

This lesson will help you understand how the economic behavior of individuals and companies can be analyzed. Use it with core lesson 6.1 Microeconomics to reinforce and apply your knowledge.

## Key Concept

The forces of supply and demand determine the market prices of most products and resources in the US and global economies.

## Core Skills & Practices

- Analyze Information
- Use Maps, Charts, and Graphs

## Market Influences

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

- The study of market exchanges between buyers and sellers is called \_\_\_\_\_.  
A. economy  
B. mixed economy  
C. microeconomics  
D. macroeconomics
- Which of the following statements best describes how prices are set?  
A. Sellers set prices for goods and services.  
B. Buyers set prices for goods and services.  
C. Manufacturers set prices for goods; workers set prices for services.  
D. Sellers set prices, but buyers influence price changes.
- Complete the table below, using the following terms.

prices      demand      supply

command economy      mixed economy

	The amount of goods and services buyers are willing and able to buy
	Government regulation of parts of the market
	A signal to buyers and sellers
	The amount of goods and services a producer is willing and able to produce
	Government control of the market

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

4. Which of the following occurs when prices rise?
- A. signals buyers to stock up on an item
  - B. signals producers to slow production
  - C. signals producers to increase production
  - D. signals producers to specialize in one product
5. Which of the following occurs when prices fall?
- A. signals buyers to delay a purchase
  - B. signals producers to slow production
  - C. signals producers to increase production
  - D. signals producers to specialize in one product

## Laws of Supply and Demand

Supply is the amount of goods and services available. Demand describes how much consumers desire a product. The two concepts are related in a free market economy.

**Directions:** Use the chart below to answer questions 6-9.



6. How many CDs would be demanded at a price of \$9?
- A. 3
  - B. 5
  - C. 8
  - D. 10
7. When the price for CDs is 3, the quantity demanded is \_\_\_\_\_
8. Between which two prices did market demand increase the most?
- A. \$18—\$15
  - B. \$12—\$9
  - C. \$9—\$6
  - D. \$6—\$3
9. When 5 CDs are demanded, the price is \_\_\_\_\_

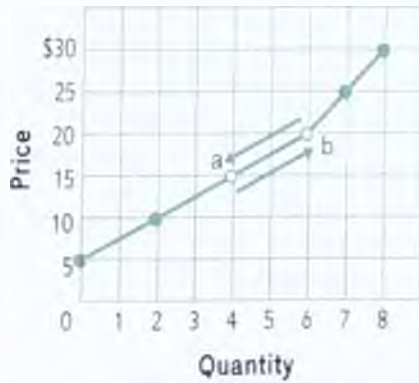
**Directions:** Use the chart below to answer question 10.



10. If the price rises, the quantity supplied also rises. If the price drops, the quantity supplied goes down as well. What explains this?
- A. People do not usually buy in bulk.
  - B. Prices are not always a good signal.
  - C. The profit motive drives suppliers.
  - D. Sales generate more business.

**Directions:** Answer the following questions.

11. Look at the graphs. Circle the graph that demonstrates a supply curve.



12. Complete each statement by inserting either *buyer* or *seller*.

buyer

seller

The demand curve relates to the \_\_\_\_\_

The supply curve relates to the \_\_\_\_\_

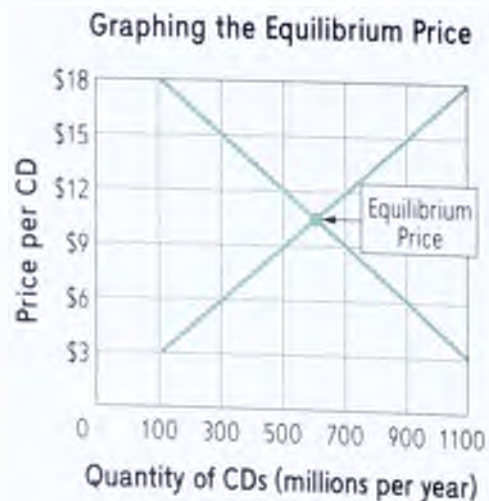
A consumer is also known as the \_\_\_\_\_

A producer is also known as the \_\_\_\_\_

## Market Equilibrium

The aim of the market is to compromise between the interests of the buyers and the interests of the sellers. Market equilibrium is reached when demand is equal to the supply.

Directions: Use the chart below to answer questions 13 and 14.



