

Markets, Competition, and Monopolies Lesson 5. 1

This lesson will help you understand the nature of markets, and how competition and monopolies affect the economy. Use it with core lesson 5. 1 Markets, Competition, and Monopolies to reinforce and apply your knowledge.

Key Concept

Buyers and sellers exchange goods and services in a market. Monopoly occurs when a business in a market has no competition, but with many businesses in a market, competition can thrive.

Core Skills & Practices

- Predict Outcomes
- Synthesize Ideas from Multiple Sources

Markets

The economy is made of markets in which people and businesses exchange goods and services.

Directions: Read the following questions. Then select the correct answer.

- Which of the following would be considered a market?
 - a private golf course
 - a state forest preserve
 - a classroom
 - an aircraft carrier
- Why did money begin to take the place of barter in market exchanges?
 - Money made the exchanges more fair.
 - Money made the exchanges more enjoyable.
 - Barter was not possible in market exchanges.
 - Money made the exchanges easier.
- Sometimes goods and services are provided by the same supplier in the same transaction. For example, an auto repair shop may list the parts (goods) and labor (service) separately. Write each item in the correct bin.

dry cleaning

milk

mowing the lawn

city water

washing machine

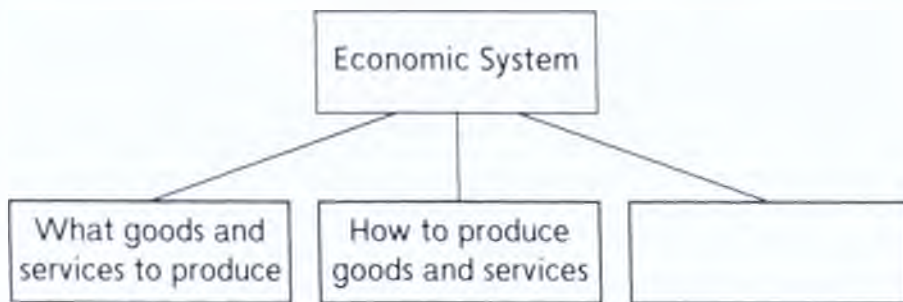
a decorated cake

Goods	Services	Goods and Services

Competition

When there is competition in the market, buyers have more choices and more control over how much they have to pay for the goods and services they buy.

Directions: Read the following questions. Then select the correct answers.



4. Look at the above diagram. Which of the following statements would fit in the third box?
- A. Why to produce them
 - B. How much to sell them for
 - C. Where to get the resources
 - D. For whom to produce them
5. In a market economy, the problem of distribution is largely resolved by _____
- A. price.
 - B. government.
 - C. wages.
 - D. capitalism.

Directions: Read the following advertisement that appeared in a small-town newspaper, and answer the question that follows.

Ben and Sue's Restaurant, in business for 30 years, features all original recipes from Chef Janison; NOW we are hosting live entertainment every Thurs. through Sat. nights; all local musicians. Come and enjoy the atmosphere; and bring a few friends.

6. The ad is an example of how a business can engage in
- A. specialization.
 - B. psychological advertising.
 - C. nonprice competition.
 - D. service.



Test-Taking Tip

When reading a multiple-choice question, read the question first and answer it in your head before reading the answer choices. Then you won't be overly influenced by possible wrong answers.

Directions: Read the passage below. Then answer the questions that follow.

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self love... Give me what I want, and you shall have this which you want, is the meaning of every such offer; and it is the manner that we obtain from one another the far greater part of those good offices which we stand in need of.

—Adam Smith *The Wealth of Nations*, 1776

7. According to Smith, what roles do benevolence and self-interest have in a transaction?
 - A. Both buyers and sellers are motivated by self-interest.
 - B. Buyers are motivated by benevolence and not self-interest.
 - C. Sellers are motivated by benevolence more than self-interest.
 - D. Sellers are motivated by both self-interest and benevolence.
8. If we need meat for dinner, but cannot afford to pay for it, why is it futile to depend on the butcher to provide it for free?
 - A. The butcher is not motivated by benevolence.
 - B. The butcher wants to be benevolent but can't afford to be.
 - C. The butcher must compete with the brewer and the baker.
 - D. The butcher is motivated only by self-interest.

