individual savings accounts.

Why is there a difference in the two amounts of interest?

- A. The bank wants to make a profit.
- B. The government regulates interest rates.
- C. The bank wants to encourage people to save.
- D. The government allows a system of credit buying.

**Item 16****Selected-Response**

When Jason bought a car and went to register it with the state Department of Motor Vehicles, he needed to show proof of insurance. What kind of insurance did Jason need to have?

- A. disability insurance
- B. automobile insurance
- C. health insurance
- D. life insurance

### Item 17

#### Selected-Response

Which trait do **MOST** employers look for when hiring new employees?

- A. punctuality
- B. a fashionable wardrobe
- C. an outgoing personality
- D. financial independence

### Item 18

#### Multi-Select Technology-Enhanced

Use the scenarios to answer the question.

Scenario 1: banks that loaned money at a fixed rate
Scenario 2: people on a limited income
Scenario 3: farmers with fixed-rate mortgages
Scenario 4: businesses that profit from credit sales
Scenario 5: convenience stores that sell staple goods
Scenario 6: thrift stores that sell refurbished or used goods

Which **TWO** scenarios would be **MOST** negatively affected by unanticipated inflation?

- A. Scenario 1
- B. Scenario 2
- C. Scenario 3
- D. Scenario 4
- E. Scenario 5
- F. Scenario 6



**Item 19****Multi-Part Technology-Enhanced**

Use the information in the box to answer the questions.

A few years ago, Lori started a small software company. Sales have been steady and the company is considering expanding, but Lori has had trouble hiring and keeping skilled employees.

**Part A**

**Which action would be the BEST way for potential employees to increase their chances of getting a job at Lori's software company?**

- A. invest in more education or additional training
- B. specialize in one aspect of production or service
- C. buy stock in the company through payroll deductions
- D. purchase the products or services the company develops

**Part B**

**If Lori wants to develop a more efficient work force, which action would MOST LIKELY help her company accomplish this goal?**

- A. increase salaries for supervisors
- B. reduce employee hours and tasks
- C. install more safety and convenience features at the business site
- D. provide employees with professional development opportunities

## ACTIVITY

### Government Bonds

#### Standard: SSEPF2

To understand the investment possibilities in the state and municipalities of Georgia, research one current Georgia state or municipal bond offering made in the last five years. You should summarize your findings in a report that includes charts or graphs. Your report should include the following:

- Identification of the bond offering (i.e., whether it is offered by the state or a municipality and, if a municipality, identify its location)
- Identification of the purpose and the terms of the bond, including the rate and the length of investment
- Summary of the project that the bond finances
- Statement indicating whether the bond would be a good investment, providing reasons for this point of view

Discuss your findings with a classmate, friend, or family member. Be sure to include whether or not the bond fulfilled the financial needs of the municipality or state.

## ACTIVITY

### Tracking Investment Options

**Standard:** SSEPF1b, SSEPF2d

To help you better understand your own personal finances and the choices available for investments, you can track investment options. Pretend you have \$3,000 to invest in one of four different types of investment: a mutual fund, bonds, certificates of deposit, or individual stocks. Research the different types of investment and decide how to invest the money. Then keep data on how well your investment did each day for a month. To understand how events connect and influence investments and economies around the world, you should track the following:

- Whether the investment's worth increased or decreased on a daily basis
- The Federal Reserve System's interest rate changes, if any, and the effect any rate changes had on the worth of the investment
- Any significant world or national event that influenced the worth of the investment, including weather and war
- Any significant event in U.S. politics that influenced the worth of the investment
- Any significant business event, such as the merging of two large corporations or the bankruptcy of a financial institution
- The general strengths or weaknesses of international markets

After a month you should answer the following questions as a follow-up to the investment program:

- What is the overall risk factor of the investment?
- What is the relationship between the Federal Reserve interest rate policy and the gains or losses of the investment?
- Did the overall average of the investment reflect a gain or loss?
- Did world events affect the investment?
- Did business mergers or business failures have any effect on the investment?
- Did the strengths and/or weaknesses of various international markets affect the investment in the United States?

