



# FLORIDA...

## The Story Continues

### CHAPTER 21, The U.S. Economy and the World

#### PEOPLE

**1881: Hamilton Disston.** Hamilton Disston was one of Florida's first real estate developers. In 1881, he bought four million acres of land in south and central Florida. This was an area larger than the state of Connecticut. He attempted to drain the land around Lake Okeechobee and the Everglades for agriculture, but was not successful. However, he deepened the Kissimmee River to enable cargo shipments to pass into the Gulf of Mexico. His efforts opened much of central Florida to development and settlement.

#### EVENTS

**Law of supply and demand impacts Florida's tourist industry.** The law of supply and demand states that prices rise as the demand for goods and services increase. Conversely, prices fall with decreased demand. The changing prices of hotel rooms in Florida demonstrate this economic law. Room prices are highest in southern Florida in the winter months, when tourists pour into that part of the state. In northern Florida, hotel prices are relatively modest during winter. However, in the summer, which is tourist season for northern Florida, the situation is reversed.

#### EVENTS

**2011: Threats to Florida's citrus crop.** Many factors can affect an economy. In 2011, Florida citrus producers lost some of their crop both to cold weather and to a dangerous bacterium. The bacterium produces citrus greening disease, which leaves fruit sour and misshapen. Citrus greening disease tends to kill young trees, making replacement difficult. Therefore, it is considered a greater threat than cold weather.

**PLACES**

**Florida's seaports.** Florida is home to 14 deepwater seaports. Billions of dollars worth of goods such as citrus fruit, phosphate rock, petroleum products, foodstuffs, and motor vehicles flow in and out of Florida's seaports annually. Tampa is Florida's largest port by tonnage. Jacksonville is the leader in dollar value. Miami is the country's chief port for cruise ships. Other major ports are located at Canaveral, Panama City, and Ft. Lauderdale. Florida's deepwater seaports are well-positioned to take advantage of our economy's increasing dependence on foreign trade.

**EVENTS**

**International trade and Florida.** International trade is the fastest-growing segment of Florida's economy. Florida is one of the top exporting states in the country.

In 2010, Florida exported over \$55 billion worth of goods. In addition to agricultural products such as citrus fruits, Florida exports goods such as motor cars; fertilizers; turbojets; medical, surgical, and dental instruments; and electronic integrated circuits. More than 55,000 Florida companies export products.

**PLACES**

**Foreign trade zones.** A foreign trade zone (FTZ) is an area within a country where imported goods can be stored or processed without being subject to import fees. FTZs are designed to promote international trade by lowering its cost. Several FTZs are located in Florida. The Miami Free Zone and Port Everglades Foreign Trade Zone are perhaps the most prominent.



## Unpacking the Florida Standards <...>

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

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

### What does it mean?

Explain key concepts related to the development of a mixed market economy in the United States, such as supply and demand, choice, scarcity, and opportunity cost. Go to Chapter 17, The Economic System, and Chapter 21, The U.S. Economy and the World, for help.



## CHAPTER 21

# THE U.S. ECONOMY AND THE WORLD

**Essential Question** What concepts and relationships can be used to describe the U.S. economy and the world economy?



### Florida Next Generation Sunshine State Standards

**SS.7.E.1.2** Discuss the importance of borrowing and lending in the United States, the government's role in controlling financial institutions, and list the advantages and disadvantages of using credit. **SS.7.E.1.3** Review the concepts of supply and demand, choice, scarcity, and opportunity cost as they relate to the development of the mixed market economy in the United States. **SS.7.E.1.5** Assess how profits, incentives, and competition motivate individuals, households, and businesses in a free market economy. **SS.7.E.2.1** Explain how federal, state, and local taxes support the economy as a function of the United States government. **SS.7.E.2.2** Describe the banking system in the United States and its impact on the money supply. **SS.7.E.2.3** Identify and describe United States laws and regulations adopted to promote economic competition. **SS.7.E.3.1** Explain how international trade requires a system for exchanging currency between and among nations. **SS.7.E.3.2** Assess how the changing value of currency affects trade of goods and services between nations. **LA.7.1.6.1** The student will use new vocabulary that is introduced and taught directly. **LA.7.1.7.1** The student will use background knowledge of subject and related content areas, prereading strategies, graphic representations, and knowledge of text structure to make and confirm complex predictions of content, purpose, and organization of a reading selection. **LA.7.1.7.3** The student will determine the main idea or essential message in grade-level or higher texts through inferring, paraphrasing, summarizing, and identifying relevant details.







Teddy Roosevelt vs.  
Corporate America

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# WHY CIVICS Matters

Whenever you buy a new game or new clothes, chances are high that what you are buying came—at least in part—from another country. The U.S. economy is the largest and strongest in the world, but it is also a part of global business and global trade.

PROJECT  Citizen



## STUDENTS TAKE ACTION

**EDUCATING THE PUBLIC** Some students are proud of their schools. What if you learned that your favorite school was no longer necessary and was going to be torn down? What could you do to save it? As you read this chapter, think about steps you could take to convince the authorities to save your school.

## FOCUS ON WRITING

**A JOB DESCRIPTION** You run a small company that makes computer games and wants to expand. You need to hire a new employee to help sell your computer games internationally. Read this chapter and then use what you learn to write a job description that would allow you to find good candidates for this job.



# Reading Skills

In this chapter you will read about how goods and services flow through the U.S. economy. You will learn how the marketplace affects the price of goods, about the business cycle, and about factors that affect the national economy.

You will also learn how and why the government influences the economy. Finally, you will read about how international trade affects the U.S. economy and creates interdependence among the world's countries.

## Analyzing Essential Information

### FOCUS ON READING

To be informed about important U.S. economic policies, you will need to read many facts, statistics, terms, and descriptions. You do not want to become distracted by unimportant details.

**Identifying Relevant and Essential Information** Whether you are reading a textbook, an editorial, or political campaign literature, the information should be relevant. It should also be verifiable and essential to understanding the subject. Anything else distracts from the material you are reading.

The September 11 attacks, which happened on a beautiful morning, hurt several industries. Many Americans were afraid to travel by airplane, causing airlines to lose business. Many businesses reported that their sales dropped in the weeks after September 11. Today, people remember where they were when they heard the news about the attacks. As a result, the unexpected tragedy of September 11 weakened the U.S. economy. With better security, the attacks never would have happened. As Americans began to feel more confident, economists predicted that the economy would again be on the upswing.

The weather on September 11 is not essential information.

How people remember September 11 is not relevant to the topic of the impact of the attacks on the economy.

This is an opinion that cannot be proved or verified. It is also not relevant to discussing the economic impact.

### Helpful Hints for Analyzing Essential Information

1. Look out for opinions that cannot be proven.
2. Make sure the facts and information support the main idea. Anything else is not relevant.
3. Draw your own conclusions by focusing only on the essential and relevant information.





LA.7.1.7.3



## You Try It!

The following passage is adapted from the chapter you are about to read. As you read, look for irrelevant, nonessential, or unverifiable information.

### Discount Rate

*adapted from  
Chapter 21,  
p. 568*

The Fed also uses a tool called the discount rate, which is the interest rate the Fed charges banks to borrow money. When the Fed changes this rate, it signals commercial banks that the Fed wants to loosen or tighten the money supply. There are thousands of banks across the country. For example, when the Fed lowers the discount rate, banks may borrow and loan more money. The money supply increases, and the economy expands. That helps the economy grow. Canada and Mexico have different economic problems. Raising the discount rate has the opposite effect. If the Fed wants to slow economic growth, it may raise the discount rate. Recently, the Fed raised the discount rate too quickly. The money supply contracts, and the economy may not grow as quickly. Economists love to argue about whether the Fed is doing a good job regulating the economy.

**After you have read the passage, answer the following questions.**

1. Which sentence in this passage is unverifiable and should be cut?
2. Find two sentences in this passage that are irrelevant to the discussion of the discount rate. What makes those sentences irrelevant?
3. Look at the last sentence of the passage. Do you think this sentence is essential to the discussion? Why or why not?

**As you read Chapter 21,** ask yourself what makes the information you are reading essential to a study of the U.S. economy.

## KEY TERMS

### Chapter 21

#### Section 1

consumer (p. 557)  
producer (p. 557)  
circular-flow model (p. 558)  
competition (p. 558)

#### Section 2

leading indicators (p. 563)  
coincident indicators (p. 563)  
lagging indicators (p. 563)

#### Section 3

tax incentives (p. 567)  
easy-money policy (p. 568)  
tight-money policy (p. 568)  
open-market operations (p. 568)  
reserve requirement (p. 568)

#### Section 4

absolute advantage (p. 570)  
comparative advantage (p. 570)  
opportunity cost (p. 570)  
trade barrier (p. 572)  
balance of trade (p. 574)  
trade surplus (p. 574)  
trade deficit (p. 574)

### Academic Vocabulary

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

development (p. 560)  
agreement (p. 572)



## SECTION 1



SS.7.E.1.3; SS.7.E.1.5; SS.7.E.2.1; LA.7.1.6.1; LA.7.1.7.1

# Overview of the U.S. Economy

## BEFORE YOU READ

### The Main Idea

In a market economy, buyers and sellers interact in the marketplace and respond to changes in prices by changing the amounts demanded and the amounts supplied.

### Reading Focus

1. What are four basic economic systems?
2. What is the free-enterprise economic system?
3. What are three ways to invest in the economy?

### Key Terms

consumer, *p. 557*  
producer, *p. 557*  
circular-flow model, *p. 558*  
competition, *p. 558*



Use the graphic organizer online to take notes on the U.S. economy.



The forces of supply and demand affect every business transaction.

## CIVICS IN PRACTICE

Economics is about choices. Whenever you buy something, you are making a choice about the product and the price. Your choice, plus the choices of other consumers, helps determine what sellers will produce and what they will charge for it. Why do some brands of jeans cost more than others? Why can't you get a summer job that pays \$100 an hour? Economics helps answer these questions. By studying your choices and those of others, you can see how all of those choices together combine to form an economy.

## Basic Economic Systems

There are three basic types of economic systems. They are the traditional economy, command economy, and market economy. At least one of these systems is found in every country in the world. What are the characteristics of each type of economic system?

**Traditional Economy** In a traditional economy, economic decisions, such as what to produce, are based on customs and traditions. Goods and services are also distributed according to custom. It is hard to find a true traditional economy in today's world.



**Command Economy** In a command economy, government officials decide what goods will be made and how. They also decide who can own these goods. A command economy is highly centralized because a small number of people control the economy. This centralization tends to be inefficient.

**Market Economy** In a market economy, basic economic questions, such as what to produce, depend on the interaction of producers and consumers. Producers supply goods, services, and resources. Consumers demand goods, services, and resources.

**Mixed Economy** Most economies today—including the U.S. economy—are sometimes called mixed economies. A mixed economy can include elements of traditional, command, and market economies. Countries with mixed economies that are closely related to the pure market model are called capitalist. The United States, which has some government involvement in the economy, is a capitalist country.

