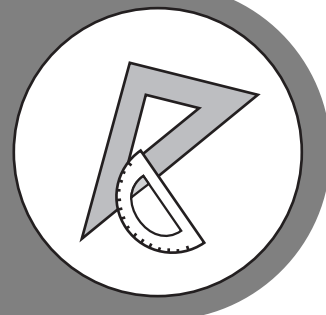


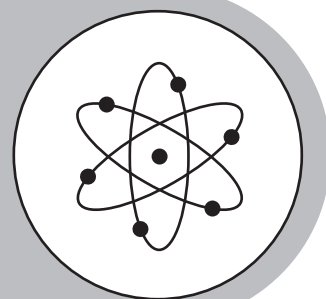
ECONOMICS / BUSINESS / FREE ENTERPRISE



Study



Guide



Georgia End-Of-Course Tests



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INTRODUCTION

This study guide is designed to help students prepare to take the Georgia End-of-Course Test (EOCT) for ***Economics/Business/Free Enterprise***. This study guide provides information about the EOCT, tips on how to prepare for it, and some suggested strategies students can use to perform their best.

What is the EOCT? The EOCT program was created to improve student achievement through effective instruction and assessment of the standards in the Quality Core Curriculum specific to the eight EOCT core high school courses. The EOCT program also helps to ensure that all Georgia students have access to a rigorous curriculum that meets high performance standards. The purpose of the EOCT is to provide diagnostic data that can be used to enhance the effectiveness of schools' instructional programs.

The Georgia End-of-Course Testing program is a result of the A+ Educational Reform Act of 2000, O.C.G.A. §20-2-281. This act requires that the Georgia Department of Education create end-of-course assessments for students in grades nine through twelve for the following core high school subjects:

Mathematics

- Algebra I
- Geometry

Social Studies

- United States History
- Economics/Business/Free Enterprise

Science

- Biology
- Physical Science

English Language Arts

- Ninth Grade Literature and Composition
- American Literature and Composition

Getting started: The HOW TO USE THE STUDY GUIDE section on page 2, outlines the contents in each section, lists the materials you should have available as you study for the EOCT, and suggests some steps for preparing for the ***Economics/Business/Free Enterprise EOCT***.

HOW TO USE THE STUDY GUIDE

This study guide is designed to help you prepare to take the *Economics/Business/Free Enterprise EOCT*. It will give you valuable information about the EOCT, explain how to prepare to take the EOCT, and provide some opportunities to practice for the EOCT. The study guide is organized into three sections. Each section focuses on a different aspect of the EOCT.

The **OVERVIEW OF THE EOCT** section on page 4 gives information about the test: dates, time, question format, and number of questions that will be on the *Economics/Business/Free Enterprise EOCT*. This information can help you better understand the testing situation and what you will be asked to do.

The **PREPARING FOR THE EOCT** section that begins on page 5 provides helpful information on study skills and general test-taking skills and strategies. It explains how to prepare before taking the test and what to do during the test to ensure the best test-taking situation possible.

The **TEST CONTENT** section that begins on page 11 explains what the *Economics/Business/Free Enterprise EOCT* specifically measures. When you know the test content and how you will be asked to demonstrate your knowledge, it will help you be better prepared for the EOCT. This section also contains some suggested test-taking strategies for successfully answering questions on the EOCT.

With some time, determination, and guided preparation, you will be better prepared to take the *Economics/Business/Free Enterprise EOCT*.



GET IT TOGETHER

In order to make the most of this study guide, you should have the following:

Materials:

- ✓ This study guide
- ✓ Pen or Pencil
- ✓ Highlighter
- ✓ Paper

Resources:

- ✓ Dictionary
- ✓ Economics textbook
- ✓ A teacher or other adult

Study Space:

- ✓ Comfortable (but not too comfortable)
- ✓ Good lighting
- ✓ Minimal distractions
- ✓ Enough work space

Time Commitment:

- ✓ When are you going to study?
- ✓ How long are you going to study?