## ADDITIONAL SAMPLE ITEM KEYS

Item	Standard/ Element	DOK Level	Correct Answer	Explanation
1	SSEF1d	1	D	The correct answer is choice (D) make decisions that require them to give up the next best alternative. Choice (A) is incorrect because sales taxes do not affect opportunity cost. Choice (B) is incorrect because understanding the elements of production is not part of opportunity cost. Choice (C) is incorrect because environmental impacts are not part of opportunity cost.
2	SSEF2b	2	A	The correct answer is choice (A) Esther decided the marginal benefit of having six more apples exceeded the marginal cost of paying 75 cents extra. The marginal benefit of having the extra Golden Delicious apples made up for the marginal cost. Choice (B) is incorrect because Esther bought the bag of Golden Delicious apples. Choice (C) is incorrect because the scenario does not support the idea that she wanted to buy the most expensive apples. Choice (D) is incorrect because she bought more apples than she needed for the pies.
3	SSEF2c	3	D, E	The correct answers are choices (D) Customers will shop at other grocery stores and (E) Customers will bring reusable bags to the store. Answer choices (A), (B), (C), and (F) are all technically possible but unlikely. Customers will not change the amount of goods they buy because of this; they will still have the same basic needs as before. Most customers want to avoid paying for bags, so it is unlikely they will visit the store more often. The majority of customers will not be able to make all grocery purchases through a delivery service.
4	SSEMI3b	2	C	The correct answer is choice (C) strong control over price. In a monopoly, firms control the available supply so they can raise prices without losing customers. Choice (A) is incorrect because it describes a feature of pure (perfect) competition. Choice (B) is incorrect because monopolies face the same government regulations as other industries. Choice (D) is incorrect because it describes a feature of pure (perfect) competition market structure.
5	SSEMI2a	2	B	The correct answer is choice (B) law of demand. If a product has a low price, consumers will buy more of the product than if the price is high. If the price of a good or service increases, the consumer demand for that good or service decreases. Choice (A) is incorrect because the supply did not change. Choice (C) is incorrect because opportunity cost was not involved in Juanita and Sarah's decision to raise the price of the T-shirts. Choice (D) is incorrect because comparative advantage occurs when a company can produce an item more efficiently than other companies.

Item	Standard/ Element	DOK Level	Correct Answer	Explanation
6	SSEMI3b	2	A	The correct answer is choice (A) oligopoly. A few companies dominate the wireless telephone provider industry in the United States. While there is not much competition in an oligopoly, such as the wireless telephone industry, companies are aware of the prices the other companies are setting. Choice (B) is incorrect because in a monopoly, one firm has the exclusive right to make or supply a product. Electric companies that supply electricity to cities and towns are monopolies that are regulated by the government. Choice (C) is incorrect because a pure competition is a market in which homogenous products are sold, such as sweet potatoes, and price depends on the market—the supply and the average cost of sweet potatoes. Choice (D) is incorrect because in a monopolistic competition, firms sell the same item, such as shampoo, but establish a brand that separates their product from those of other firms.
7	SSEMI1b	3	A, D	<p><b>Part A</b></p> <p>The correct answer is choice (A) They supply consumers and workers. In the factor market, households sell their labor to businesses to create goods. In the product market, households buy the goods and services produced for consumers. Choice (B) is incorrect because supply is affected by other factors besides households. Choice (C) is incorrect because the resources households provide are not scarce. Choice (D) is incorrect because it describes a consumer action that consumers perform for themselves, not for businesses.</p> <p><b>Part B</b></p> <p>The correct answer is choice (D) A pizza business provides delivery for an additional fee. The pizza business is providing a good and a service to households in exchange for revenue. Choice (A) is incorrect because it describes a service provided by the government. Choice (B) is incorrect because it only describes an action of a business. Choice (C) is incorrect because it is an example of a household receiving wages from the government.</p>
8	SSEF4a	1	D	The correct answer is choice (D) It monitors the safety of goods and services through regulatory agencies. Choice (A) is incorrect because in a mixed economy, the market, not the government, dictates what is to be produced. Choice (B) is incorrect because in a mixed economy, the government does not determine for whom goods will be produced. Choice (C) is incorrect because the government does not restrict industrial purchases of raw materials.

Item	Standard/ Element	DOK Level	Correct Answer	Explanation
9	SSEMA2c	2	A	The correct answer is choice (A) Monetary policy reflects the Federal Reserve's authority to change the money supply; fiscal policy reflects the government's power to influence the economy through taxes, expenditures, and borrowing. Choice (B) is incorrect because monetary policy does not involve changing tax rates, and fiscal policy does not involve changing the discount rates for loans to banks. Choice (C) is incorrect because monetary policy does not involve borrowing money and creating a deficit. Choice (D) is incorrect because monetary policy does not involve increasing government spending, nor is fiscal policy the authority of the government to change the discount rate for loans to banks.
10	SSEMA2e	2	A	The correct answer is choice (A) cause interest rates to decrease because low interest rates encourage business growth and expansion. Choice (B) is incorrect because raising interest rates does not stimulate the economy. High interest rates restrict the economy and help curb inflation. Choice (C) is incorrect because if the Fed increased the discount rate it charges banks, banks would decrease the number of loans they make to consumers. To stimulate the economy, the Fed has to get money into the hands of consumers and businesses. Choice (D) is incorrect because if the Fed reduced the money supply, consumer spending would decrease, not increase.
11	SSEIN2a	2	B	The correct answer is choice (B) place an embargo on all goods from that country. An embargo stops all trade with a country. Choice (A) is incorrect because tariffs allow trade; they just raise the price of the products being imported. Choice (C) is incorrect because safety standards do not stop trade with that country; they just put some requirements on the goods that the country is trading. Choice (D) is incorrect because a quota just limits trade from that country; it does not completely stop trade with that country.
12	SSEIN1c	1	D	The correct answer is choice (D) the value of a country's exported goods and services minus the value of goods and services a country imports. Choice (A) is incorrect because balance of trade is not the difference between a country's exchange rate and the value of its imports. Choice (B) is incorrect because balance of trade does not involve a country's per capita income. Choice (C) is incorrect because balance of trade does not involve the yearly value of goods and services a country produces.