**READING CHECK**

**Summarizing** What are the main features of traditional, command, market, and mixed economies?

## The Free-Enterprise System

The U.S. economic system is also referred to as a free-enterprise system. Under a free-enterprise system, individuals have the right to own private property and to make individual choices about how to use that property and their own creativity to make money.

There are two major groups that make decisions affecting the free enterprise economy. A person who buys goods or services is called a **consumer**. A person or company that provides goods or services is called a **producer**. Many people act as both consumers and producers. For example, when you buy food, clothing, or music, you are a consumer. When you work after school or mow a neighbor's lawn, you are a producer providing a service.

## Supply and Demand

**QUICK FACTS**

In a free-market economy, the laws of supply and demand determine prices and the amount of goods available. In this illustration, the arrows represent the rise and fall of demand.

As demand for goods and services increases, prices rise. At higher prices, producers will produce more.

The laws of supply and demand work together to keep prices at a balanced point where consumers are willing to buy and producers can make a profit.

If demand for goods and services decreases, prices fall. At lower prices, producers will produce less.

**ANALYSIS SKILL**

**ANALYZING VISUALS**

1. How does demand for a good affect the price of that good?
2. How does the supply of a good affect the price of that good?



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

## Circular-Flow Model

In a free-enterprise economy, different groups interact with each other to pursue profits and to acquire goods, services, and resources through markets. Among these groups are individuals, households, businesses, government, financial institutions, and charities. The relationships between groups in the economy can be illustrated by the **circular-flow model**. Here is a description of how individuals, households, businesses, and government interact in the marketplace.

Individuals and households sell resources to businesses and the government. In return, they receive payment, called income, for those resources. For example, when an individual sells labor to businesses or the government, he or she receives wages in payment. Wages are one form of income.

Businesses sell goods and services to individuals, households, and the government. In return, businesses receive payment, called revenue, for the goods and services sold.

The government receives tax revenue from businesses, individuals, and households.

It uses this tax money to provide government goods and services, as well as financial support for citizens with limited income.

The circular flow consists of goods, services, and resources moving in one direction, with money moving in the opposite direction. This makes sense because we use money as payment for goods, services, and resources.

## Prices and Supply and Demand

In a free-enterprise system, consumers and producers are free to act in their own interests. Consumers want low prices while producers prefer higher prices. Supply and demand affect prices. In economics, the quantity demanded is the amount of a good or a service that a consumer is willing and able to buy at various possible prices during a given time period.

The connection between quantity demanded for a good or service and its price is described by the law of demand. When prices go up, quantity demanded drops. When prices go down, quantity demanded often increases.

Supply is the quantity of goods and services that producers are willing to offer at various possible prices during a given time period. Prices and quantity supplied are related. According to the law of supply, producers supply more goods and services when they can sell them at higher prices. When prices are lower, producers supply fewer goods and services. The interaction of supply and demand in the marketplace establishes a price at which consumers are willing to buy all of the goods that producers are willing to make.

## Competition

Another factor that affects prices is competition. **Competition** is the economic rivalry among businesses selling similar products. Producers compete to satisfy the wants of consumers. Producers may invent new products or improve existing products to get ahead of their business rivals.

### READING CHECK

**Evaluating** What are the most important elements of a free-enterprise system?



## FOCUS ON Adam Smith (1723–1790)

Adam Smith was born in a small village in Scotland. His mother raised him until he entered the University of Glasgow at age 14.

In 1776 Smith published his book on economic theory, *The Wealth of Nations*. Smith's book explains how rational self-interest leads to economic well-being. This happens when people make reasoned decisions about what to buy and sell.

Smith had an interesting theory about the free market. It may appear to be without controls, but it is actually guided to produce the right amount of goods. For example, if a good is in short supply, its price will rise because people will pay more to get it. This increased price motivates others to enter the market, which will in time cure the shortage.

**Make Inferences** How does the U.S. economic system reflect Smith's theories?

# The Circular Flow of Resources and Money

QUICK  
FACTS

This chart illustrates the exchange of resources, products, and money payments in the U.S. economy.



## Investment and the Economy

In the United States you are free to spend your money on whatever you want. You are also free to save your money or to invest it.

There are many ways to invest your money. One popular method is to invest in stocks. Stock represents partial ownership of a business. For example, if a company issues 100,000 shares of stock, and you own 100 shares, you

own 1/1,000th of the company. If the company does well, this entitles you to a share of its profits based on the amount of stock you own. You can also purchase bonds. A bond is a loan from you to the business issuing the bond. When you buy the bond you receive a certificate from the corporation promising to pay you back. In addition, the corporation promises to pay you interest for the use of your money. Governments also issue bonds to raise funds.



## Venture Capital

You can also invest directly in starting a new business. Money invested by outsiders to help new businesses grow is called venture capital. Venture capital helps entrepreneurs develop an idea into a new product. Venture capital might be used to finish developing a marketable product, build or improve production facilities or to pay for product distribution.

## Investment and Technology

Venture capital is just one of the ways in which investment can bring about new technology. Many companies use their own money to invest in technological research and **development**. If they are successful, they will be able to bring new products to market based on the new technology. They can also license their technology to other companies. News that a company is close to an important technology breakthrough also encourages individuals to buy that company's stock. This flow of money for

investment helps promote continued technological development. That technology in turn helps the economy grow.

## Risk and Return

Most financial investment involves some level of risk. When businesses are profitable, demand for their stock tends to rise. This higher demand increases the stock price. That means a greater return on investment for those who hold the stock. However, if a business is not profitable, its stock value typically falls. Investing in property such as real estate holds a similar risk that prices will fall. Investors then lose money.

Careful investors always research whatever investments they are planning to make. Their goal is to be able to judge its prospects for success. If all goes well, both individual investors and the economy as a whole will profit from wise investments.

### READING CHECK

**Drawing Inferences and Conclusions** How might investment help the economy?

### ACADEMIC VOCABULARY

**development:**  
creation

## SECTION 1 ASSESSMENT



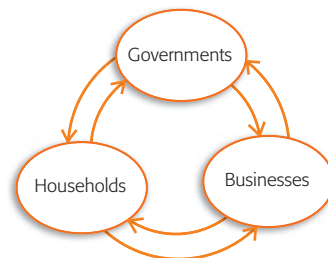
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ONLINE QUIZ

### Reviewing Ideas and Terms

- Recall** What are the differences between a command economy and a market economy?
  - Analyze** Why is the ownership of private property so important to a market economy?
- Define** Write a definition for the terms **consumer**, **producer**, **circular-flow model**, and **competition**.
  - Explain** Why are consumers and producers both important to a free-enterprise economic system?
  - Evaluate** In your opinion, how important is the government's role in the U.S. economy? Explain your reasoning.
- Summarize** How does investment help the economy?
  - Predict** What might happen to new technology products if investors decided to invest only in safe, risk-free businesses? Explain your answer.

### Critical Thinking

- Analyzing Information** Copy the graphic organizer. Use it to describe the flow of goods and services among consumers, producers, and the government in the U.S. economy.



### FOCUS ON WRITING

- Summarizing** Write a short paragraph that explains how various factors work together to influence prices. Be sure to consider the role of supply and demand.

## SECTION 2



LA.7.1.6.1; LA.7.1.7.1

# Factors Affecting the U.S. Economy

## BEFORE YOU READ

### The Main Idea

Sometimes the economy performs well. Sometimes economic activity is not as strong. Many factors affect the performance of the economy. Economists try to understand how the economy is doing and predict its direction in order to advise businesses and the government.

### Reading Focus

1. What is the business cycle?
2. Why are human and capital resources important to the economy?
3. How do current events affect the economy?

### Key Terms

leading indicators, *p. 563*  
coincident indicators, *p. 563*  
lagging indicators, *p. 563*



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### TAKING NOTES

Use the graphic organizer online to take notes on factors affecting the U.S. economy.



Changes in the economy can have a direct effect on you. For example, when the economy is slow, you may have trouble finding a job.

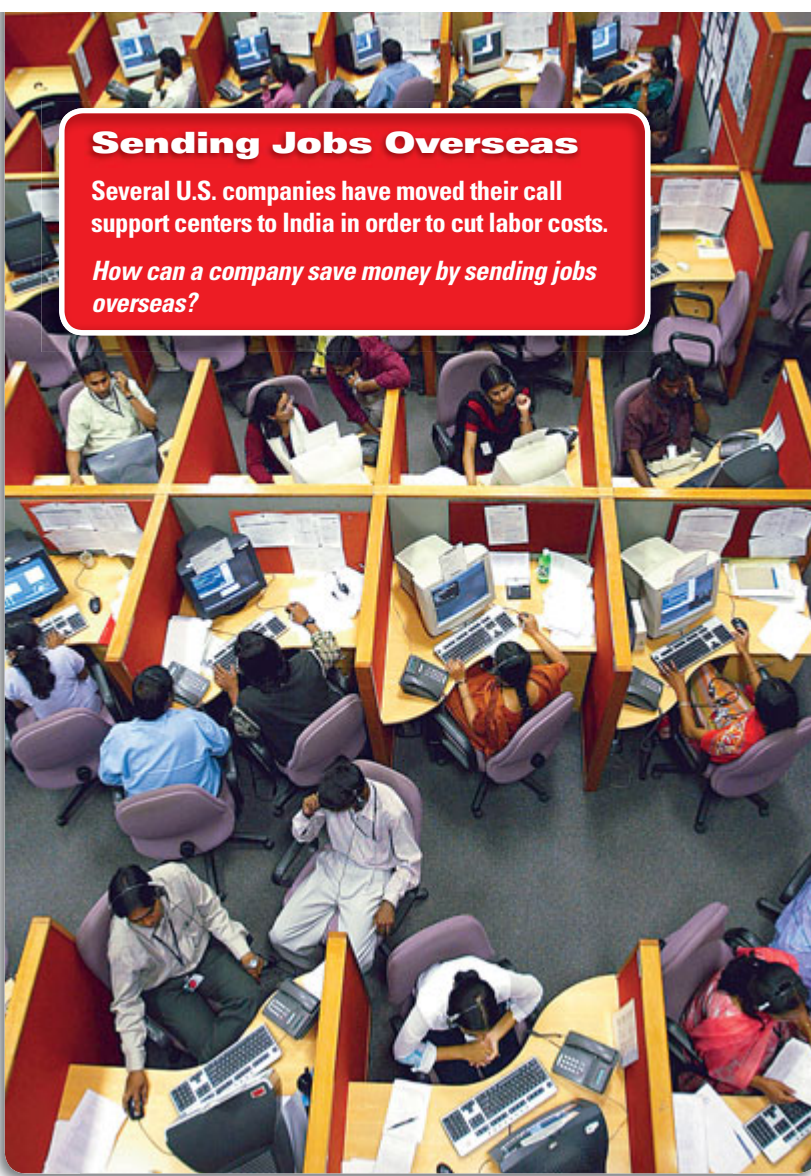


Goods and services are constantly flowing through the U.S. economy. Prices increase and prices fall. At times, your choices of available goods and services increase. At other times, you have fewer choices. The number of jobs available may also vary from year to year. Sometimes you may feel like all the news about the economy is just too much noise. You should try to understand what is happening because how much you pay for a gallon of gasoline or the latest computer game depends on so many different factors—even the weather!