Determination:

- ✓ Willingness to improve
- ✓ Plan for meeting goals



SUGGESTED STEPS FOR USING THIS STUDY GUIDE

- 1** Familiarize yourself with the structure and purpose of the study guide.
(You should have already read the INTRODUCTION and HOW TO USE THE STUDY GUIDE. Take a few minutes to look through the rest of the study guide to become familiar with how it is arranged.)
- 2** Learn about the test and expectations of performance.
(Read OVERVIEW OF THE EOCT.)
- 3** Improve your study skills and test-taking strategies.
(Read PREPARING FOR THE EOCT.)
- 4** Learn what the test will assess by studying each domain and the strategies for answering questions that assess the standards in the domain.
(Read TEST CONTENT.)
- 5** Answer the sample questions at the end of each domain section. Check your answers against the annotated answers to see how well you did.
(See TEST CONTENT.)

OVERVIEW OF THE EOCT

Good test takers understand the importance of knowing as much about a test as possible. This information can help you determine how to study and prepare for the EOCT and how to pace yourself during the test. The box below gives you a “snapshot” of the *Economics/Business/Free Enterprise EOCT* and other important information.



THE EOCT AT A GLANCE

Administration Dates:

The EOCT will be given three times a year: once in the spring, once in the summer, and once in the winter.

Administration Time:

Each EOCT is comprised of two sections; each section will take 45 to 60 minutes to complete. You will have from 100 to 135 minutes to complete each EOCT. You will be given a 5-minute stretch break between the two sections of the test.

Question Format:

All the questions on the EOCT are multiple choice.

Number of Questions:

Each section of the EOCT contains 45 questions; there are a total of 90 questions on the EOCT.

If you have additional administrative questions regarding the EOCT, please visit the Georgia Department of Education website at www.doe.k12.ga.us, see your teacher, or see your school test coordinator.



PREPARING FOR THE EOCT



WARNING!

You cannot prepare for this kind of test in one night. Questions will ask you to apply your knowledge, not list specific facts. Preparing for the EOCT will take time, effort, and practice.

In order to do your best on the *Economics/Business/Free Enterprise EOCT*, it is important that you take the time necessary to prepare for this test and develop those skills that will help you take the EOCT.

First, you need to make the most of your classroom experiences and test preparation time by using good **study skills**. Second, it is helpful to know general **test-taking strategies** to ensure that you will achieve your best score.

Study Skills



A LOOK AT YOUR STUDY SKILLS

Before you begin preparing for this test, you might want to consider your answers to the following questions. You may write your answers here or on a separate piece of paper.

1. How would you describe yourself as a student?
Response: _____
2. What are your study skills strengths and/or weaknesses as a student?
Response: _____
3. How do you typically prepare for a social studies test?
Response: _____
4. Are there study methods you find particularly helpful? If so, what are they?
Response: _____
5. Describe an ideal study situation (environment).
Response: _____
6. Describe your actual study environment.
Response: _____
7. What can you change about the way you study to make your study time more productive?
Response: _____

Effective study skills for preparing for the EOCT can be divided into three categories.

- ◆ **Time Management**
- ◆ **Organization**
- ◆ **Active Participation**



Time Management

Do you have a plan for preparing for the EOCT? Often students have good intentions for studying and preparing for a test, but without a plan, many students fall short of their goals. Here are some strategies to consider when developing your study plan. (See Appendices A–D for SAMPLE STUDY PLAN SHEETS that you can use to help you create your study plan.)

- ◆ Set realistic goals for what you want to accomplish during each study session and chart your progress.
- ◆ Study during your most productive time of the day.
- ◆ Study for reasonable amounts of time. Marathon studying is not productive.
- ◆ Take frequent breaks. Breaks can help you stay focused. Doing some quick exercises (e.g., sit-ups or jumping jacks) can help you stay alert.
- ◆ Be consistent. Establish your routine and stick to it.
- ◆ Study the most challenging test content first.
- ◆ For each study session, build in time to review what you learned in your last study session.
- ◆ Evaluate your accomplishments at the end of each study session.
- ◆ Reward yourself for a job well done.

Organization

You don't want to waste your study time. Searching for materials, trying to find a place to study, and debating what and how to study can all keep you from having a productive study session. Get organized and be prepared. Here are a few organizational strategies to consider:



- ◆ Establish a study area that has minimal distractions.
- ◆ Gather your materials in advance.
- ◆ Develop and implement your study plan (See Appendices A–D for SAMPLE STUDY PLAN SHEETS).