Directions: Read the questions. Then select the correct answers.

9. In a market economy, who or what forces sellers to respond to consumer needs?
 - A. monopoly
 - B. government officials
 - C. competition
 - D. suppliers
10. On a separate sheet of paper, explain the importance of the six conditions for market competitiveness and how each plays a role in the market.

Monopolies

The government has enacted several laws to prevent monopolies from forming.

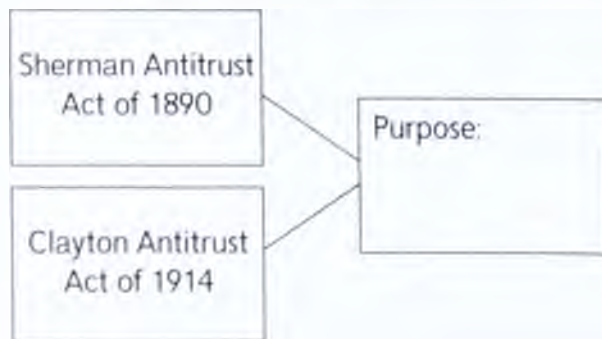
Directions: Read the passage below. Then answer the question that follows.

There are several kinds of monopolies. Companies often spend large amounts of money in research to develop new products for which they can acquire patents. This gives them the exclusive right to sell the product for many years.

11. A patent is to a new product, as a _____ is to a work of art.

- A. market
- B. competition
- C. monopoly
- D. copyright

Direction: Read the following questions. Then select the correct answer.



12. Look at the diagram above. What was the purpose of these two acts?

- A. to prevent monopolies
- B. to encourage research and development
- C. to protect patents
- D. to interfere with markets

14. Another term for monopoly is

- A. competitor
- B. marketplace
- C. capital
- D. trust

13. Which of these market characteristics pertain to a monopoly?

- A. Many buyers and sellers in the market each account for only a small amount of the market output.
- B. A company produces a unique product for which there is no easy substitute.
- C. A company has no control over price.
- D. Buyers have all of the information they need about price, quality, and product

This lesson will help you understand the four factors of production that make all markets work. Use it with core lesson 5. 2 Factors of Production to reinforce and apply your knowledge.

Key Concept

The factors of production, which include natural resources, labor, capital, and entrepreneurship, are used to produce goods and services.

Core Skills & Practices

- Analyze Ideas
- Make Inferences

Scarcity and Choice

We all have needs and wants, things we must have to survive and other things that we would enjoy having. However, we have a limited amount of money to spend on both. How do we choose?

Directions: Read the following questions. Then select the correct answer.

- Scarcity is usually understood as the rarity or short supply of something. In economics, however, scarcity depends on two criteria. What are they?
 - ease of production and price
 - natural resources and cost of goods
 - less supply than demand and the product has value
 - more supply than demand and the product has value
- A video game that sold for \$49. 95 when it came out now sells for \$9. 95 two years later. What most likely caused this drop in price?
 - poor marketing of the product
 - production of the game exceeded the demand
 - high demand for the product drove prices down
 - the opportunity cost was too high

Directions: Answer questions 3 and 4 based on the scenario below:

Your cell phone has stopped working, and you need to buy a new one. Two models offer the same benefits, but one costs \$50 more than the other. You wanted to use that \$50 to take a friend to her favorite restaurant for her birthday. After reading the reviews of both phone models, you choose the more expensive one, and decide to make a nice dinner at home for your friend.

- What is the opportunity cost of this decision?
 - taking your friend to a restaurant
 - getting a better phone for more money
 - making her birthday dinner at home
 - spending \$50 more than you wanted to spend
- In the scenario above, you based your decision more on _____ than on need.
 - phone price
 - phone model
 - want
 - opportunity cost

Natural and Human Resources

Two of the four factors of production involve natural resources and human resources.

5. Which of the following is NOT a factor of production?
 - A. human resources
 - B. capital resources
 - C. entrepreneurship
 - D. stock values
6. Which factor of production is most dependent on human creativity?
 - A. human resources
 - B. natural resources
 - C. capital resources
 - D. entrepreneurship

Directions: Use the passage below to answer questions 7 through 10.