## The Business Cycle

As you have learned, free-enterprise economies go through something called the business cycle. The business cycle is the repeated series of periods of growth, or expansion, and contraction through which an economy goes. It reflects the changes in economic activity.





### **Sending Jobs Overseas**

Several U.S. companies have moved their call support centers to India in order to cut labor costs.

*How can a company save money by sending jobs overseas?*

### **Stages of the Business Cycle**

Economists generally divide the business cycle into four stages. The first stage is called expansion. During the expansion phase, the economy grows. Eventually, the economy reaches a peak, or a high point. In this stage, the economy—including production and employment—is at its strongest.

After the economy peaks, it enters a period of business slowdown. This third phase is called a contraction, or a recession. A lengthy period of contraction is called a depression. The final stage in the business cycle is the trough, when demand, production, and employment are at their lowest levels. After the economy bottoms out, the business cycle usually starts over.

### **Influences on the Business Cycle**

Many factors influence the business cycle. These factors include the level of business investment, the availability of money and credit, public expectations about the future, and external factors.

**Business Investment** Businesses invest in capital goods such as new production facilities and new machinery. Business investment promotes economic expansion in three ways. First, by purchasing new capital goods, businesses contribute to the demand for such goods. Second, businesses can invest in new equipment to improve efficiency, which can lead to growth. Third, investment can support research into new technologies that increase production and lower costs.

**Money and Credit** The availability of money and credit also affects the business cycle. Individuals and businesses generally borrow more money when interest rates are low.

**Public Opinion** Public expectations about the future of the economy also play a role in the business cycle. For example, if consumers believe the economic future looks good, they are more willing to spend, which promotes economic growth. The expectations of business owners also affect the economy. If the owners believe that the economy will be strong, they are more willing to make investments.

**International Events** World events can also affect business. For example, the terrorist attacks of September 11, 2001, led to declines in private investments as Americans were left uncertain about the future. The subsequent war in Iraq led to a reduction in oil production and higher oil prices, leaving companies less money for corporate investment.

### **Predicting the Business Cycle**

Predicting changes to the business cycle is a critical job for economists. Economists

typically use three types of indicators, or sets of information, to study the economy. These are called leading, coincident, and lagging indicators. Indicators determine what phase the business cycle is in to determine if the economy is likely to expand or contract.

**Leading Indicators** Economists make predictions about future economic growth with the help of **leading indicators**. They come before, or lead, major changes in the business cycle. An example of a leading indicator is the number of building permits issued. An increase in building permits usually means that more buildings will be built. This means that more jobs will be created.

**Coincident Indicators** The second group of indicators is called **coincident indicators**. These are signs that show economists how the economy is doing at the present time. Coincident indicators tell economists if an upturn or downturn has begun. For example, if people's incomes have increased, the economy may have entered an upturn.

**Lagging Indicators** The final group of indicators is called **lagging indicators**. These are economic signs that lag behind, or follow, major changes in the business cycle. They help economists determine how long the current phase of the business cycle may last. For example, if the economy is expanding, more people may decide to start new businesses. It takes several months before they can get these businesses started. So, an increase in new businesses comes after, or lags behind, the trend.

**READING CHECK**

**Summarizing** What are the stages of the business cycle?

## Human and Capital Resources

The availability of resources also plays a key role in the U.S. economy. Human resources, that is labor, and capital resources often come from different locations. The location and movement of these resources can affect the economy in a number of ways.

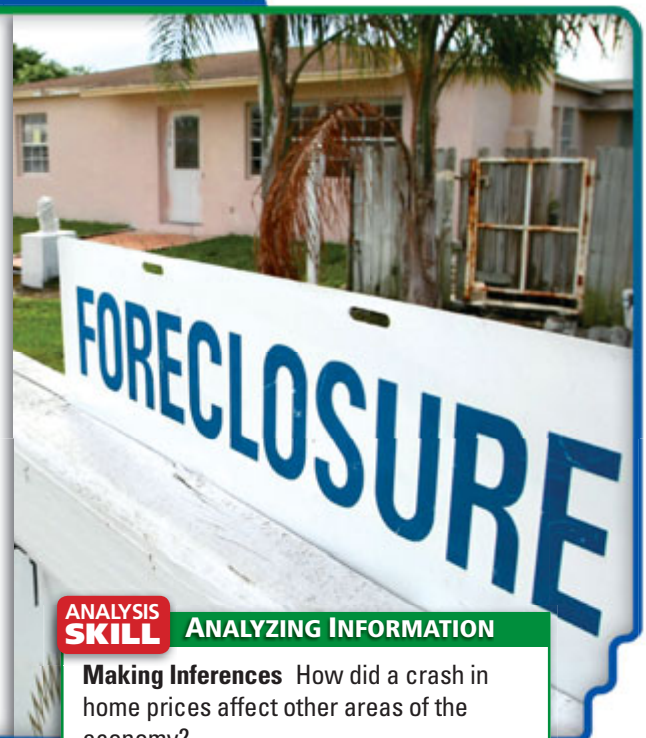
### Linking to Today

#### From Housing Bubble to Bust

From 2001 to 2006, the United States experienced a "housing bubble." During a housing bubble, property prices increase rapidly. Unfortunately, bubbles are usually followed by a sudden drop in prices called a "bust" or a "crash."

Many areas of the United States were affected, but Florida, Arizona, Nevada, and California were particularly hard hit. For example, the median home price in Fort Meyers, Florida, rose 44 percent in one year, from \$192,700 in 2004 to \$278,200 in 2005. By 2009, however, the median home price in Fort Meyers had dropped to \$90,400.

The crash helped trigger a major recession. Real estate sales, mortgage loans, construction, and retail sales slowed. Many people in these industries lost their jobs. Homeowners were especially devastated. Many found that they owed more money for their homes than their homes were worth. Those, who could no longer afford their homes, were forced to sell them at a loss or face foreclosure.



**ANALYSIS SKILL**

**ANALYZING INFORMATION**

**Making Inferences** How did a crash in home prices affect other areas of the economy?



For example, in recent years, the desire for labor at a lower cost has led some American companies to open factories in foreign countries. Workers in some countries are willing to work for much less than the common American wage. As a result, some American computer and Internet-related companies have also begun to use foreign labor. Some American companies have set up customer-service call centers in foreign countries like India where labor costs are lower.

#### READING CHECK

**Analyzing Information** In what ways does the movement of resources affect the U.S. economy?

## Current Events and the Economy

Economists and government officials use economic indicators to plan changes to make the economy perform well. However, there are some events for which economists cannot prepare. At times, current events can affect the economy in ways no one expected.

For example, the terrorist attacks of September 11, 2001, affected many businesses in New York City and caused the New York Stock Exchange to close for several days. The attacks also hurt the airline industry, because many Americans were afraid to fly after the hijackings. The overall U.S. economy was weakened. As Americans began to feel more confident, however, spending increased and businesses returned to normal.

Even weather may affect the economy. For example, in 2005 Hurricane Katrina struck New Orleans, Louisiana, and many other cities along the Gulf of Mexico. From Louisiana to Florida, the hurricane disrupted port facilities and highways. Imports and exports were almost halted. Oil and gas refineries were shut down. As a result of Katrina's devastation, consumers had to pay higher prices for gasoline and petroleum-based products ranging from tires to paint.

#### READING CHECK

**Analyzing** How can a major storm in one area affect the entire U.S. economy?

## SECTION 2 ASSESSMENT



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ONLINE QUIZ

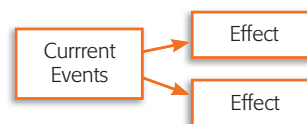
### Reviewing Ideas and Terms

1. **a. Define** Write a definition for the terms **leading indicators**, **coincident indicators**, and **lagging indicators**.
- b. Explain** What tools do economists use to explain the business cycle?
- c. Predict** What would you predict for the economic cycle if leading economic indicators were negative and coincident economic indicators were positive? Explain your reasoning.
2. **a. Analyze** Why would a computer manufacturer consider moving its 24-hour a day technical support center to a foreign country?
- b. Support a Point of View** Do you think that U.S. companies should move jobs overseas in order to save money? Why or why not?
3. **a. Find the Main Idea** How do current events affect the economy?

- b. Predict** How would a long spell of extremely cold winter weather, including heavy snow and ice storms, affect the economy? Explain your answer.

### Critical Thinking

4. **Identifying Cause and Effect** Use your notes and a graphic organizer like this one to identify the effects that current events have on the U.S. economy.



### FOCUS ON WRITING

5. **Summarizing** Conduct research about the terrorist attacks of September 11, 2001. Write two paragraphs explaining how the tragedy of 9/11 affected the U.S. economy.

## SECTION 3



SS.7.E.1.2; SS.7.E.2.1; SS.7.E.2.2; SS.7.E.2.3; LA.7.1.6.1; LA.7.1.7.1

# Government's Role in the U.S. Economy

## BEFORE YOU READ

### The Main Idea

The government affects the economy through regulation and policy, the Fed through fiscal monetary policy. Proper use of these tools helps keep the economy functioning more smoothly and effectively.

### Reading Focus

1. What are the goals of government regulation?
2. How is fiscal policy used to influence the economy?
3. How does the Federal Reserve use monetary policy to influence the economy?

### Key Terms

tax incentives, *p. 567*  
easy-money policy, *p. 568*  
tight-money policy, *p. 568*  
open-market operations, *p. 568*  
reserve requirement, *p. 568*



Use the graphic organizer online to take notes on how the government regulates the U.S. economy.



The federal Environmental Protection Agency inspects toxic-waste sites to protect citizens from negative effects.



Government plays several important roles in the U.S. economy. You have read about the circular-flow model. So you know the government creates millions of jobs and buys many goods and services. The government also affects the economy. It collects taxes and provides services to the people. In addition, the government regulates the growth of the economy directly in many ways. The money that the government spends is really your money. It comes from your taxes. So it is a good idea for you to know how government policies on regulation, taxing, and spending work.

## Government Regulation

In the United States, all levels of governments—federal, state, and local—regulate business. Government regulation has five main goals. It protects workers, protects consumers, limits negative effects, encourages competition, and regulates property.



**SS.7.E.2.3** Identify and describe United States laws and regulations adopted to promote economic competition.

### Protecting Workers

Government tries to prevent businesses from using workers in ways that are unsafe or unfair. For example, the Equal Employment Opportunity Commission (EEOC) makes and enforces rules that prohibit businesses from discriminating against people when hiring and promoting workers. The government also sets standards for safe working conditions. The Occupational Safety and Health Administration (OSHA) makes certain that employees work under safe conditions.

### Protecting Consumers

The second goal of government regulation is to protect consumers. For example, the Food and Drug Administration (FDA) protects people from unsafe medicines and foods. The Consumer Product Safety Commission (CPSC) makes certain that items such as toys are not dangerous. The federal government also insures people's savings and checking accounts.

### Limiting Negative Effects

The government also uses regulation to limit the negative effects of economic activities. For example, the Environmental Protection Agency (EPA) regulates industries to prevent air and water pollution.

