

UNIT 6

THE AMERICAN ECONOMY

CHAPTER 17

The Economic System

CHAPTER 18

Goods and Services

CHAPTER 19

Personal Finances

CHAPTER 20

Economic Challenges

CHAPTER 21

The U.S. Economy and the World



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



FLORIDA...

The Story Continues

CHAPTER 17, The Economic System

EVENTS

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

PEOPLE

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

PEOPLE

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

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

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

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

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

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

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



Unpacking the Florida Standards <...>

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

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

What does it mean?

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

CHAPTER 17

THE ECONOMIC SYSTEM

Essential Question

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



Florida Next Generation Sunshine State Standards

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

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





John D. Rockefeller:
The Standard Oil
Trust

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WHY CIVICS Matters

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



STUDENTS TAKE ACTION

PROVIDING EMERGENCY HEALTH CARE

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

FOCUS ON WRITING

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

Reading Skills

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

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

Interpreting Basic Indicators of Economic Performance

FOCUS ON READING

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

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

Consumer Price Index

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

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

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

Helpful Hints for Interpreting Economic Indicators

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



LA.7.1.6.2

21ST
CENTURY

You Try It!

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

U.S. Unemployment Rate, 2004–2008

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

Annual Unemployment Rate

2004	5.5
2005	5.1
2006	4.6
2007	4.6
2008	5.8

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

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

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

KEY TERMS

CHAPTER 17

Section 1

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

Section 2

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

Section 3

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

Academic Vocabulary

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



The Economic System at Work

BEFORE YOU READ

The Main Idea


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

Reading Focus

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

Key Terms

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

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



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

Economic Systems

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

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

The Need for Economic Systems

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

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

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

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

The Want-Satisfaction Chain

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



1 Grain becomes Flour

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



2 Flour becomes Bread

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



3 Bread is Delivered

Kitchens, restaurants, and cafeterias receive bread from bakeries.



4 Lunch is Served

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

**ANALYSIS
SKILL**

ANALYZING VISUALS

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

Types of Economic Systems

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

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

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

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

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

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

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

READING CHECK

Contrasting How do single-resource and diversified economies differ?

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

QUICK FACTS

American Economic Freedoms

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

How do these freedoms affect our everyday lives?



Freedom to Compete



Freedom to Own Property

Life in a Market Economy

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

Competition for Resources

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

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

Choice

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

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

Supply and Demand

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

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

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



Freedom to Buy and Sell



Freedom of Workers to Compete for Jobs



Freedom to Earn Profits

File-Sharing and Copyright Law

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

Why it Matters

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

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



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

ANALYSIS SKILL

EVALUATING THE LAW

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

 hmhsocialstudies.com **ACTIVITY**

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

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

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

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

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

Free Enterprise

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

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

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

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

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

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

Capitalism

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

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

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

Monopolies

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

PRIMARY SOURCE

POLITICAL CARTOON

Monopolies

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



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

ANALYSIS SKILL

ANALYZING PRIMARY SOURCES

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

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

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

READING CHECK

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

The U.S. Economic System

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

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

A Mixed Economy

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

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

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

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

American Business

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

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

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

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

Comparing Economic Systems

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



Command



Market



Traditional

ANALYSIS SKILL

ANALYZING VISUALS

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

MEDIA INVESTIGATION

PRESS CONFERENCES

Understanding Publicity

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

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

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



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

ANALYSIS SKILL

MEDIA INVESTIGATION

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

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

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

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

READING CHECK

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

SECTION 1 ASSESSMENT

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ONLINE QUIZ

Reviewing Ideas and Terms

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

Critical Thinking

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



FOCUS ON WRITING

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

STUDENTS TAKE ACTION

PROJECT Citizen



Providing Emergency Care

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

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

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

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



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

SERVICE LEARNING



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

hmhsocialstudies.com **ACTIVITY**



Business Organizations

BEFORE YOU READ

The Main Idea


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

Reading Focus

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

Key Terms

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

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TAKING NOTES

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



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

Business Organizations

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

Sole Proprietorships

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

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

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

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

Different Kinds of Businesses

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

How are sole proprietorships different from corporations?