Item	Standard/ Element	DOK Level	Correct Answer	Explanation
13	SSEIN3b	2	C	The correct answer is choice (C) U.S. consumers of Chinese goods would benefit. Choice (A) is incorrect because the exchange rate would most likely hurt U.S. workers because sales of goods made in the United States would be negatively affected by Chinese competition. Choice (B) is incorrect because Chinese importers of U.S. goods would most likely have to pay more for them. Choice (D) is incorrect because the exchange rate would most likely not affect Chinese goods sold in China.
14	SSEPF2d	2	D	The correct answer is choice (D) a certificate of deposit. A certificate of deposit will give him a return on his money with very low risk. Because he has agreed not to access the money for two years, the bank gives him a higher return. However, if he needs the money before he goes to college he will have to pay a penalty to access it. Choice (A) is incorrect because precious metals have high risk. Choice (B) is incorrect because corporate stocks have great risk. Choice (C) is incorrect because a savings account has low risk but usually has very little return.
15	SSEPF2b	2	A	The correct answer is choice (A) The bank wants to make a profit. The amount a bank charges in interest for personal loans is how a bank makes revenue. Choice (B) is incorrect because even though the prime rate is set by the government, the government does not dictate differences between interest earned and interest charged by the banks. Choice (C) is incorrect because even though banks may encourage savings and opening new savings accounts, the rate a consumer earns in interest is low. Choice (D) is incorrect because it does not explain the difference between interest earned and interest saved.
16	SSEPF5a	2	B	The correct answer is choice (B) automobile insurance. Some states require that all registered automobiles have automobile insurance. Should Jason cause an accident, his automobile insurance will cover most of the costs of car damages the accident incurred. Choice (A) is incorrect because disability insurance gives covered individuals an income should they be unable to work. Choice (C) is incorrect because health insurance pays for a person's medical costs. Choice (D) is incorrect because life insurance pays a sum of money, depending on the coverage, to a beneficiary when a person dies.
17	SSEPF6a	2	A	The correct answer is choice (A) punctuality. Arriving at work or returning to work from a break on time is important to all employers regardless of the field. Choices (B), (C), and (D) are examples of traits that may be important in specific fields but not all employers will look for or want/need a well-dressed or outgoing employee.

Item	Standard/ Element	DOK Level	Correct Answer	Explanation
18	SSEMA1d	3	A, B	<p>The correct answer choices are (A) Scenario 1 and (B) Scenario 2. A bank that loaned money at a fixed rate prior to the unanticipated inflation will be repaid but with money that does not purchase as much as when the loan was originally made. A person on a fixed income will be negatively affected because the amount of money they have will not purchase as much as it used to. Choice (C) is incorrect because the borrower who has a loan at a fixed rate benefits from unanticipated inflation because the loan will be repaid with dollars that have less purchasing power. Choices (D), (E), and (F) are all businesses that may be negatively impacted by consumers purchasing less, but that impact is less than the impact fixed-rate lenders and people on a fixed income will experience.</p>
19	SSEPF6b	3	A, D	<p><b>Part A</b></p> <p>The correct answer is choice (A) invest in more education or additional training. A person with advanced skills is more desirable to employers. Choice (B) is incorrect because it could limit the potential employee to just one role. Choice (C) is incorrect because stock value is not an issue for Lori. Choice (D) is incorrect because owning a product or liking a product is not equivalent to possessing the skills needed to work for a software company.</p> <p><b>Part B</b></p> <p>The correct answer is choice (D) provide employees with professional development opportunities. Choice (A) is incorrect because it provides an incentive to only one group of employees. Choice (B) is incorrect because reducing hours and tasks may make it more difficult to produce a product. Choice (C) is incorrect because it won't improve efficiency.</p>



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