### Encouraging Competition

At various times, the U.S. government has used laws, such as the Sherman Antitrust Act, to break up large companies that threaten competition. To enforce these laws, the U.S. Department of Justice and the Federal Trade Commission (FTC) supervise corporate behavior, such as mergers, to make certain that companies compete fairly with one another. Many states also regulate competition.

### Regulating Private Property

Generally, in a free-enterprise system property owners may use their property in any way that they wish. However, government does have the power to regulate the use of property in some cases.

## MEDIA INVESTIGATION

### PHOTOJOURNALISM

## Understanding Photographs and Video

*The media helps to keep us informed about our government. Because so much of our news and information comes from photographs, it is important to understand how and why they are used.*

Photographs are used to illustrate and tell news stories because they can convey a great deal of information in one glance. They are also an effective way to communicate concepts that are new or difficult to describe by words alone. Dramatic photos have the power to leave lasting impressions on the public. Some images may be too shocking for a particular audience, so news editors must select photos and video footage carefully.

Study photographs and videos to see if they are informative and truthful. Ask yourself: Why was this picture or video chosen? What story does it tell? Is the subject posing or is the shot candid? Does any part of the video seem rehearsed?

The Coast Guard patrols a cargo ship as part of increased homeland security efforts.



**ANALYSIS SKILL**

### MEDIA INVESTIGATION

**What does the picture above say about the Coast Guard's role in homeland security?**

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A main way that local governments regulate property is by controlling land use. Zoning laws limit certain types of economic activities to specific areas. For example, a zoning law may allow a factory to be built in an industrial area while banning it in a residential neighborhood.

### READING CHECK

#### Finding the Main Idea

How does the government try to regulate the U.S. economy?

## Fiscal Policy

Fiscal policy—government taxing, spending, and making payments—is one tool that the government uses to influence the economy. For example, in 2008, the federal, state, and local governments employed more than 22 million people. Governments may also loan money to small businesses, which helps the economy to grow.

### Taxes

The federal government can change tax rates to affect the nation's economy. If taxes are raised, consumers have less money to spend. They buy fewer goods and services. When spending slows, the economy slows. On the other hand, lower taxes mean that people give less money to government and have more in their pockets. With more money to spend, many people buy more goods and services. Businesses sell more, and they hire new employees, so the economy speeds up. The government can also offer **tax incentives**. These are special tax reductions that help lower a company's tax bill if it follows certain policies the government favors.

### Government Spending

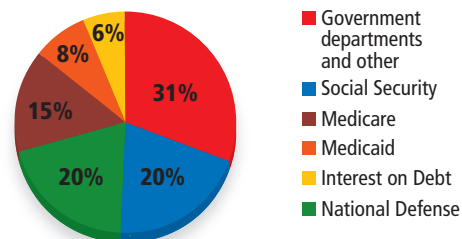
The federal government can also affect the economy by adjusting its own spending. When the government buys more goods and services, it puts more money into circulation. This stimulates the economy. When the government purchases fewer goods and services, the result may be that the economy slows.

## Federal Government Expenditures

QUICK FACTS

About one-third of federal spending goes to support the government in funding its operations and paying wages.

### Federal Expenditures 2010



Source: U.S. Office of Management and Budget

Government programs that are meant to protect people from hardship are called social insurance.

### ANALYSIS SKILL

#### ANALYZING CHARTS

What is the total percentage of federal expenditures for social insurance?

### Public Transfer Payments

Another tool of fiscal policy is public transfer payments. For example, governments provide tax dollars to people who are not working by offering unemployment compensation. By providing assistance to unemployed workers, governments make certain that these workers can still buy goods and services.

### READING CHECK

**Analyzing Information** What are some ways fiscal policy can affect the U.S. economy?

## Monetary Policy

The Federal Reserve System uses monetary policy to promote economic stability. Monetary policy controls the amount of money in the economy. By controlling the money supply, the Fed can promote or slow economic growth.



## The Federal Reserve and Monetary Policy

The Federal Reserve Bank, also called the Fed, decides monetary policy in the United States. An **easy-money policy** increases the growth of the money supply. This increases demands for goods and services, encouraging economic growth. A **tight-money policy** reduces the growth of the money supply, thus slowing economic growth.

The Fed has three main tools it uses to carry out the monetary policy it decides upon. **Open-market operations** involve the buying and selling of government bonds. If the Fed wants to lower the money supply, it sells more government bonds. The money people spend on the bonds is taken out of the money supply. If the Fed wants to increase the money supply, it buys government bonds back from investors, putting more money into circulation.

The Fed also uses a tool called the discount rate, which is the interest rate the Fed charges banks to borrow money. When the Fed changes this rate, it signals commercial

banks that the Fed wants to loosen or tighten the money supply. For example, when the Fed lowers the discount rate, banks may borrow and loan more money. That helps the economy grow. Raising the discount rate has the opposite effect.

Finally, the Fed makes use of the **reserve requirement**. This reserve is the amount of money banks must have available at all times. By lowering the reserve requirement, the Fed frees up banks to loan more money. By raising the reserve requirement, the Fed forces banks to keep more of their money.

Timing is important to monetary policy. First, the Fed must determine the current state of the economy. Second, Fed members must decide the best way to use monetary policy at that time. Finally, it takes time for businesses and investors to adjust to changes in monetary policy. This is why the economy usually does not react instantly to the Fed's policy changes.

### READING CHECK

**Summarizing** What are the goals of monetary policy, and how quickly does monetary policy affect the economy?

## SECTION 3 ASSESSMENT



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ONLINE QUIZ

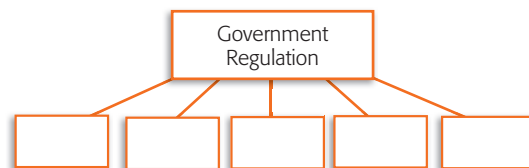
### Reviewing Ideas and Terms

- a. Recall** What are the five main goals of government regulation of the economy?  
**b. Explain** Why is it necessary for the government to regulate the safety of drugs and medicine?
- a. Define** Write a definition for the term **tax incentives**.  
**b. Evaluate** Which government policy might be better for the economy in the long term, a policy that pays unemployment benefits to people who are not working or a policy that trains people for jobs and helps them find work? Explain your reasoning.
- a. Define** Write a definition of the terms **easy-money policy**, **tight-money policy**, **open-market operations**, and **reserve requirement**.  
**b. Predict** During a period of inflation, how might a change in the Federal Reserve's

policy, from easy money to tight money, affect consumer confidence?

### Critical Thinking

- Analyzing Information** Use your notes and a graphic organizer like this one to identify the different ways in which the government regulates the economy.



### FOCUS ON WRITING

- Summarizing** Compare and contrast fiscal policy and monetary policy.

## Analyzing Music Videos

### Learn

What was the last music video you saw? Did it have a message behind it, or was it created purely for entertainment? While some music videos are just plain entertainment, many music videos today have a lesson behind them. They make viewers think and react to important issues. For example, a music video may show touching images of soldiers returning from war or of families struggling to make ends meet. Videos like these send messages to their viewers. An important part of understanding today's mass media is being able to understand music videos. Use the tips below to help you analyze a music video.

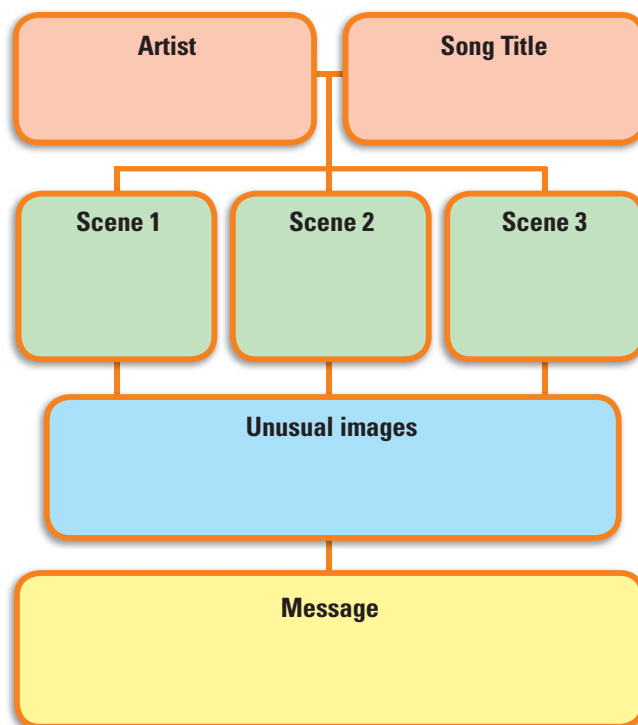
### Practice

- 1 Notice how the song lyrics connect to the images. The meaning of the lyrics will probably be clearer if you look at how they fit with the video images. The images may help you better understand the words to the song. They often make the message of the video clearer.
- 2 Pay attention to how the artist or band appears. Are the performers simply shown singing the song? Are they acting out some other storyline as they sing the song? Maybe the song is only playing in the background of the video.
- 3 Take note of any surprising images. Watching a music video, you may see images you would not expect to go with the music. In your analysis, consider why these images were chosen and whether you think they are appropriate or not.
- 4 Identify the video's message. Use the information you have collected to identify the message of the video. What do you think the artist or band is trying to say?

### Apply

Copy the graphic organizer below on your own paper. Think of a video that you have seen recently, then analyze that video by completing the graphic organizer. Use the information to answer the questions that follow.

1. How do you think the images in the video connect with the song lyrics? Why do you think the makers of the video chose the images they did?
2. Does the artist or band appear in the video? If so, in what role?
3. What do you think is the purpose of this video? Does it succeed? Why or why not?





## SECTION 4



SS.7.E.1.3; SS.7.E.2.2; SS.7.E.3.1; SS.7.E.3.2;  
LA.7.1.6.1; LA.7.1.7.1

# Living in a World Economy

## BEFORE YOU READ

### The Main Idea

International trade allows countries to specialize in producing the goods and services where they are most efficient. Trade gives people access to more goods and services. Trade also makes countries interdependent.

### Reading Focus

1. Why do countries trade with one another?
2. What are the differences between free trade and protectionism?
3. How does international trade affect jobs and consumers?

### Key Terms

absolute advantage, p. 570  
comparative advantage, p. 570  
opportunity cost, p. 570  
trade barrier, p. 572  
balance of trade, p. 574  
trade surplus, p. 574  
trade deficit, p. 574



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### TAKING NOTES

Use the graphic organizer online to take notes on living in a world economy.



Make a list of all the goods you use in a week, from clothing to electronic equipment to food. Then consider how many of these goods came from other countries. Without international trade, you probably would not have the choices you do or you would pay a lot more for what you buy.

## Why Nations Trade

### FOCUS ON



In 2008, Florida's exports of goods and services totaled about \$84.6 billion and supported about 1 million jobs in the state.

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

Almost no country can meet all its needs without outside help. As a result, almost every country in the world engages in some international trade.

### Specialization and Interdependence

Countries trade because they need goods and services that they would not otherwise have. For example, the United States has to import coffee to meet its domestic demand. Many countries tend to specialize—to concentrate on producing certain kinds of goods or services. The resources available in a country often determine the kinds of goods it produces.