Partnership



Corporation



Sole Proprietor

Partnership

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

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

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

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

Corporations

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

READING CHECK

Categorizing What are three ways that businesses are organized?

How a Corporation is Created and Organized

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

1 Start Small

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

2 Grow

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

3 Incorporate

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

4 Trade Publicly

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

Organization and Control in a Typical Corporation

Stockholders are the owners of a corporation.

Stockholders



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

Board of Directors



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

Corporate Officers



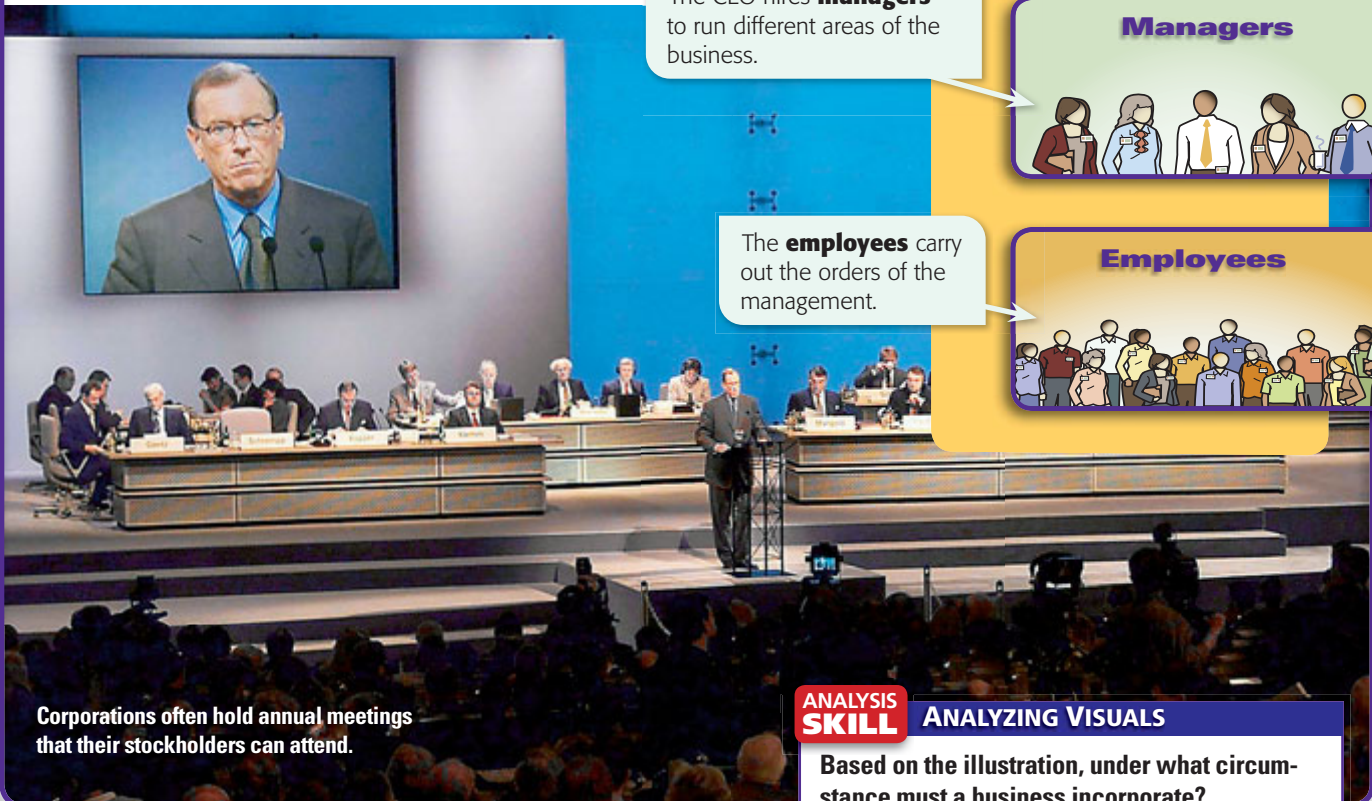
The CEO hires **managers** to run different areas of the business.