Active Participation



Students who actively study will learn and retain information longer. Active studying also helps you stay more alert and be more productive while learning new information. What is active studying? It can be anything that gets you to interact with the material you are studying. Here are a few suggestions:

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

Test-taking Strategies

There are many test-taking strategies that you can use before and during a test to help you have the most successful testing situation possible. Below are a few questions to help you take a look at your test-taking skills.




A LOOK AT YOUR TEST-TAKING SKILLS

As you prepare to take the EOCT, you might want to consider your answers to the following questions. You may write your answers here or on your own paper.

1. How would you describe your test-taking skills?
Response: _____
2. How do you feel when you are taking a test?
Response: _____
3. List the strategies that you already know and use when you are taking a test.
Response: _____
4. List test-taking behaviors you use when preparing for and taking a test that do not contribute to your success.
Response: _____
5. What would you like to learn about taking tests?
Response: _____

Suggested Strategies to Use to Prepare for the EOCT

 **Learn from the Past.** Think about your daily/weekly grades in your social studies classes (past and present) to answer the following questions.

- In which specific areas of social studies were you or are you successful?

Response: _____


- Is there anything that has kept you from achieving higher scores?


Response: _____

- What changes should you implement to achieve higher scores?

Response: _____

Before taking the EOCT, work toward removing or minimizing any obstacles that might stand in the way of your performing your best. The test preparation ideas and test-taking strategies in this section are designed to help guide you to accomplish this.

 **Be Prepared.** The best way to perform well on the EOCT is to be prepared. In order to do this, it is important that you know what standards/skills will be measured on the **Economics/Business/Free Enterprise EOCT** and then practice understanding and using those standards/skills. The standards that will be measured in this EOCT are located in the **Economics/Business/Free Enterprise Quality Core Curriculum (QCC)**. The OVERVIEW OF THE EOCT and TEST CONTENT sections of this study guide are designed to help you understand which specific standards are on the **Economics/Business/Free Enterprise EOCT** and give you suggestions for how to study the standards that will be assessed. Take the time to read through this material and follow the study suggestions. You can also ask your social studies teacher for any suggestions he or she might offer on preparing for the EOCT.

 **Start Now.** Don't wait until the last minute to start preparing. Begin early and pace yourself. By preparing a little bit each day, you will retain the information longer and increase your confidence level. Find out when the EOCT will be administered, so you can allocate your time appropriately.

Suggested Strategies to Use the Day Before the EOCT



✓ Review what you learned from this study guide

1. Review the general test-taking strategies discussed in the TOP 10 SUGGESTED STRATEGIES TO USE DURING THE EOCT on page 10.
2. Review the content domain-specific information discussed in the section, TEST CONTENT, beginning on page 11.
3. Focus your attention on the domain, or domains, that you are most in need of improving.

✓ Take care of yourself

1. Try to get a good night's sleep. Most people need an average of 8 hours, but everyone's sleep needs are different.
2. Don't drastically alter your routine. If you go to bed too early, you might lie in bed thinking about the test. You want to get enough sleep so you can do your best.

Suggested Strategies to Use the Morning of the EOCT



Eat a good breakfast. Eat some food that has protein in it for breakfast (and for lunch if the test is given in the afternoon). Some examples of foods high in protein are peanut butter, meat, and eggs. Protein gives you long-lasting, consistent energy that will stay with you through the test to help you concentrate better. Some people believe it is wise to eat some sugar before a test, claiming it gives them an energy boost. In reality, the energy boost is very short lived and you actually end up with less energy than before you ate the sugar. Also, don't eat too much. A heavy meal can make you feel tired. So think about what you eat before the test.



Dress appropriately. If you are too hot or too cold during the test, it can affect your performance. It is a good idea to dress in layers, so you can stay comfortable, regardless of the room temperature, and keep your mind on the EOCT.








Arrive for the test on time. Racing late into the testing room can cause you to start the test feeling anxious. You want to be on time and prepared.

TOP 10

Suggested Strategies to Use During the EOCT

These general test-taking strategies can help you do your best during the EOCT.