Countries that specialize in production and then engage in trade with each

other are interdependent. Interdependence means that peoples depend on each other for different goods and services.

### Trade and Comparative Advantage

Countries decide what goods and services to provide by examining their absolute and comparative advantages. A nation has an **absolute advantage** when it can produce more of a given product than another country can. Even if a country has an absolute advantage in several goods and services, it will usually specialize and produce goods and services in which it has a comparative advantage. A country has a **comparative advantage** when it can provide a product more efficiently—at a lower opportunity cost—than another country can. **Opportunity cost** is the value of the next best alternative that is given up when a country specializes. Why specialize? Countries specialize and trade because they can get more goods overall.

### READING CHECK

**Drawing Inferences and Conclusions** How does a country determine which goods and services it should produce and which it should import?

# The Global Economy

Manufacturing today is a global process. Products we think of as American are actually designed and built all over the world. An mp3 player, for example, may be made of parts from a dozen different countries.

QUICK  
FACTS

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INTERACTIVE ART

## MP3 Player

An mp3 player is stamped with a brand name, but the company that sells it most likely does not design, make, package, or ship it.



Hard drive, made by a company in Neuss, Germany

Scroll wheel, made by a company in Santa Clara, California

Firewire controller, made by a company in Dallas, Texas

Digital-to-analog converter, made by a company in Edinburgh, Scotland

Rechargeable battery, made by a company in San Jose, California

1 The microchip that acts as the "brain" of the mp3 player carries the brand name of a company in **San Jose, California**.

4 The custom design is sent to two companies in **Taiwan** to be manufactured. The chips are coated in plastic by a third Taiwanese factory and cleaned up by a **South Korean** factory.

2 The San Jose company buys the chip's basic design from a company in **London**.

3 The San Jose company shares information between two offices—one in **California** and one in **India**—which work around the clock customizing the chip.

5 The chips are stored in **Hong Kong** before going to a plant in **Shanghai** that builds and ships the player for sale in the **United States**.



ANALYSIS  
SKILL

ANALYZING VISUALS

How many countries are involved in the design and manufacturing of this mp3 player?



## Free Trade Versus Protectionism

Even though international trade allows countries to gain wealth, countries often limit the exchange of goods across their borders. This is called protectionism. Governments use trade barriers to protect domestic jobs and industries from foreign competition. A **trade barrier** is a limit on the exchange of goods.

### Trade Barriers

Countries use a variety of trade barriers to limit trade. Trade barriers include import quotas, voluntary restrictions, and embargoes.

**Tariffs** Goods and services purchased by one country from another are called imports. A tax on imports is called a tariff. There are two kinds of tariffs. Revenue tariffs are a tax used to raise money for a government. A protective tariff makes foreign goods cost more and reduces demand. Consumers will then choose goods manufactured domestically instead. The United States has used such protectionist policies for much of its history.

### Import Quotas and Voluntary Restrictions

Governments also use import quotas and voluntary trade restrictions to limit imports. An import quota is a law that limits the amount of a particular imported good. A voluntary trade restriction is an **agreement** between two countries to limit certain trade. Both of these forms of regulation help domestic businesses. Because the amount of the import is limited, domestic businesses face less competition from foreign goods.

There are additional barriers to trade. For example, Japan requires that all imports be tested and inspected. This process is expensive and time-consuming. Other countries require companies exporting to their country to first get special licenses before goods can be imported. These licenses can be difficult to obtain, which limits imports to such countries.

**Embargoes** An embargo bans trade with specific countries. Embargoes are often enacted for political rather than economic reasons. For example, the United States has had a trade embargo against Cuba since 1960 because of its opposition to Cuban president Fidel Castro.

### International Cooperation

Although many countries enact trade barriers, they still support international trade. Some examples of trade cooperation are reciprocal trade agreements, regional trade organizations, and international trade agreements.

**Reciprocal Trade Agreements** These agreements between countries usually reduce protective tariffs. For example, the U.S. Congress can grant Normal Trade Relations (NTR) status to other countries, which may give them lower tariff rates.

**Regional Trade Agreements** Many neighboring countries have formed regional trade organizations. These organizations reduce or eliminate trade barriers among members. The European Union (EU) is an example.

**International Trade Agreements** Countries also enter into international trade agreements to reduce trade barriers. In 1947 the United States and 22 other countries signed the General Agreement on Tariffs and Trade (GATT). In 1995 the World Trade Organization (WTO) replaced GATT. In 2011, 153 countries belonged to the WTO.

The North American Free Trade Agreement (NAFTA) is an international trade agreement among Canada, Mexico, and the United States. It went into effect in 1994. The goal of NAFTA was to gradually remove all trade barriers between these three countries.

In 2004 the United States signed a similar agreement with five Central American countries. Called CAFTA, the Central American Free Trade Agreement, it now includes the Dominican Republic.

#### ACADEMIC VOCABULARY

**agreement:** a decision reached by two or more people or groups

## Counterfeiting and Consumer Protection

*Have you ever bought a high-fashion handbag or a fancy watch at a price too good to believe? Chances are the item is a cheap imitation of the real thing. If you know this ahead of time, you might decide that buying the item is not a big deal. But how would you feel if you paid full price and later learned you had bought a fake, or counterfeit, product?*

### Why it Matters

Counterfeiting goods is against the law, and can cause legitimate businesses to lose sales and profits. The U.S. government issues patents and trademarks to companies to make sure that they can control who manufactures them.

U.S. manufacturers must follow consumer protection laws to ensure the safety and quality of their products. But counterfeiters often try to pass off shoddy products, produced at a fraction of the cost, as the real thing. This can be dangerous, as well as illegal—counterfeit cosmetics or car parts made from inferior materials could endanger people's lives.

Counterfeit merchandise can also contribute to other illegal activity. Gangs and terrorists sometimes fund their activities by selling counterfeit merchandise. One job of the U.S. Customs Service is to protect Americans by preventing the importation of counterfeit goods.



Counterfeiters often copy well-known brand names and logos.

### ANALYSIS SKILL

#### EVALUATING THE LAW

1. Why is it illegal to counterfeit goods?
2. Who do you think is hurt the most by counterfeiting? Explain.

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

### Free Trade and Protectionism

The goal of NAFTA and other agreements is to promote free trade. Not everyone supports free trade, however. Some people support protectionism for a variety of reasons. These reasons include protecting industries and jobs, maintaining high wages, and national security. Some opponents of free trade argue that other countries are not as concerned as the United States about worker safety and environmental protection.

Protectionist policies may, however, harm the economy. Protectionism may lead to price increases and trade wars, which could mean that consumers would pay higher prices for their goods and services. Few governments have a trade policy that is completely protectionist or completely based on free trade. Most countries' policies are a mixture of the two.

### READING CHECK

**Summarizing** How can trade agreements help international trade?



**SS.7.E.3.1** Explain how international trade requires a system for exchanging currency between and among nations.

## The Value of Trade

Every country in the world has a form of currency. For example, the United States has the dollar, Mexico has the peso, and many European countries have the euro. While each currency can be used to buy goods and services in its own country, it is less useful in another country. For example, you could not pay for a purchase in this country with euro coins. You could, however, take the coins to a bank and exchange them for U.S. dollars, which you could then use to make your purchase.

Businesses must follow a similar procedure when conducting international trade. An American company buying products from a Chinese manufacturer, for example, cannot pay in dollars unless those dollars can be converted to Chinese yuan.

### Exchange Rates and Trade

How many yuan is a dollar worth? The answer to that question changes every day. It is expressed in the exchange rate, which identifies the price of one currency in the currency of another. A currency's exchange rate is influenced by several factors,

including inflation or political instability in the issuing country or the country's willingness to trade.

When a currency's value is low compared to other currencies, that currency is said to be weak. One country's weak currency allows other countries to buy goods from that country more cheaply. A weak currency therefore lowers the value of a country's exports and, at the same time, raises the price for imports. On the other hand, a strong currency can increase the cost of exports while making imports cheaper.

### Balance of Trade

Currency values play a major role in a country's balance of trade. **Balance of trade** refers to the difference between the value of a country's exports and imports. If a nation exports more than it imports, it has a **trade surplus**. If it imports more than it exports, it has a **trade deficit**. The United States typically has a trade deficit. For example, in 2010 the United States imported more than \$2.3 trillion in goods and exported over \$1.8 trillion. The U.S. trade deficit was thus about \$500 billion.

#### READING CHECK

**Summarizing** How does the value of a nation's currency affect trade?

**SS.7.E.3.2** Assess how the changing value of currency affects trade of goods and services between nations.

## SECTION 4 ASSESSMENT



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ONLINE QUIZ

### Reviewing Ideas and Terms

- a. Define** Write a definition for the terms **absolute advantage**, **comparative advantage**, and **opportunity cost**.  
**b. Explain** Under what circumstances might a country continue to produce a good that it could purchase for less money from another country?
- a. Define** What is a **trade barrier**?  
**b. Summarize** What is NAFTA, and how does it benefit the United States?  
**c. Elaborate** Why do some countries use tests and inspections as trade barriers?
- a. Define** Write a definition for the terms **balance of trade**, **trade surplus**, and **trade deficit**.  
**b. Predict** How might an inexpensive, advanced cell phone from China affect the U.S. economy?

### Critical Thinking

- Analyzing Information** Use your notes and a graphic organizer like this one to identify the ways that international trade affects jobs and consumers.



### FOCUS ON WRITING

- Making Comparisons** Suppose that you are a journalist writing a story on trade issues. Compare free trade and protectionism for your readers.

# STUDENTS TAKE ACTION

PROJECT Citizen



## Educating the Public

**B**yrd Community Academy was located in an old building in a poor area of Chicago. The school had no lunchroom. Students had to eat in the hallways. Its many problems included a leaky roof, missing doors in the bathrooms, and a broken heating system. Project Citizen students in teacher Brian Schultz's class decided it was time to act.

**Community Connection** The students discovered that several years earlier the local school board had promised to build the school an entirely new campus. However, the funds set aside for Byrd were used to rebuild a different worn-out school.

**Taking Action** The students wanted the school board to fulfill its promise. They researched and developed an 11-point action plan for achieving their goal. To gain public support, they took pictures of the building, produced a documentary video showing its problems, and wrote to government officials. The vice president of the United States, a U.S. senator, a U.S. representative, and an independent presidential candidate all expressed support for the plan. Donations poured in from private citizens. However, the school had low enrollment, and district resources were scarce. The school board made an economic choice to use the money it would cost to rebuild the school for other uses benefiting more students.

Byrd Community Academy closed, and its students were moved to another school. The students may not have achieved their goal. Yet, they attracted national attention to the issue of how a school's physical environment can affect student learning.



Ralph Nader visits with students at the Byrd Community Academy in Chicago.

### SERVICE LEARNING

21<sup>ST</sup> CENTURY

1. What inspired the Byrd students to follow up on the school board's past plan to rebuild the school?
2. How was the students' project successful, even though their school eventually closed?