In the 1830s, Samuel Colt invented the Colt revolver. This gun could be fired six times without reloading. Many people claim that it helped the United States settle the West. Colt had a plan for mass producing his guns. He explained his idea in a letter to his father:

"The first workman would receive two or three of the most important parts, and would affix these together and pass them on to the next who would do the same, and so on until the complete [revolver] is put together. It would then be inspected and given the finishing touches by experts and each [gun] would be exactly alike and all of its parts would be the same. The workmen, by constant practice in a single operation, would become highly skilled and at the same time very quick and expert at their particular task. So you have better guns and more of them for less money than if you hire men and have each one make the entire [revolver]."

Quoted in *Yankee Arms Maker: The Incredible Career of Samuel Colt*,
by Jack Rohan (Harper & Bros. 1935)

7. Which factor of production was the main focus of Samuel Colt's idea?
 - A. natural resources
 - B. human resources
 - C. relative scarcity
 - D. supply and demand
8. With Colt's method, more _____ could be made with fewer workers.
9. Why did he think this method would improve productivity?
 - A. The workers would take more pride in their work.
 - B. The value of the product would rise in the market.
 - C. The quality and the speed of production would increase.
 - D. The cost of production would be less dependent on natural resources.
10. The name for the working method developed by Samuel Colt is _____.



Test-Taking Tip

During a test, as you are reading a question, circle or write key words that help you understand what the question is asking.

11. Complete the chart below by inserting a check mark in the appropriate box, identifying each resource as renewable or nonrenewable.

Resource	Renewable	Nonrenewable
Grains		
Natural gas		
Cotton		
Paper		
Coal		
Land		

Capital and Entrepreneurship

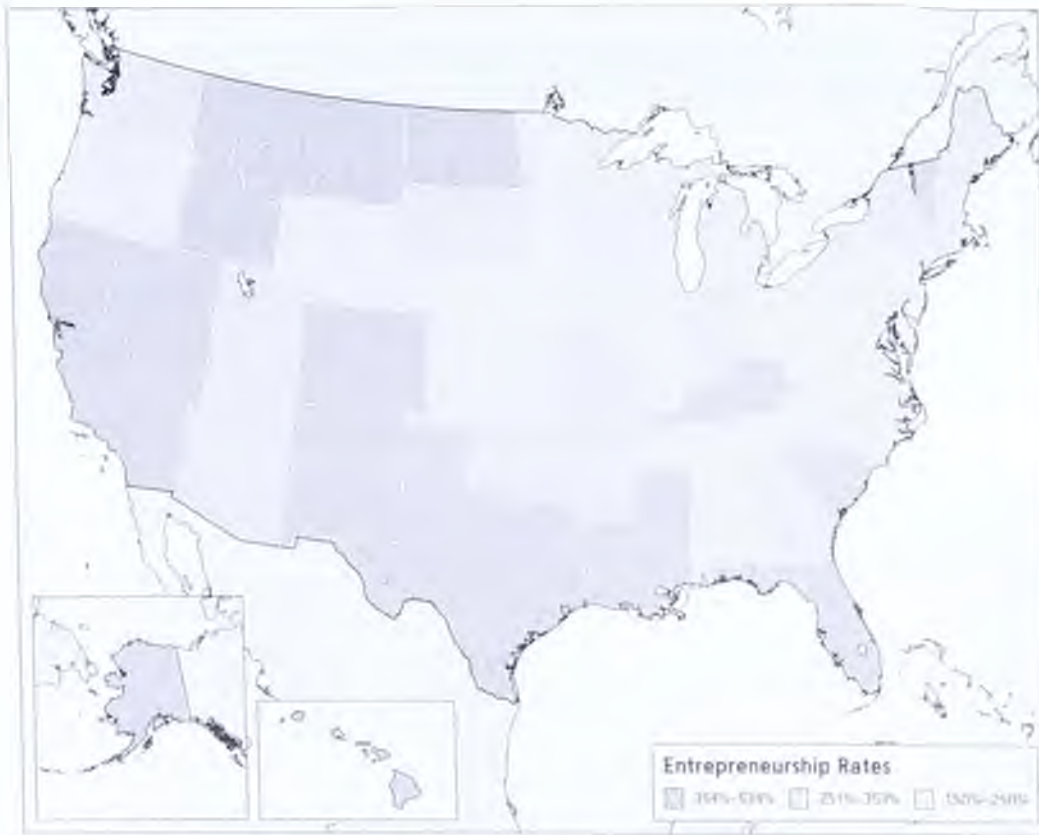
Combining capital resources with natural resources and labor results in more goods and services produced.