- 1 Focus on the test.**  Try to block out whatever is going on around you. Take your time and think about what you are asked to do. Listen carefully to all the directions.
- 2 Budget your time.**  Be sure that you allocate an appropriate amount of time to work on each question on the test.
- 3 Take a quick break if you begin to feel tired.** To do this, put your pencil down, relax in your chair, and take a few deep breaths. Then, sit up straight, pick up your pencil, and begin to concentrate on the test again. Remember that each test section is only 45 to 60 minutes.
- 4 Use positive self-talk.** If you find yourself saying negative things to yourself like, “I can’t pass this test,” it is important to recognize that you are doing this. Stop and think positive thoughts like, “I prepared for this test, and I am going to do my best.” Letting the negative thoughts take over can affect how you take the test and your test score.
- 5 Mark in your test booklet.**  Mark key ideas or things you want to come back to in your test booklet. Remember that only the answers marked on your answer sheet will be scored.
- 6 Read the entire question and the possible answer choices.** It is important to read the entire question so you know what it is asking. Read each possible answer choice. Do not mark the first one that “looks good.”
- 7 Use what you know**  Draw on what you have learned in class, from this study guide, and during your study sessions to help you answer the questions.
- 8 Use content domain-specific strategies to answer the questions.** In the TEST CONTENT section, there are a number of specific strategies that you can use to help improve your test performance. Spend time learning these helpful strategies, so you can use them while taking the test.
- 9 Think logically.** If you have tried your best to answer a question but you just aren’t sure, use the process of elimination. Look at each possible answer choice. If it doesn’t seem like a logical response, eliminate it. Do this until you’ve narrowed down your choices. If this doesn’t work, take your best educated guess. It is better to mark something down than to leave it blank.
- 10 Check your answers.**  When you have finished the test, go back and check your work.

A WORD ON TEST ANXIETY

It is normal to have some stress when preparing for and taking a test. It is what helps motivate us to study and try our best. Some students, however, experience anxiety that goes beyond normal test “jitters.” If you feel you are suffering from test anxiety that is keeping you from performing at your best, please speak to your school counselor who can direct you to resources to help you address this problem.

TEST CONTENT

Up to this point in this study guide, you have been learning various strategies on how to prepare for and take the EOCT. This section focuses on what will be tested. It also includes a section of sample questions that will let you apply what you have learned in your classes and from this study guide.

This section of the study guide will help you learn and review the various concepts that will appear on the ***Economics/Business/Free Enterprise EOCT***. Since *economics* is a broad term that covers many different topics, the state of Georgia has divided it into five major areas of knowledge, called **content domains**. The content domains are broad categories. Each of the content domains is broken down into smaller ideas. These smaller ideas are called **content standards**, or just standards. Each content domain contains standards that cover different ideas related to its content domain. Each question on the EOCT measures an individual standard within a content domain.

The five content domains for the ***Economics/Business/Free Enterprise EOCT*** cover all of the major topics and concepts that are essential to understanding the field of economics. Understanding these concepts will help you understand the economic reasoning behind the behavior of individuals, businesses, and governments. This sort of understanding should help you make important decisions regarding your own career and life. Another more immediate reason that the content domains are important has to do with test preparation. The best way to prepare for any test is to study and know the material measured on the test. Since the ***Economics/Business/Free Enterprise EOCT*** covers the five content domains and nothing else, isn't it a good idea to learn as much about these domains as you can? The more you understand about these domains, the greater your chances are of getting a good score on the EOCT.

The chart below lists the five content domains for the ***Economics/Business/Free Enterprise EOCT***.

CONTENT DOMAINS

- I. Fundamental Economic Concepts
- II. Producers and Consumers
- III. Microeconomics: Elements in the Marketplace
- IV. Macroeconomics: The National Economy
- V. The International Economy



UNDERSTANDING THE STANDARDS

One way to think about **content domains** and **standards** is to think about a supermarket. Supermarkets often group similar foods in the same aisles or areas of the store. For example, the section of the store marked "Fresh Fruits" will be a section filled with apples, oranges, and bananas, to name just a few. So the part of the store called "Fresh Fruits" is like the domain name, and all the various items—apples, oranges, bananas—are the standards that fall under that domain.