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



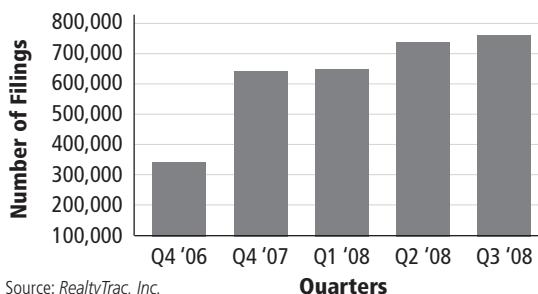
# CHAPTER 21 REVIEW



## FLORIDA CIVICS EOC PRACTICE

1. The chart below illustrates the number of homes repossessed by banks between 2006 and 2008.

**FORECLOSURE FILINGS: 2006–2008**



Source: RealtyTrac, Inc.

Which of the following economic indicators agrees with the information in the graph?

- People had more money to spend in 2008 than in 2006.
  - Incomes increased from 2006 to 2008.
  - Jobs became scarcer between 2006 and 2008.
  - More businesses started in 2007 than 2008.
2. Which of the following currencies would have the highest value?
- a currency that is low in demand and high in supply
  - a currency that is high in demand and low in supply
  - a currency that is low in demand and supply
  - a currency that is high in demand and supply

## Reviewing Key Terms

For each term below, write a sentence explaining its significance to the U.S. economy and the world.

- consumer
- producer
- circular-flow model
- competition
- leading indicators
- coincident indicators
- lagging indicators
- tax incentives
- easy-money policy
- tight-money policy
- open-market operations
- reserve requirement
- absolute advantage
- comparative advantage
- opportunity cost
- trade barrier
- balance of trade
- trade surplus
- trade deficit

## Comprehension and Critical Thinking

### SECTION 1 (Pages 556–560)

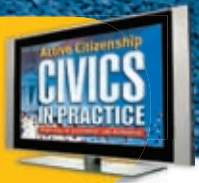
- 20. a. Define** What is the circular flow model?
- b. Compare and Contrast** How do traditional economies differ from market economies?
- c. Elaborate** Why is investment important in a free-enterprise system?

### SECTION 2 (Pages 561–564)

- 21. a. Describe** How does the location of capital and human resources affect the U.S. economy?
- b. Sequence** What are the stages of the business cycle?
- c. Predict** What are some possible ways that current events can affect a country's economy? Explain.

### Active Citizenship video program

Review the video to answer the closing question:  
*Why are students often the best people to identify problems with their school?*



### SECTION 3 (Pages 565–568)

- 22. a. Identify** What are the goals of government regulation?
- b. Explain** What is the role of the Federal Reserve System in the U.S. economy?
- c. Evaluate** Is there a place for government regulation in the free-enterprise system? Explain.

### SECTION 4 (Pages 570–574)

- 23. a. Recall** Why do countries have tariffs?
- b. Make Generalizations** What industries do protectionists believe should be protected from foreign competition? Why?
- c. Support a Point of View** Free trade brings many benefits to the U.S. economy. Should the United States end protectionism and eliminate all trade barriers? Why or why not?

## Civics Skills

**Analyzing Music Videos** Use the Civics Skill taught in this chapter to complete the activity below.

- 24.** Watch two or three music videos by different bands or artists. Then write a paragraph about each video analyzing its content. Consider:
- Does the video have a message?
  - If so, what is that message?
  - How do the images in the video connect with the lyrics of the song?

## Using the Internet

- 25. Explaining Currency Exchange** Imagine that you have been hired by a business to explore foreign markets for its products. Choose a country and investigate its currency and the current exchange rate. Determine whether the currency is stronger or weaker than it was a year ago. Prepare a multimedia presentation that will explain to the company's board of directors the importance of currency exchange and whether a strong or weak currency better suits the company's goals.

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## Reading Skills

**Analyzing Essential Information** Using the Reading Skill taught in this chapter, read the following passage and answer the question below.

Adam Smith was born in a small village in Scotland. His mother raised him until he entered the University of Glasgow at age 14.

In 1776 Smith published his book on economic theory, *The Wealth of Nations*. Smith's book explains how rational self-interest—people making reasoned decisions about what to buy and sell—leads to economic well-being.

One of Smith's theories is that the free market, while appearing unregulated, is actually guided to produce the right amount of goods. For example, if there is a shortage of some good, its price will rise because people will pay more to get it. This increased price is incentive for others to enter the market, which will eventually cure the shortage. (p. 558)

- 26.** Which sentence or sentences in this passage are irrelevant to the discussion of Smith's economic theories?

## FOCUS ON WRITING

- 27. A Job Description** Review your notes about the U.S. economy and the world. Pay special attention to international trade. Now write a job description for a salesperson that will help your company sell its computer games in other countries. Focus on the skills and knowledge this person will need to have for the position.



## Preventing Discrimination in Employment

*Every American should have an equal opportunity to work and succeed based on his or her abilities. Some jobs do require special skills or certain levels of education. But what if someone decided that you did not qualify for a job simply because of your race, gender, or age? Would this be fair?*

### Why it Matters

For many years job discrimination was common in the United States. For example, by law, African Americans and women could not hold certain jobs. Then Congress began to pass laws against such discrimination. The most important anti-discrimination employment law is Title VII of the Civil Rights Act of 1964. This law prohibits job discrimination based on race, color, religion, sex, or national origin. Since then, other federal laws have been passed to protect people from being discriminated against. They cannot be discriminated against because they are over 40 years of age. Nor can they be discriminated against because they have a physical disability that is not related to the skill requirements of the job. Most of these laws apply to companies that have more than 15 employees and take part in interstate commerce. This covers most businesses.

The federal government also established the Equal Employment Opportunity Commission (EEOC) to investigate suspected discrimination. The EEOC determines if discrimination took place. It also tries to get individuals or companies to follow the law. If necessary, the EEOC will sue employers who repeatedly break the law. Job discrimination is often hard to prove unless there is a pattern that can be shown over time. For example, a company may have never hired or promoted African American employees even though many qualified African Americans have applied for positions. If you ever think you are the victim of job discrimination, you can contact the EEOC for help.



President Lyndon B. Johnson shakes hands with civil rights leader Martin Luther King Jr. after signing the Civil Rights Act of 1964.

### ANALYSIS SKILL

#### EVALUATING THE LAW

1. Why it is important to prevent job discrimination based on race, religion, gender, age, or disability?
2. What might be evidence that an employer is practicing job discrimination?



# PERSONAL FINANCE HANDBOOK

Learn the basics about earning money and discover how to make the best choices for managing your finances.

Income ..... PF2

Money Management ..... PF8

More resources available @



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## Florida Next Generation Sunshine State Standards

**SS.7.E.1.6** Compare the national budget process to the personal budget process.



# Income

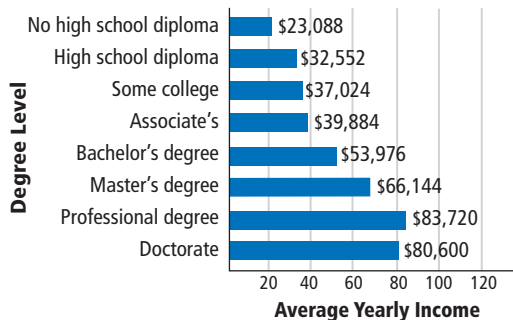
You deal with money every day. You make it, spend it, save it, and invest it. But how much do you really know about your money? Are you making the best decisions about how to use your money? Do you know how to make your money work for you? This **Personal Finance Handbook** was written to help you learn more about the basics of managing your money. You will also learn how to use tools such as checking accounts, budgets, and portfolios to make the most of the money you have.

## Why Money Matters

Imagine that you had never seen money. Wouldn't you wonder why people are interested in little green pieces of paper? After all, you can't eat money, wear it, or use it for shelter from the elements. When looked at that way, money doesn't seem very important at all. After some examination, however, you would probably realize that money is not important for what it is but for what it does.

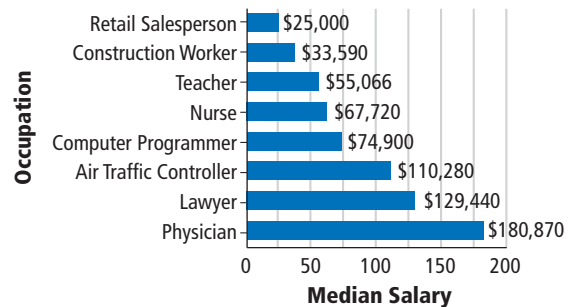
Money is a medium of exchange. In other words, it allows people to trade one thing—money—for other items that they need or want. Imagine living in a world without money. What would life be like? If you wanted food, you couldn't run to a store or restaurant and purchase some. Instead, you would either have to grow or find your own or trade with someone who had food. If you didn't have anything that he or she wanted, then life could get very difficult.

### EDUCATION AND SALARY



Source: Bureau of Labor Statistics,  
U.S. Department of Labor

### MEDIAN SALARIES FOR SELECTED CAREERS



Source: *Occupational Outlook Handbook*,  
U.S. Department of Labor



### INTERPRETING CHARTS

What is the average annual salary for someone with a master's degree? For a teacher?

## Sources of Income

Because we all need certain goods and services, we each need a source of income, or a way to make money. For most people the primary source of income is a job. The types of jobs people have vary widely, from after-school positions as sales clerks, to full-time jobs as doctors that require years of training. As a result the amount of income that people earn also varies.

Though there are exceptions, jobs that require extensive education or training or that create high amounts of stress are generally the highest paid. This trend is illustrated by the graphs on the previous page. The first graph shows that a person's income can vary greatly depending on his or her education and career choice.

Not everyone, however, wants to work for another person. Some, called entrepreneurs, choose instead to create their own businesses. Entrepreneurs open businesses for many reasons. Some think that they can make more money or find more satisfaction by running a business than by working for someone else. Others have ideas for new types of businesses that do not currently exist.

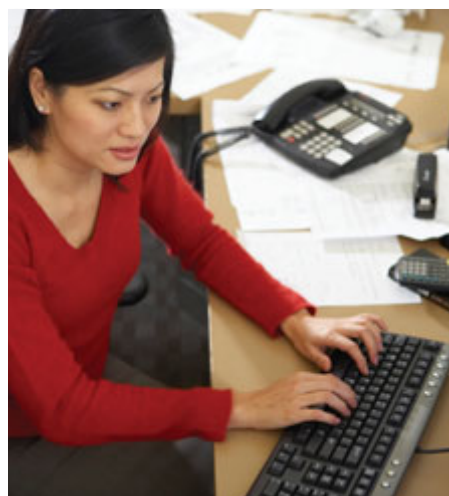
Whatever the reason for starting a business, doing so can be a risky move. Many new businesses fail in their first few years of operation. Even those that succeed may not turn a substantial profit for several years. However, the right business can achieve great success and lead to wealth. Some of the largest businesses in the country today began as small companies.

Although most people depend on their jobs for income, jobs are not the only way in which people make money. In fact, most people earn at least some income from other sources during their lives. Among these other possible sources of income are

- interest on money saved or invested in accounts.
- gifts or inheritances from friends and relatives.
- winnings from games or contests.
- rent collected on property used by others.
- profit from selling possessions, such as a house.