Directions: Read the passage below. Then answer questions 12 and 13.

In 1902 Hershey began producing its famous “KISSES candy pieces.” Each individual KISS was wrapped by hand. Then in 1921, an invention called a channel wrapper made this labor-intensive part of the process much faster.

12. The introduction of the channel wrapper by the Hershey company directly affected which of the following?
- A. natural resources
 - B. capital resources
 - C. aluminum supply
 - D. chocolate supply
13. A manufacturer best handles rationing—the regulation of quantities and kinds of goods bought, sold, and traded—by:
- A. reducing the labor force.
 - B. stopping production until the rationing is lifted.
 - C. increasing his capital costs by adding new machinery.
 - D. finding alternative natural resources that work well.

Directions: Use the map below to answer questions 14 and 15.



Data shown indicate the number of businesses per 100, 000 adults in each state. For example, in 2012 there were 530 businesses per 100, 000 people in the state of Montana (rate = 0. 53).

14. States in which automobile manufacturing and mining have been a large part of their economies (e. g., Michigan, Ohio, Pennsylvania, Wisconsin, etc.) are shown in the lightest color. Which economic factor probably plays the greatest role in those states having less entrepreneurship than other states?
- A. lack of natural resources
 - B. lack of appropriately trained labor for new ventures
 - C. fewer wealthy leaders to provide capital
 - D. lack of transportation resources
15. Which region of the United States has the lowest rates of entrepreneurship?
- A. the west coast and the south
 - B. the south and the east coast
 - C. the mid-west and the northeast
 - D. the north east and the west coast

This lesson will help you understand how businesses can increase profits and productivity. Use it with core lesson 5.3 Profits and Productivity to reinforce and apply your knowledge.

Key Concept

The possibility of increased profits is an incentive for business owners to take risks, to expand, and to try various strategies that will increase productivity.