Studying the Content Domains

You should be familiar with many of the content standards that follow. It makes sense to spend more time studying the content standards that you think may cause you problems. Even so, do not skip over any of the standards. Be sure to study/review ALL the standards in each content domain. The “Test Content” section has been designed to help you do this. Each content domain will be covered. The “Test Content” section has been organized so each content domain has the following features:

- **A Look at the Content Domain:** an overview of what will be assessed in the content domain
- **Spotlight on the Standards:** information about the specific standards that will be assessed. (NOTE: The names of the standards may not be the exact names used by the Georgia Department of Education. Some of the names in this guide may have been modified to reflect the fact that this book is designed for students and not for professional educators.)
- **Sample Questions:** sample questions *similar* to those that appear on the Economics EOCT
- **Answers to the Sample Questions:** in-depth explanations of the answers to the sample questions

Content Domain I: Fundamental Economics Concepts



A LOOK AT CONTENT DOMAIN I

Test questions in this content domain will measure your understanding of basic economic concepts and skills. Your answers to the questions will help show how well you can perform on the following standards:

- ✧ Scarcity and opportunity cost
- ✧ Supply and demand as it relates to scarcity
- ✧ Factors of production
- ✧ Allocation of resources
- ✧ Characteristics of the U.S. economic system
- ✧ Elements of microeconomics: Consumers, households, and businesses
- ✧ Circular flow of goods and resources

If you went to a large public library, you could find entire books devoted to each of the standards mentioned above. Reading these books would increase your knowledge of economics considerably, but it is not necessary to do this for the *Economics/Business/Free Enterprise EOCT*. Instead, you need to realize that each of these topics represents a broad idea that is critical to your understanding of basic economic concepts. What you need to understand, then, is the basic, broad concept behind each standard. For example, for the EOCT it is important you understand that the four basic factors of production are land, labor, capital, and entrepreneurship. The questions for Content Domain I will help determine if you understand these basic concepts.



Spotlight on the Standards

✧ **Scarcity and Opportunity Cost** ✧

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

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

The following definitions can help you understand the previous one.

Resources:	resources are the inputs—such as labor, capital, entrepreneurship, and land—used by a society to produce outputs. These outputs—which are often finished products like hamburgers and cars—are called goods .
Scarce:	short in supply. <i>Scarcity</i> is the noun form of the adjective <i>scarce</i> .
Allocate:	to distribute according to some plan or system.

Consider a woman, Ms. Kronhorst, who wants to build a new house. Ms. Kronhorst has 1000 square feet of land on which to build her house. Since the amount of land available is not unlimited, it is a scarce resource. She will have to make decisions about how she will allocate the space that she has. Does she want three bedrooms or four? If the master bedroom is too big, will there be enough space left over for a patio? In essence, all of these decisions are economic ones, since they deal with the allocation of a scarce resource (land on which to build the house).

The basic definition of economics can also be applied to individuals (like Ms. Kronhorst), towns, nations, and even the entire world. Take the case of the United States. This country has some **free resources**, resources like the air we breathe, that are in abundant supply. Most of the nation's resources, however, are scarce, even if they don't appear to be at first. For instance, the United States has billions of trees within its borders, but that does not mean that all of these trees can be cut down without any consequences.

What does the United States produce with its scarce resources? The list of goods produced is long, but comparing our list of goods produced with other countries' lists can demonstrate some interesting points. For instance, why do we produce more cars than Brazil? Why does Brazil produce more sugar than the United States? Answers to economic questions like these can often give you insight about a country and its people, as well as help you understand why the United States has become the nation it is.

The decision to produce one good instead of another often relates to *choice* and *opportunity cost*, two common economic terms. Suppose our friend Ms. Kronhorst also owns an empty warehouse downtown that is about the size of the football field. She would like to build big cargo airplanes, but there is not enough space in the warehouse for this to be done. Therefore, building cargo airplanes is not one of her choices in the decision-making process. Instead, she currently has two choices. A company would like to lease the warehouse and use the space to store furniture, but Ms. Kronhorst might use the space to build her own art gallery. Whatever she decides to do, Ms. Kronhorst faces an opportunity cost with her decision. The **opportunity cost** is the value of the best alternative that could have been chosen but was not. If Ms. Kronhorst decides to lease the space to the furniture company, her opportunity cost is the loss of using the space as an art gallery. If she chooses to open the art gallery, the opportunity cost of this decision would be the income she would lose by not leasing the warehouse.