## Factors Affecting Income

Imagine that you have obtained a part-time job working after school in a local restaurant. The job pays \$7 per hour, and you will be working 10 hours each week. You should make \$70 each week from the job, right? Yes and no. Although \$70 will be your total weekly income, or gross pay, your take-home pay will actually be less.



Most people earn their income through jobs, whether working for large companies or starting businesses of their own.

### VOCABULARY

**entrepreneur** an individual who begins and runs his or her own business

**profit** the money one has earned from a business or transaction after all expenses have been paid

**gross pay** the total amount a worker earns before any deductions have been calculated



**VOCABULARY**

**net pay** the money remaining from a paycheck after deductions

**tax** money collected by a government to pay for public programs or projects

**income tax** a form of tax based on the total income of an individual or business

Several factors affect how much money from your gross pay you get to keep. From that total your employer must make a number of deductions. Look on the stub of your paycheck for a list of them. The money left after all these deductions is called your net pay. This is the amount that you get to take home.

The money deducted from your paycheck covers many expenses. Part of it goes to the government in the form of taxes and contributions to programs like Social Security. Other deductions may be taken to pay for employer-sponsored programs. These include insurance benefits or charitable donations. In some jobs, union dues may also be deducted from your paycheck. Of these deductions, only the taxes and federal contributions are required. All other deductions are optional and require your written permission before any money can be taken from your paycheck. The following types of deductions are often taken from payroll checks.

**Federal and State Income Tax**

Everyone is required to pay federal income tax. The amount due is calculated as a percentage of your total income. In most cases your employer will deduct a certain percentage of your earnings to send to the government as your income tax. Then, when you file your income taxes each year, you will compare how much you owe to what you have already paid and reconcile the difference. If your state collects a state income tax, money will also be deducted from your paycheck for that tax.

**FINANCE 101****Reading a Tax Table**

Each year the Internal Revenue Service prints tax tables to help Americans calculate the amount of income tax they owe. To read a tax table, look down the left column to find the row with the range into which your income falls. Then find the column that matches your filing status—single, married filing jointly, and so on. Where the row and column meet will be the amount of income tax you owe.

**Skills  
FOCUS****UNDERSTANDING FINANCE**

How much income tax would a single worker who made \$20,645 have to pay? a married woman filing separately from her husband and who earned \$20,133?

If line 43 (taxable income) is —		And you are —			
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household
20,000		Your tax is —			
20,000	20,050	2,626	2,249	2,626	2,466
20,050	20,100	2,634	2,256	2,634	2,474
20,100	20,150	2,641	2,264	2,641	2,481
20,150	20,200	2,649	2,271	2,649	2,489
20,200	20,250	2,656	2,279	2,656	2,496
20,250	20,300	2,664	2,286	2,664	2,504
20,300	20,350	2,671	2,294	2,671	2,511
20,350	20,400	2,679	2,301	2,679	2,519
20,400	20,450	2,686	2,309	2,686	2,526
20,450	20,500	2,694	2,316	2,694	2,534
20,500	20,550	2,701	2,324	2,701	2,541
20,550	20,600	2,709	2,331	2,709	2,549
20,600	20,650	2,716	2,339	2,716	2,556
20,650	20,700	2,724	2,346	2,724	2,564
20,700	20,750	2,731	2,354	2,731	2,571
20,750	20,800	2,739	2,361	2,739	2,579

## Barney's Burger Barn

Employers take deductions from employees' paychecks for federal and state taxes. In addition, many employees opt to have the cost of benefits deducted from their checks.

## Barney's Burger Barn

Employee Earnings Statement  
Week Ending April 28, 2007

EMPLOYEE: Timothy Taxpayer  
SSN: 000-00-0000

Taxes/Deductions		
Regular Earnings: \$376.00	Federal Taxes	\$54.40
Overtime Earnings: \$0	FICA	\$28.76
	State Tax	\$9.52
Gross Earnings: \$376.00	Insurance	\$17.60
	Retirement	\$8.30
<b>NET PAY</b>		<b>\$253.42</b>

The money that remains after all deductions have been made is called your net or take-home pay.

Detach and retain top portion for your records

### FICA

The Federal Insurance Contribution Act (FICA) requires that money be deducted from paychecks to help fund two programs that help support retired Americans: Social Security and Medicare. Between 7 and 8 percent of your gross income will usually be deducted for FICA. Full-time students may be exempt from paying FICA expenses.

### Benefit Costs

Many companies offer their employees certain benefits, such as subsidized life and medical insurance. In this case the company pays for a portion of the cost of the insurance. The employee pays only what remains.

### Retirement Funds

Most companies offer insurance benefits. Many of them also offer their employees the chance to create a retirement fund, such as a 401K account. A 401K is a special savings account that sets aside money for an employee to use after retiring. Some companies even contribute additional funds to their employees' retirement accounts. This is an added benefit. Contributions to a 401K account are deducted from each paycheck before taxes are calculated.

### Charitable Donations

Some companies offer their employees a chance to donate part of each paycheck to charitable organizations. Donations can be either a set amount or a percentage of the total check. In such cases these donations would also appear as deductions.



**VOCABULARY**

**inflation** a rise in general price levels over time

**purchasing power** a measure of how much people can buy with their income

**Union Dues**

Many members of labor unions have their membership dues deducted from their paychecks.

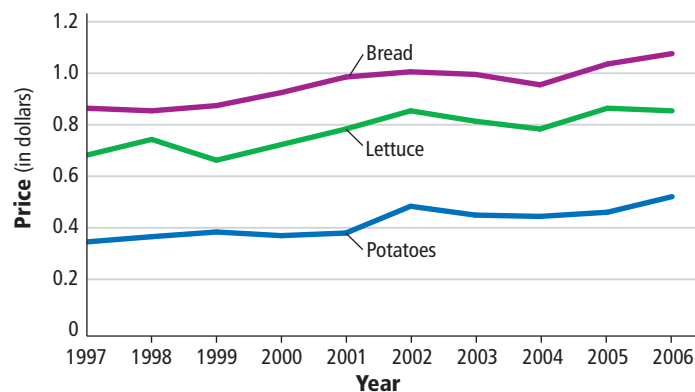
**Other Deductions**

Your employer may offer other programs that will lead to payroll deductions. You will learn about such programs when you are hired.

**Inflation and Purchasing Power**

On average, people today make considerably more money than people did in the past. It would seem, then, that people could afford to buy more than people in the past, wouldn't it? In reality, however, that is not necessarily the case. While wages were increasing, prices increased as well. For example, in 1960 the average price of a gallon of gasoline was about 25 cents. In 2007 that price rose to just over \$3. Economists call the trend of prices rising over time inflation.

If prices rise faster than salaries, then people can afford less with the same amount of money. Look at the graph on this page for an example. It shows an increase in the price of certain foods between 1997 and 2006. If a person's income did not increase during this period, then he or she would not be able to purchase as much food each month. The measurement of how much people are able to buy with their income is called purchasing power. Simply put, if prices increase while salaries stay level, purchasing power decreases. If prices drop and salaries stay level, purchasing power increases.

**AVERAGE PRICE OF SELECT GOODS OVER TIME**

Source: U.S. Department of Labor, Bureau of Labor Statistics

**Skills  
FOCUS**

**INTERPRETING CHARTS**

During which period did the average price of these goods decrease slightly?

## FINANCE 101

## Calculating Discretionary Income

Your discretionary income is the amount of money you have left to spend after you have paid for all necessary expenses, such as housing, food, utilities, and so on. To calculate this figure, simply subtract your total expenses from your total income during the period. For example, suppose you earn \$2,000 each month and your expenses total \$1,500. To calculate, perform this simple operation:

$$\$2,000 - \$1,500 = \$500$$

Your discretionary income would total \$500.



## UNDERSTANDING FINANCE

Suppose your monthly income was \$1,250. What would your discretionary income be if your expenses totaled \$925? if your expenses totaled \$575?

## Discretionary Income

When economists talk about incomes, they look at different figures. One is disposable income. This is the amount of money people have left after all deductions have been taken from their paychecks. In other words, disposable income is the same as net pay.

However, just because you take a certain amount of money home each month does not mean you can spend it on whatever you would like. People have certain expenses that they must pay each month. Such expenses are paying a mortgage or rent, buying food, and paying bills. The money you have left after all of these expenses are calculated is called your discretionary income. If you are aware of your discretionary income, you can plan your purchases wisely and avoid financial troubles.

## VOCABULARY

**disposable income** another name for net pay; the money remaining from a paycheck after deductions

**discretionary income** the money that remains after one's expenses have all been paid

## Assessment

- 1. Describe** Why do people need money? How do they get that money?
- 2. Explain** Why do employers make deductions from employees' paychecks? How do these deductions affect the employees' net pay?
- 3. Apply** Make a list of five jobs that you might be interested in having during your lifetime. For each job on your list, write down what you think the educational requirements and average salary are. Then use the library or other sources to conduct research into the actual requirements and salary. What factors might influence that salary?



# Money Management

Once you have money in your pocket, what do you do with it? Do you immediately rush out to buy all the latest CDs and movies? Do you set the money aside to pay for future needs or bills? Do you give some of it to charity? Do you deposit it in a bank account to collect interest in the meantime? All of these choices are valid options, each with its own benefits and drawbacks. As a consumer, though, you must decide which option is the best for you. In other words, it is your responsibility to manage your money.

## Making Financial Choices

Personal finance is largely a matter of choices. As consumers, we are constantly faced with ways to spend money. You must decide how to use your money to satisfy your wants and needs.

To many people, getting a first job is an exciting experience. When they receive their first paycheck, they may go on shopping sprees and spend their cash on various items. This kind of impulse shopping can be quite fun in the short term. However, it is generally better to consider a longer-term approach to financial decisions.

For example, suppose that you have just received your first paycheck from a part-time job. While out with some friends, you see a shirt that you love and want to buy. Since you now have cash from your job, buying the shirt should be no problem, right?

Suppose that you have also decided that you want to purchase a new computer. You don't currently have enough money, but if you wait a few more weeks and save the money from your paychecks, you will. Any money you spend on other items (like the shirt you want) will mean a longer wait for the computer. Now you are faced with a tougher choice—buy the shirt or save for the computer.

The choice becomes even tougher when you look at longer-term goals. In the future you might like to buy a car, which will require substantial savings. You may want to attend college, which is also very expensive. The more money you spend on clothes, CDs, and other such items now, the less you will have to fulfill your goals later. You have to decide which is more important to you: satisfying your immediate wants or working toward fulfilling your long-term goals. Setting priorities like these is the kind of decision you face when planning how to spend your money.

## Financial Planning

One of the best ways to make good financial decisions is to make a budget, or a plan for how you will spend your money. A budget lists your total income over a period of time and your anticipated expenses for the same period. By comparing how much money you will make with how much you will have to spend, a good budget can help you make better use of your money.

A budget is not hard to prepare, but it does take some careful thought. First, you must decide how long a period you want your budget to cover. Most people prefer to create monthly budgets, because many of the most common expenses in their lives—rents and mortgages, automobile payments, utility bills, and so on—are charged once each month. Other people prefer weekly or yearly budgets.