Managers



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

Employees



Corporations often hold annual meetings that their stockholders can attend.

ANALYSIS SKILL

ANALYZING VISUALS

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

How Corporations Function

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

Raising Money

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

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

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

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

Rights to Operate

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

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

Elected Directors

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

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

ACADEMIC VOCABULARY

structure: the way something is set up or organized

Choosing Executives

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

Debt Responsibility

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

READING CHECK

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



FOCUS ON Meg Whitman (1957–)

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

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

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

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

Nonprofit Organizations

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

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

READING CHECK

Summarizing What are the characteristics of a nonprofit organization?

SECTION 2 ASSESSMENT

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ONLINE QUIZ

Reviewing Ideas and Terms

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

Critical Thinking

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

Business	Characteristics

FOCUS ON WRITING

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

Learn

A benefit of using primary sources to learn about history is that you can form your own interpretation of the event from the available materials. Primary sources can also be difficult to use since you need to evaluate many sources to get a complete picture.

Practice

- ## Apply

1. Who was this item intended for, and how would they have used it?
2. What change in American culture could this primary source be evidence of?
3. What does this advertisement show you about values that were important at the time to people reading this magazine?





Making Business Decisions

BEFORE YOU READ

The Main Idea


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

Reading Focus

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

Key Terms

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



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



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

Factors of Production

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

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

Natural Resources

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

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

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

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

Capital

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

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

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

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

Labor

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

Factors of Production

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

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



Natural Resources



Capital



Labor



Entrepreneurship

Entrepreneurs



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



Robert Johnson

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



Bill Gates

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



Vera Wang

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

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

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

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

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

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

Entrepreneurship

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

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

READING CHECK

Making Inferences Why is labor considered a factor of production?

The Government's Role

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

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

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

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

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

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

READING CHECK

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

SECTION 3 ASSESSMENT



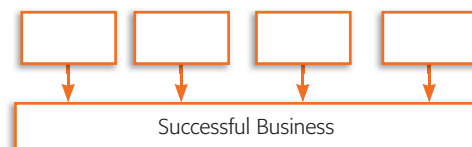
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ONLINE QUIZ

Reviewing Ideas and Terms

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

Critical Thinking

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



FOCUS ON WRITING

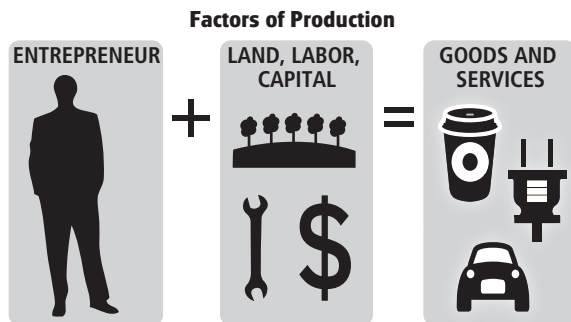
4. **Making Decisions** Imagine that you are planning to open a small business in your community. Make a list of the decisions that you must make before you can open your store.

CHAPTER 17 REVIEW



FLORIDA CIVICS EOC PRACTICE

1. The diagram below illustrates an economic concept.



What type of economy is shown in this diagram?

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

Reviewing Key Terms

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

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

Comprehension and Critical Thinking

SECTION 1 (pp. 450–458)

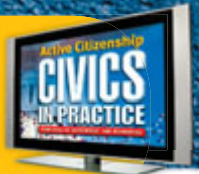
21. **a. Describe** Name and describe the three main economic systems.
- b. Analyze** What role does competition play in the free enterprise system?
- c. Elaborate** Do you agree that monopolies weaken a market economy? Explain your answer.

SECTION 2 (pp. 460–464)

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

Active Citizenship video program

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



SECTION 3 (Pages 466–469)

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

Civics Skills

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

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

Reading Skills



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

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

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

Using the Internet



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

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FOCUS ON WRITING

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