Poetry and Economics

There is a famous poem by Robert Frost that states, “Two roads diverged in a yellow wood, / And sorry I could not travel both / And be one traveler...” In economic terms, Frost is lamenting the fact that there is an opportunity cost associated with choosing one road over the other. You can use this poem to help remind you that any decision, even choosing between two paths, includes an opportunity cost.

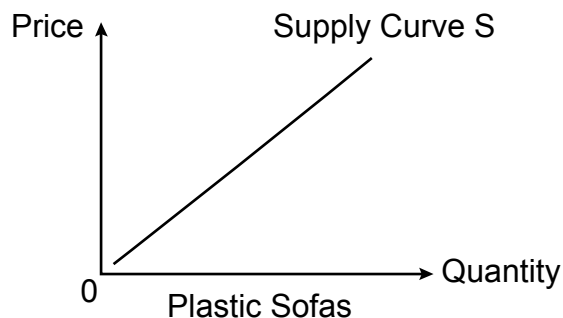
If you are given a hypothetical situation, you should be able to identify the *scarce resources* and the *opportunity costs* associated with different decisions. Looking back at Ms. Kronhorst’s new house, you can see that one primary scarce resource is land. You can also surmise the opportunity costs of choosing one house design over another. One house design may offer the benefits of six small rooms, but this might mean giving up the benefits of a design that includes three large rooms.

STRATEGY BOX — Can’t Have it All

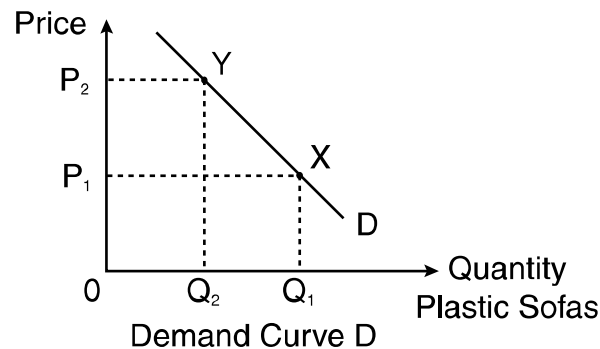
Most economic situations can be discussed using the ideas of scarcity and opportunity costs. It doesn’t matter if the subject is the nation (like the United States) or a person (like Ms. Kronhorst), the basic decision-making processes center on deciding how to allocate the scarce resources at hand.

✧ Supply and Demand as It Relates to Scarcity ✧

Ms. Kronhorst has decided to research the furniture company that wants to lease her warehouse. The Second Time Sofa Company specializes in making sofas and chairs from recycled plastic bottles. Currently, they are the only company in the United States that makes plastic sofas. The following graph shows the quantity of sofas Second Time is willing and able to offer at different prices. The graph shows the firm’s **supply**, the quantity of goods or services that someone is able and willing to supply at different prices.



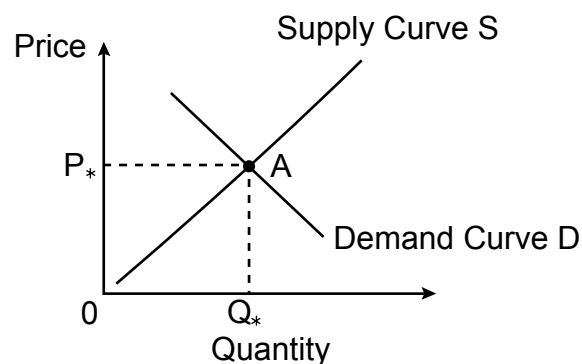
Like many supply curves, this one is upward sloping. This shows that as price goes up (the vertical axis), Second Time is willing to make more sofas in order to make a larger profit. Of course, they need to find people willing to buy their plastic sofas. This information can be called the demand curve for their sofas. The demand curve shows the amount of goods or services that buyers are able and willing to purchase at different prices.



Unlike the supply curve, the demand curve slopes downward. This shows the common case of how the amount of a good that people demand declines when the price of a good increases. At point X, the price is P_1 , and quantity of plastic sofas is at Q_1 . If the price increases to P_2 at point Y, then the quantity demanded will decrease to Q_2 .

While the theory of demand may not be easy to understand, creating an actual demand schedule can be even trickier. It depends on the tastes and preferences of all the buyers in a society. This desire to purchase one kind of good over another is often called the **basic wants and needs** of a person. Some people might want a plastic sofa at any price, while others would only want a plastic sofa at a particular price.