Next, you must decide how to record your budget. Some people like handwritten records. Other people prefer to keep track of their budgets on their home computers. A basic spreadsheet program can easily keep track of the numbers involved in a budget. In addition, many companies make special software that makes keeping track of your personal budget easier than ever.

Once you have decided how you will keep track of your budget, you must gather information for it. Collect all of your financial records together—paycheck stubs, receipts, bills, and so forth—and prepare to organize your financial goals.

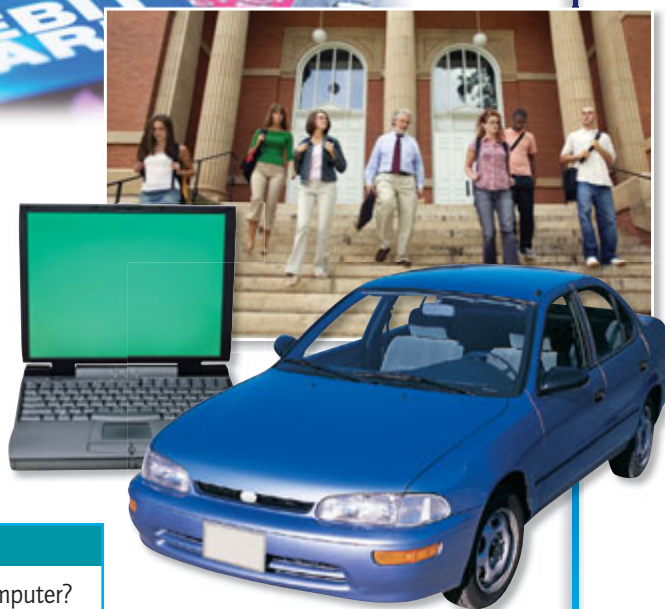
### VOCABULARY

**budget** a spending plan based on an individual or family's income

## FINANCE 101

### Making Financial Choices

Making financial decisions is largely a matter of setting priorities. You often must decide which of several purchases is most important to you. For example, suppose your grandfather gave you \$1,000. How would you spend it? You could buy the computer you want, but you could also add the gift to the money you are saving toward buying a car. Or you could set it aside for college.



**Skills  
FOCUS**

#### UNDERSTANDING FINANCE

What would be the advantages of buying the computer? of saving the money? How would you decide to use the money? Give reasons to support your answer.



**VOCABULARY**

**expenditures** money that you have spent

**Calculate Income**

The first step in preparing your budget is to estimate your total income. Remember that your income includes your salary, as well as any other money received. For example, look at the sample household budget on the next page. This family brought \$7,000 home in their paychecks. They also earned money as interest during this month.

**Calculate Expenditures**

Once you have calculated your total income, you must estimate your total expenditures. Start by totaling all of your fixed expenditures. These are expenses that do not change over time. Mortgage and rent payments, for example, are usually the same from month to month. So are payments on a car loan or student loan. Record your total fixed expenses on your budget sheet.

Now comes the trickier part: calculating your monthly living expenses. These expenses include everything you have not already recorded, from food to gasoline to entertainment. Living expenses can be difficult to estimate. Some vary from month to month. For example, gasoline costs vary based on the price of gas and on how much you drive during a given period.

Look at the sample budget on the next page to see what kinds of costs are included as living expenses. Not all of these categories will apply to every budget. Some people may have other regular expenses that do not fit into these categories. Your budget should reflect your own personal expenses. So put some careful thought into this part of the budgeting process.

Save copies of all of your bills and store receipts to help estimate your monthly living expenses. Examine these documents to help you figure out how much you spend on each type of expense in an average month. The amounts you fill in do not have to be exact. However, they must reflect your typical spending habits.

**Figure Your Budget**

Once you have completed your budget, compare your total income to your total expenses. Any money you have left over from your income is yours to spend or save as you see fit. However, your monthly expenses may be higher than your total income. If so, then you may need to make some changes in your routine.

If you spend more money than you earn, you need to revise your budget. Or if you would like to save more money than you currently are, you may need to revise your budget. Start by examining your spending habits. Where do you spend the most? Can you cut back on how much you spend? If so, by how much? Each cutback you make to your spending will yield greater savings in the end.

## Preparing a Budget

Preparing a budget is the best way to keep track of your spending. By detailing how much money you have and how you spend it, you can often find ways to improve your spending habits.

The total income you record on your budget should include paychecks and any other money you make during the period.

Fixed payments are those that you cannot change, such as rent or loan payments.

Living expenses may vary from month to month, so it is important that you carefully estimate how much you spend in each category.

**Skills Focus**

### UNDERSTANDING FINANCE

Imagine this was your budget. What adjustments would you make to increase your discretionary income by \$200?

## Household Budget Plan April, 2007

### INCOME

Salaries/Wages/Tips	\$7,000
Social Security/Retirement	
Interest	\$10
Other Income	
<b>Total Take Home Income</b>	<b>\$7,010</b>

### MONTHLY FIXED PAYMENTS

Mortgage/Rent	\$1,250
Student Loans	\$323
Auto Loans/Leases	\$568
Other Debts	\$200
Other Loans	
<b>Total Fixed Payments</b>	<b>\$2,341</b>

### MONTHLY LIVING EXPENSES

Auto Gas and Repair	\$200
Auto Insurance	\$150
Cable TV/Satellite Fees	\$65
Charitable Contributions	\$25
Child Care	\$300
Childrens' Activities	\$150
Clothing	\$300
Credit Card Bills	\$400
Electric Bill	\$150
Dining and Entertainment	\$400
Gas and Oil Bills	\$100
Groceries	\$500
Internet	\$65
Insurance	\$125
Medical Expenses	\$90
Subscriptions	\$30
Telephone (Home, Cell, Pager)	\$75
Trash Disposal	\$10
Tuition and School Supplies	\$300
Water Bill	\$45
Other Expenses	\$100
<b>Total Monthly Living Expenses</b>	<b>\$3,580</b>

### SUMMARY

Total Take Home (Income)	\$7,010
Total Fixed Payments (-)	\$2,341
Total Monthly Living Expenses (-)	\$3,580
<b>Discretionary Income **</b>	<b>\$1,089</b>



As an example, look back at the sample household budget on the previous page. Suppose that the family who created this budget decided that they wanted to save additional money to pay for a family vacation. Where could they cut back on their expenses? In examining their budget, they see that their largest single expense is their mortgage, but that is a fixed expense. They will have to look for other opportunities to save.

In the end, the family decides to cut back on several expenses. They agree to dine out less often, which should cut their dining expenses in half. Dad decides to bicycle to work rather than take a car, which will save about \$50 in gasoline money. In addition, the family agrees to conserve electricity and hopes to cut their electric bill by \$25 a month. By following this new budget, the family should save an extra \$275 each month toward their vacation.



### Determining Net Worth

A family's possessions, such as their home, car, and clothing, factor into their net worth. Other factors that shape net worth include savings and investments.



Following a budget is not always easy. Cutting back on your spending sometimes means passing up things that you really want. In the end, however, staying within a budget can be a key step in becoming a responsible financial citizen.

## Calculating Net Worth

Following a budget can help you increase your savings. In turn, increased savings will improve your net worth, or financial standing. To calculate your net worth, you first need to add up the value of all your assets, including your savings, investments, and property. From that total you then subtract your liabilities, or money you owe.

Knowing your net worth can be important when you want to borrow money from a bank or credit card company. These institutions look at applicants' net worth as part of their process for deciding to whom they will lend money.

To better understand how to calculate net worth, let's look at a hypothetical couple, George and Martha Jackson. As a couple, the Jacksons have the following assets:

- bank accounts totaling \$14,235
- stocks and bonds totaling \$5,332
- two cars worth a total of \$38,985
- a house valued at \$165,000
- the contents of their house, valued at \$5,877

The Jacksons' liabilities include the following:

- a remaining balance on their mortgage of \$84,938
- a remaining balance on a car loan of \$6,873
- other loans totaling \$4,083
- credit card debt totaling \$2,945

Adding up these figures, we learn that the Jacksons' assets total \$229,429, and their liabilities total \$98,839. By subtracting their liabilities from their assets, we find that the Jackson's net worth is currently \$130,590.

## Risk Management

No matter how carefully you plan your finances, the chance always exists that unforeseen circumstances will cause financial hardship. For example, a member of your family might become ill or injured, your car might be wrecked in an accident, or your house might catch fire. Good financial planning involves preparing for the unexpected. Among the best steps you can take in this preparation are purchasing insurance and understanding warranties.

### VOCABULARY

**net worth** a person's overall financial standing, equal to assets minus liabilities

**assets** the total value of all your money and possessions

**liabilities** the total amount of money you owe

### VOCABULARY

**insurance** a system of protection in which smaller periodic payments are used to ensure compensation for future losses

**warranty** a written guarantee of a product's quality and the manufacturer's responsibilities to the buyer



## Types of Insurance



**Health insurance** helps cover the cost of medical bills in case of illness or accidents.



**Home insurance** helps pay for the repair of damage to your home or its contents.



**Car insurance** helps pay for the repair of damages to your automobile.



**Pet insurance** helps pay veterinary bills should a family pet become ill.

**SS.7.E.1.6** Compare the national budget process to the personal budget process.

## Insurance

An insurance policy reduces the costs you have to pay in case of an accident. For example, you may pay \$150 every month for car insurance. Yet, that is a low cost compared to the \$20,000 you might have to pay if your car were wrecked. Similarly, health insurance can be a big savings. If you have no health insurance, you could pay hundreds or even thousands of dollars in unexpected medical bills. Life insurance helps families who have lost loved ones. Life insurance policies provide cash to the families of the insured person after his or her death.

## Warranties

Like insurance policies, warranties are a form of risk management to consumers. Laws require most manufacturers to issue warranties. These are written guarantees that products will stay in working condition. They protect customers from shoddy and defective products. As a result, a warranty includes a lot of information about the product. It lets consumers know about the product's life span and its properties. In the warranty, the manufacturer spells out its plan to assure proper product performance. For example, a warranty may include an agreement to replace or repair a product that breaks.

Take full advantage of a warranty. Always read it carefully and thoroughly. Many warranties have restrictions that limit the manufacturer's responsibilities. For example, if the consumer tries to repair a product at home, the warranty may be voided. Or if the consumer did not take proper care of the product, then the warranty may be no good. In addition, many warranties do not cover all parts of a product. A television warranty might cover only the electronic components of the set and not its external casing. Always read warranties carefully.

## Assessment

- 1. Identify** What are some key factors that influence the financial decisions people make?
- 2. Explain** Why do people buy insurance and take advantage of warranties? Why are insurance policies and warranties considered forms of risk management for consumers?
- 3. Apply** Prepare a monthly budget for yourself. If you do not have a part-time job or allowance, choose a reasonable figure to represent your income. Carefully estimate your monthly expenses for housing, food, leisure activities, communication, and any other categories of spending that you think are important. Add those figures into your budget. Then write a paragraph comparing your personal budget process to the national budget process described in Chapter 12. Be sure to discuss sources of income, categories of spending, and where you think adjustments could be made to save money.