Core Skills & Practices

- Interpret Graphics
- Use Context Clues to Understand Meaning

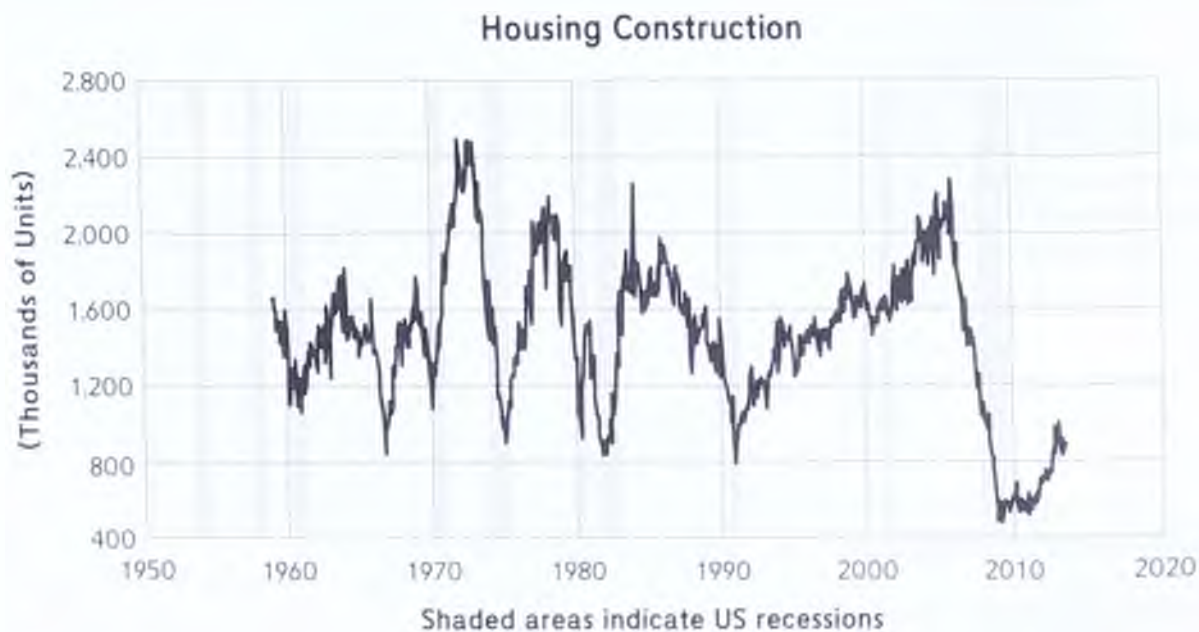
Risks and Profits

Businesses are willing to take risks to make a profit. A profit is money earned after all expenses are paid. A profit is also how much better off someone is after they buy or sell a good or service.

Directions: Read the following questions. Then select the correct answer.

- Profit is the difference between
 - income from sales and expenses.
 - income and investments.
 - cash on hand and savings.
 - wages and sales.
- Which of the following would boost a company's current level of productivity?
 - labor shortage
 - research and development
 - increasing capital and human and natural resources
 - decreasing capital and human and natural resources
- Wages, interest payments, tools, office supplies, packaging, electricity, telephone service, postage, and transportation costs are business
 - profits.
 - losses.
 - expenses.
 - wages.
- Steve Jobs, co-founder and former CEO of Apple, developed and produced new computer technology. What is he considered to be?
 - a broker
 - a capitalist
 - an economist
 - an entrepreneur

Directions: Study the chart below, and answer questions 5 through 7.



Source: <http://research.stlouisfed.org/fred2/graph/?s%5b1%5d%5b1%5d=HOUST>

5. According to the chart, the worst year for new housing units started was in _____
6. Historically, the chart shows that the greatest risk for a home builder is the
 - A. threat of a recession.
 - B. declining number of houses on the market.
 - C. rising cost of materials.
 - D. period of time that it takes to construct a house.
7. If you were a new home builder, why would 1995 have been a good year to have gone into business?
 - A. The recession of 2002 was over.
 - B. The number of purchased homes was decreasing.
 - C. The recession of 1990 was smaller than the previous recession.
 - D. People were purchasing new houses at an ever-increasing rate.



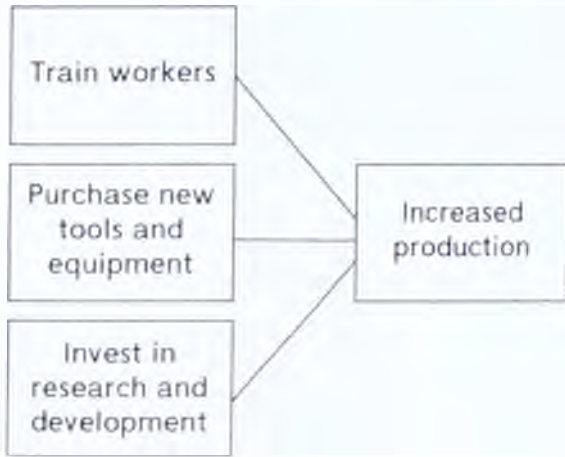
Test-Taking Tip

To answer questions related to a chart or graph, first carefully read the title. Then identify the units that are used in plotting the chart or graph. Finally, determine the trend, conditions, or measurements that the chart or graph is attempting to show.

Productivity and Profits

One way that businesses increase profits is through productivity. Developing better ways to produce goods and services costs some time and resources, but it usually pays off in the long term.

Directions: Read the following questions. Then select the correct answer.



8. What is the opportunity cost associated with the graphic shown here?
- A. an increase in available capital
 - B. a decrease in goods and an increase in services produced
 - C. a temporary increase in output
 - D. a temporary drop in current production
9. Which of the following negatively impacts productivity?
- A. research and development
 - B. employee training programs
 - C. decreasing capital investments
 - D. upgrading technology

Directions: Use the following table to answer questions 10 and 11.