If Second Time Sofa could come up with a realistic demand schedule, then they could combine it with their own supply curve to come up with a graph like this one:



This graph is very helpful to the owners of Second Time Sofa since it tells them how many sofas to produce and what price to charge. At Point A, the demand for plastic sofas exactly equals supply. If Second Time Sofas produces Q_* at a price of P_* , they should be able to sell all that they make. This is very efficient, and efficiency is good for a business.

Supply and demand are topics that appear often in microeconomics. More Price/Quantity charts will be seen in Content Domain III.

★ **Factors of Production** ★

Suppose that Ms. Kronhorst decided (perhaps wisely) that the future of furniture does not lie in plastic sofas. She has decided to go ahead with her own plans to transform her warehouse into an art gallery. To do this, she will need to use various resources to change a large, empty warehouse into a gallery that sells and displays art.

Resources used to produce or sell goods are commonly referred to as the **factors of production**. The four basic factors are: land, labor, capital, and entrepreneurship. The resources used by almost every business can be placed into one of these four categories, which is why learning them is useful when discussing the economics of a business.

The Four Factors of Production

1. **Land.** Land is just what it seems to be, but it also includes any natural resources and man-made improvements that might be found on the piece of ground in question. Oil in the ground or gold in a creek bed are two things that would be included as part of the land, since they occurred there naturally. Buildings, fences, and roads are also considered part of the land since in most cases these improvements are bought and sold with the property.
2. **Labor.** Labor covers the mental and physical effort of human beings. Moving heavy boxes is an example of physical labor, while writing a mystery novel is an example of mental labor.
3. **Capital.** Capital resources are man-made creations (other than permanent improvements to the land) that are used to make goods or services. Capital is often divided into two categories: physical and human. Physical capital includes everything from the huge blast furnaces of a steel factory to the display shelves of a clothing store. These two man-made creations are used to produce a good (steel) or provide a service (apparel display). Human capital covers the skills and knowledge within a person's head. After thirty years in the steel industry, the plant manager's brain is filled with detailed knowledge about the steel-making process. The clothing store manager knows enough about fashion to place the right clothes out on the proper shelves. Both of these people contain valuable stores of human capital.
4. **Entrepreneurship.** The final resource is the hardest to define. Entrepreneurship roughly translates to "good business sense." It covers many areas, like the ability to:
 - 1) come up with new products that people will want
 - 2) organize and run a new business successfully
 - 3) manage employees effectively

Some people are simply better at business than others are. These people have the ability to take an idea and introduce it to the public. It is a risky maneuver, and many entrepreneurs end up with a bankrupt business. Others, however, are able to grow their businesses effectively, and many of these companies—Ford Motor, Wal-Mart, and McDonalds—are still with us today.

Which of the following is a human capital resource that Ms. Kronhorst could use for her art gallery?

- A light fixtures to help display the artwork
- B a security guard to protect the artwork
- C knowledge of trends in modern art
- D a series of paintings by a prominent local artist

With choice A, the light fixtures are a necessary part of a gallery. If Ms. Kronhorst doesn't get them, then no one will be able to see the paintings. However, the lights are man-made creations, so they are physical capital, not human capital. The same is true of Choice D; the paintings are physical objects. A security guard provides needed *labor* to guard the paintings from theft. This leaves choice C; knowledge of current trends in modern art is a useful bit of human capital when you are trying to sell paintings. Therefore, C is the answer.

✧ **Allocation of Resources** ✧

Every economic system must answer three basic questions. How these questions are answered helps determine the kind of society that is created. These three questions are:

- 1. What will be produced?** Every nation produces a unique set of goods and services. The United States used to have a large manufacturing sector, but since the 1970s manufacturing has declined while the nation's service sector has grown. Jobs in white-collar services—such as software programming—have begun to replace jobs involved in manufacturing durable goods.

Changing what a nation produces changes a nation itself. Since service jobs require more education, more Americans are enrolling in college than in previous decades. Factories have closed down in many places, and they have been replaced by commercial office buildings filled with employees in cubicles. The manufacturing jobs that used to be in the United States are now in countries like Mexico and China. This is changing society in these countries as well.