13. The equilibrium price is where the quantity demanded meets the
- A. price demanded.
  - B. price supplied.
  - C. supply demanded.
  - D. quantity supplied.
14. How many CDs will be sold at the equilibrium price?
- A. 500 million
  - B. 600 million
  - C. 700 million
  - D. 800 million



### Test-Taking Tip

Before answering questions related to a graph, be sure to identify what is represented on each axis. Then carefully check how the values on each axis increase or decrease.



This lesson will help you understand how our government forms and carries out policies that affect the nation's economy. Use it with core lesson 6. 2 Macroeconomics and Government Policy to reinforce and apply your knowledge.

## Key Concept

The federal government uses fiscal policies and monetary policies to manage the economy.

## Core Skills & Practices

- Identify Comparisons and Contrasts
- Interpret Meaning

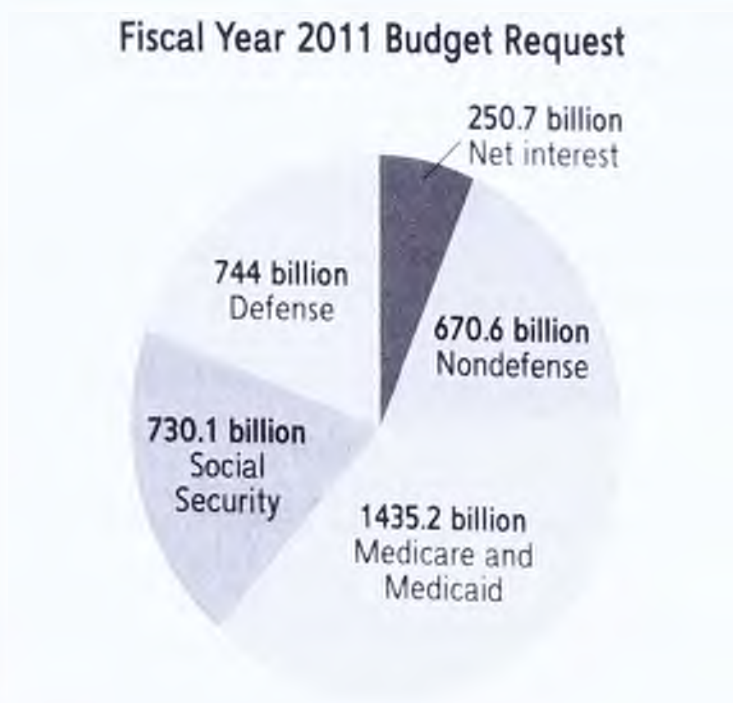
## Federal Revenue and Expenditures

The federal government collects income, mostly from taxes, so it is able to perform its business and pay for its expenses.

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

1. Approximately half of the government's income, or revenue, comes from
  - A. tariffs.
  - B. user fees.
  - C. income taxes.
  - D. property taxes.
2. How does the government borrow money from American citizens?
  - A. placing tariffs on imports
  - B. selling bonds to individuals
  - C. collecting personal income taxes
  - D. collecting Medicare payroll deductions
3. The government borrows money by selling bonds and other securities to individuals and businesses. When you buy a savings bond, you are \_\_\_\_\_ the government money.
  - A. rewarding
  - B. stealing
  - C. loaning
  - D. saving
4. How might a subsidy on com affect consumers?
  - A. It would decrease the supply of com.
  - B. It would change the quality of the com.
  - C. It would reduce the cost of com to consumers.
  - D. It would increase the cost of com to consumers.

**Directions:** Use the chart below to answer questions 5 and 6.



5. Rank the 2011 proposed budget expenditures by category from highest spending to lowest spending. Write the expenditure in the correct box.

1.	Nondefense
2.	Social Security
3.	Interest
4.	Medicare/Medicaid
5.	Defense

6. One effect of the 2011 stimulus spending was that the national deficit increased to
- A. \$5.8 trillion.
- B. \$1.5 trillion.
- C. \$834 billion.
- D. \$300 billion.

# Federal Fiscal and Monetary Policies

To manage its economy effectively, the federal government must have specific plans related to revenue, money supply, credit, and interest rates.

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

7. Tariffs are taxes on \_\_\_\_\_

A. quotas

B. exports

C. imports

D. goods and services
8. Governments use \_\_\_\_\_ to limit the amount of goods that can be brought into a country during a specific period.