Global Top-Ten Firms Spending on Research and Development in 2010

1. Roche Holding global health care \$9.1 billion
2. Microsoft software, electronics \$9 billion
3. Nokia telecommunications \$8.2 billion
4. Toyota automobiles \$7.8 billion
5. Pfizer pharmaceuticals \$7.7 billion
6. Novartis pharmaceuticals \$7.5 billion
7. Johnson & Johnson pharmaceutical \$7 billion
8. Sanofi Aventis pharmaceuticals \$6.3 billion
9. Glaxo Smith Kline pharmaceuticals \$6.2 billion
10. Samsung electronics \$6 billion

10. Which group of companies spends the most on research and development?
- A. electronics
 - B. automobiles
 - C. pharmaceuticals
 - D. global health care
11. What justifies such large expenses for research and development in the pharmaceutical companies?
- A. potential earnings from patented new medicines
 - B. the rising cost of health care
 - C. the number of people in the electronics market
 - D. the lack of serious competition

Incentives and Risk-Taking

Individuals and businesses are more willing to take risks and invest in their new products if they are encouraged to do so with incentives.

Directions: Read the following questions. Then select the correct answers.

12. In a free market economy, the encouragement to try new ideas or invent new products is called
- A. incentive.
 - B. profit.
 - C. monopoly.
 - D. opportunity cost.
13. Today no modern country has which of the following kinds of economic system?
- A. command
 - B. traditional
 - C. free market
 - D. mixed
14. In the United States, the government has the right to take away a person's property if the government does what?
- A. The government owns the property, so it doesn't have to do anything.
 - B. The government can just take the property by force.
 - C. The government must arrest the owner.
 - D. The government must pay the owner.

Directions: Read the following paragraph, and use the word bank to fill in the missing words,

goods and services incentives economic growth command

15. By the end of the twentieth century, several countries that had _____ economies began to offer more free-market incentives. Russia, China, and India opened opportunities for individuals to own businesses. Only a few primarily command economies remained, including North Korea, Cuba, and Iran. Increased economic freedom and opportunity gave people _____ to produce more _____. Workers contributed more because they were rewarded for it. As a result, these countries experienced _____.

This lesson will help you understand how and why businesses decide what they are going to produce by looking at what other companies produce. Use it with core lesson 5. 4 Specialization and Comparative Advantage to reinforce and apply your knowledge.

Key Concept

Specialization increases productivity and provides businesses with a comparative advantage, but also leads to interdependence.

Core Skills & Practices

- Gather Information
- Identify Facts and Details

Specialization

Specialization is when a company decides to focus on making only a few goods or providing a limited number of services, helping the company become more profitable because it finds ways to be highly efficient.

Directions: Read the following question. Then select the correct answer.

1. An absolute advantage is the ability to produce a product or service using----- resources than other producers require.

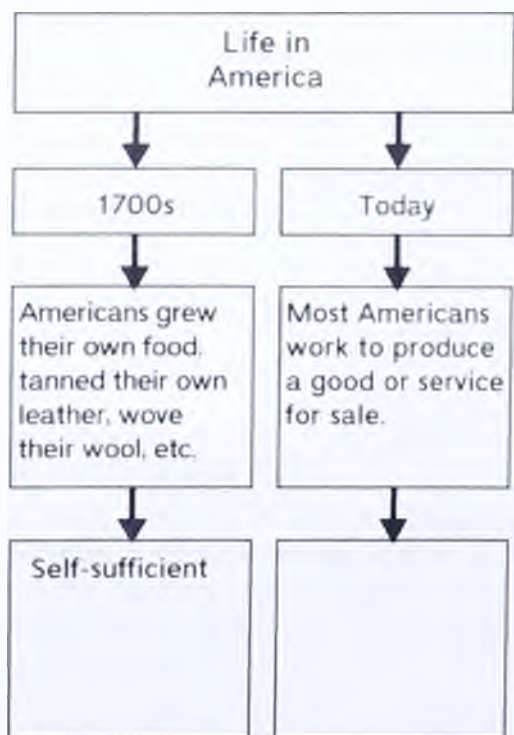
A. fewer

B. higher

C. human

D. specialization

Directions: Use the graphic organizer below to answer question 2.



2. Which word best fills in the empty box?

A. specialize

B. opportunity cost

C. absolute advantage

D. comparative advantage

Directions: Read the passage below. Then answer the questions that follow.

With more than a century of growing potatoes, Idaho has produced more than any other state every year since 1957, producing around 30 percent of the US fall production per year. Bingham County produces almost more potatoes than the entire state of Maine! Potatoes contribute more than \$2 billion, or approximately 15%, of Idaho's gross state product.