A. quotas

B. exports

C. imports

D. goods and services
10. What was the intent behind the Federal Reserve Act of 1913?

A. to protect consumers

B. to enhance economic competition

C. to subsidize farms

D. to stabilize the economy
11. Which of the following can cause market failures?

A. bank closings because of panics

B. imperfect competition

C. gaps between private costs and social costs of behaviors

D. wrong Fed decisions

**Directions:** Use the chart below to answer question 9.

9. Complete the chart below by writing the correct purpose in the column next to each policy

to promote a particular business	to promote economic growth
to slow economic activity or reduce inflation	to protect American businesses from foreign competition

Policy	Purpose
provide a subsidy	
increase interest rates	
enact a tariff	
put money into circulation	



## Test-Taking Tip

If you can't identify all the correct answers in a drag-and-drop activity, begin with the one or two that you know. Eliminate the choices that you know are incorrect, and then select the best option from the remaining choices. Blank answer spaces will count against your overall score.

**Directions:** Read the excerpt below. Then answer the questions that follow.

<sup>12</sup>“In short, the original goal of the Great Experiment that was the founding of the Fed was the preservation of financial stability. How should a central bank enhance financial stability? One means is by assuming the lender-of last-resort function under which the central bank uses its power to provide liquidity to ease market conditions during periods of panic or incipient panic... However, putting out the fire is not enough, it is also important to foster a financial system that is sufficiently resilient to withstand large financial shocks. Toward that end, the Federal Reserve, together with other regulatory agencies... is actively engaged in monitoring financial developments and working to strengthen financial institutions and markets. What about the monetary policy framework? In general, the Federal Reserve's policy framework include[s an] emphasis on preserving the Fed's inflation credibility, which is critical for anchoring inflation expectation.”

-Chairman Ben S. Bernanke at The First 100 Years of the Federal Reserve The Policy Record, Lessons Learned, and Prospects for the Future. ' a conference sponsored by the National Bureau of Economic Research, Cambridge, Massachusetts, July 10, 2013

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| <p>12. The primary goal of the Federal Reserve is to</p> <ul style="list-style-type: none"><li>A. control the nations' banks.</li><li>B. monitor financial developments.</li><li>C. prevent inflation.</li><li>D. preserve financial stability.</li></ul> <p>13. The Federal Reserve's "power of liquidity" is its</p> <ul style="list-style-type: none"><li>A. control over the money supply.</li><li>B. ability to flow in any direction.</li><li>C. number of reserve banks.</li><li>D. independence from the executive and legislative branches.</li></ul> | <p>14. During good economic times, the Fed will pursue policies designed to</p> <ul style="list-style-type: none"><li>A. reduce interest rates as low as possible.</li><li>B. control inflation as much as possible.</li><li>C. regulate financial institutions as little as possible.</li><li>D. increase liquidity when available.</li></ul> |
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**Directions:** Read the writing prompt below. Then write your answer on a separate sheet of paper.

15. On a separate sheet of paper, explain the four functions of the Federal Reserve System and its role in the nation's economy.



# Macroeconomics, the GDP, and Price Fluctuation Lesson 6. 3

This lesson will help you understand how a variety of measures help measure the health of an economy. Use it with core lesson 6. 3 Macroeconomics, the GDP, and Price Fluctuation to reinforce and apply your knowledge.

## Key Concept

Measures such as an economy's GDP, inflation or deflation rate, and unemployment rate provide economists with ways to measure an economy's health.

## Core Skills & Practices

- Read Charts
- Integrate Visual Information

## GDP

Gross domestic product, the value of all goods and services produced in the nation in a year, is one of the most vital measurements of a nation's economy.

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

- GDP stands for \_\_\_\_\_ and is a measure of the dollar value of all final goods and services produced in the United States during the year.
  - general domestic production
  - gross economic product
  - good domestic production
  - gross domestic product
- In which of these countries would GDP be the least useful measure of the strength of the economy?
  - an island nation, where bartering is common
  - a tiny nation that is part of the European Union
  - a large Asian nation with a strong government
  - a nation that participates in United States trade agreements

**Directions:** Use the chart below to answer question 3.

Country	GDP in 2012 (in trillion \$)
Canada	1. 8
China	8. 4
Mexico	1. 2
United Kingdom	2. 4
United States	15. 7

3. Which country has a GDP that is approximately twice the GDP of Mexico?

- Canada
- China
- United Kingdom

**Directions:** Use the chart below to answer question 4.

4. Write the name of each product in the correct category to show whether or not it would count toward US GDP.

Automobiles designed in Japan  
but produced in South Carolina

California surfboards sold  
in Mexico

Corn from Iowa sold at the Iowa  
State Fair

Housekeeping performed by a  
United States homeowner

Natural gas from Canada  
used in Illinois

Oil from Alaska used in Texas

Seats made in the United States, to be  
installed in a new Buick in Detroit

United States-made snow tires sold separately  
from a vehicle in San Diego

Part of US GDP	NOT Part of US GDP

## Inflation and Deflation

Inflation and deflation, the rise and fall of prices, affect the GDP in different ways.

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

5. A rise in the general level of prices over time is called \_\_\_\_\_
- A. GDP
  - B. inflation
  - C. deflation
  - D. opportunity cost



### Test-Taking Tip

When answering fill-in-the-blank questions, consider the part of speech that is missing from the sentence. If a verb is missing, then consider only verbs for the correct response. If a noun is missing, then consider only nouns.

**Directions:** Use the graph below to answer questions 6-8.



6. In 1973, the price of a market basket of goods was \_\_\_\_\_
7. The graph is a visual representation of inflation and deflation in the American economy. During which of these years was there a period of deflation in the United States?
- A. 1923-1933
- B. 1933-1943
- C. 1943-1953
- D. 1953-1963
8. The Federal Reserve believes that 2 percent inflation is desirable. At that rate, approximately how much would this market basket of goods most likely cost in 2023?
- A. \$234. 00
- B. \$245. 00
- C. \$268. 00
- D. \$280. 00

## Unemployment

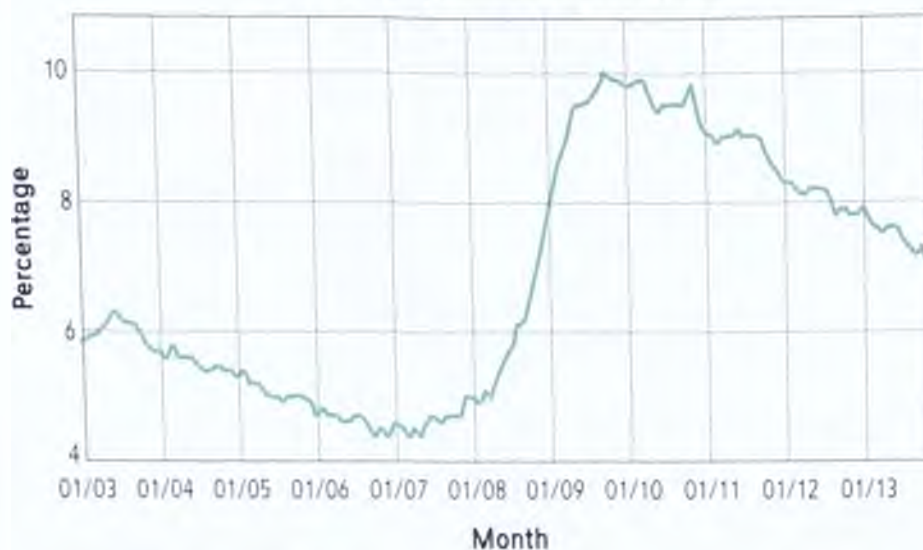
Unemployment happens when people leave their former jobs for any number of reasons and have not yet found new jobs.

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

9. The \_\_\_\_\_ rate is the percentage of individuals in the civilian labor force who are actively looking for a job but cannot find one.
- A. cyclical
- B. inflation
- C. deflation
- D. unemployment
10. Businesses lay off workers during recessions and lure them back in good times, causing unemployment.
- A. cyclical
- B. seasonal
- C. structural
- D. technological

**Directions:** Use the graph to answer questions 11-14.

**US Unemployment Rate, 2003–2013**



Source: <http://data.bls.gov/timeseries/LNS14000000>

11. During which year represented in the graph was the American unemployment rate highest?
- A. 2008  
B. 2009  
C. 2010  
D. 2012
12. Toward the end of 2009, the unemployment rate peaked at \_\_\_\_\_ percent.
13. What was the approximate difference in unemployment rate between the beginning of 2003 and the beginning of 2013?
- A. + 2 percent  
B. + 4 percent  
C. - 1 percent  
D. - 2 percent
14. The unemployment rate in January 2009 was \_\_\_\_\_ percent.