—Idaho State Department of Education

3. Which of the following statements best describes Idaho's market position in potatoes?
 - A. Idaho has a higher comparative advantage in growing potatoes.
 - B. Idaho enjoys an absolute advantage in growing potatoes.
 - C. Idaho is the only state that grows potatoes.
 - D. Idaho potatoes taste better than other varieties.
4. In order to produce so many potatoes, farmers in Idaho must be very
 - A. thrifty.
 - B. efficient.
 - C. resourceful.
 - D. opportunistic.

Comparative Advantage

Individuals and businesses with a comparative advantage specialize in goods or services that are produced at a relatively low opportunity cost, that is, more easily than other companies could do so.

Directions: Read the questions below. Then select the correct answers.

5. Company A and Company B both make mops and brooms. If Company A can make more mops and brooms than Company B, it has a higher ¹ select than Company B. Because Company A makes more mops than brooms, it wants to ² select in mops.
6. The law of comparative advantage says that those with the lower opportunity cost should
 - A. produce both goods.
 - B. produce fewer goods or services.
 - C. specialize in a product or service.
 - D. seek an absolute advantage.

¹ select

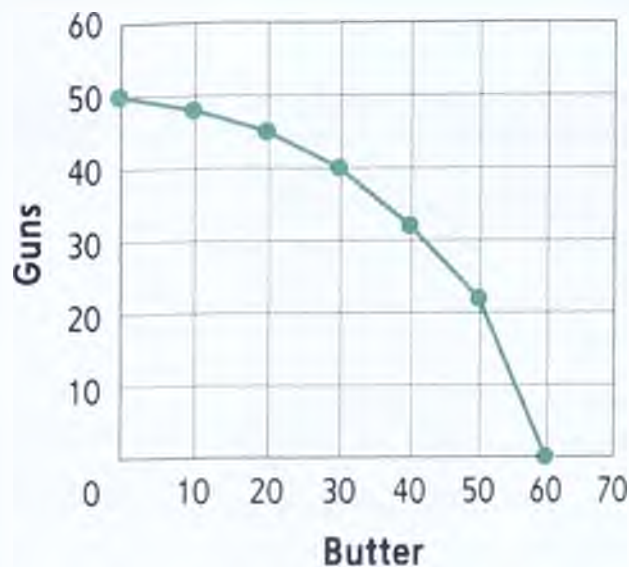
- A. monopoly
- B. specialization
- C. absolute advantage
- D. comparative advantage

² select

- A. monopoly
- B. specialize
- C. absolute advantage
- D. comparative advantage

Directions: Use the chart below to answer questions 7-10.

Production of Guns and Butter



7. How many guns could be produced if no butter is produced?
A. 50
B. 60
C. 70
D. 80
8. If the same producer made both guns and butter, what is the maximum number of these items that could be produced?
A. 60
B. 110
C. more than 50
D. more than 70
9. By specializing and producing those items for which they had a comparative advantage, separate gun producers and butter producers could together produce _____ total butter and guns.
A. 100
B. 105
C. 110
D. 120
10. When 40 guns are produced, then _____ butter are produced.



Test-Taking Tip

When using a graph to answer a question, make sure you understand what information is being presented. Try writing down the information listed on the x and y -axes on a sheet of scrap paper. It may also help to use a straight edge, like the side of a pencil, to read information on the graph.

Interdependence

When businesses are linked to other businesses to operate, they are said to be interdependent.

Directions: Read the following questions. Then select the correct answers.

11. Interdependence occurs when producers rely on one another for information, _____, goods, and resources.
 - A. services
 - B. productivity
 - C. specialization
 - D. opportunity costs
12. Which of the following is not true about interdependence?
 - A. Companies can share resources through specialization.
 - B. Interdependence goes hand in hand with specialization.
 - C. Companies can share resources through interdependence.
 - D. Negative events in one company have little to no effect on other companies.
13. What benefits would help a producer minimize the risk that interdependence poses?
 - A. Increased profitability results from increased trade.
 - B. Decreased profitability results in decreased competition.
 - C. Increased specialization results in increased productivity.
 - D. Decreased specialization results in increased trade.