- 2. How will it be produced?** “Private companies” or “The government” are two answers to this question. In the United States, private companies produce the majority of goods and services. In some socialist countries, or countries ruled by a dictator, the government produces the majority of goods and services. In these countries, the majority of the population works for the government.

3. **For whom will it be produced?** In other words, who is going to use the products produced by a society? Answering this question will give you an idea of the breakdown of wealth in a country. If the majority of goods created are luxury goods and services, then you might have a country where a small number of people control most of the wealth. In this case a large, poor underclass may exist, producing goods and services that they themselves cannot afford. In industrialized nations like the United States, the majority of citizens are in the middle-income group, meaning they are moderately well off financially. There are also very rich people and very poor people, but they are proportionally less numerous than those in the middle-income group. So, in nations like the United States, a majority of goods and services are produced for the middle class.

By applying these three questions to different countries, you can gain insight about these societies.

✧ *Characteristics of the U.S. Economic System* ✧

Our economic system is a lot like our language: it contains hundreds of different rules, and most of these rules have exceptions. Learning everything about the U.S. economic system would take years, but focusing on the “Big Picture” is the key to this content domain. With this in mind, the biggest point to remember is that the United States has a capitalist economy. A **capitalist** society has private firms that produce and distribute most of the goods and services in the society. Money earned by firms and people in this society is reinvested into different markets.

There are those who believe the unequal distribution of wealth is wrong or immoral. Many of these critics prefer the idea of a **socialist society**, where the government plays the largest role in distributing goods and services within a society. Theoretically, the government’s leading role insures an equal distribution of wealth, although this has not always been the case historically. In the end, it is perhaps best to quote the English leader Winston Churchill and say, “The inherent vice of capitalism is the uneven division of blessings, while the inherent virtue of socialism is the equal division of misery.”

In a capitalist society, the government plays a limited role. It may have an agency to regulate the safety of a product (such as a new prescription drug), but that agency has no direct role in pricing, supply, or distribution. The government also has laws to insure that all citizens have a fair chance at employment regardless of race, creed, religion, or sex. While the United States government seeks to insure equal opportunities for everyone, a capitalist society does not seek an equal distribution of wealth. It is almost inevitable that a capitalist society will generate some people with more wealth than others.

The following question is an example of how this concept might be addressed:

For capitalism to be successful there MUST be

- A government regulation
- B perfect information
- C private property ownership
- D an equal distribution of wealth

Option A is incorrect because, while government regulation may play an important role in promoting market efficiency, the government is not a vital part of a capitalist economy. Likewise, while perfect information may also promote efficiency, it is not necessary for a capitalist economy to function. Therefore, B is incorrect. As we have stated, capitalism often creates an unequal distribution of wealth, so D is an incorrect answer. Without private property, however, ownership and exchange are impossible. Since capitalism relies on ownership and exchange, C is the correct answer.

In a capitalist society, a government can *influence* markets using taxes and incentives. However, the government rarely takes a direct hand in the production and distribution of goods.

▲ **Elements of Microeconomics: Consumers, Households, and Businesses** ▲

The study of economics is usually divided into two large fields, microeconomics and macroeconomics.

Both of these fields will be covered in greater detail in Content Domains III and IV, respectively. For now, **microeconomics** can be described as the study of people and businesses within a single market. This small focus—only one particular market—is one way microeconomics (literally “small economics”) is different from macroeconomics (“large economics”).

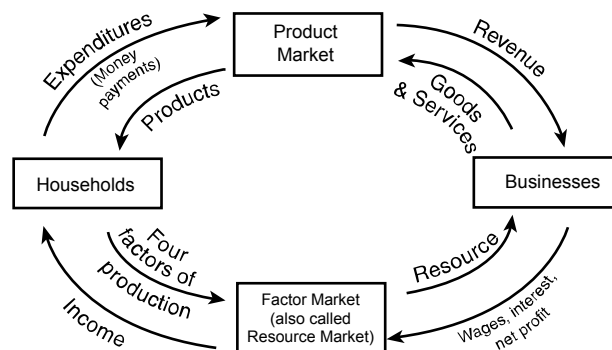
Every individual market has certain similarities. Consider the market for plastic furniture. There are **consumers**, people who buy and use plastic furniture, and there are **firms** or **businesses** that make plastic furniture. How the demand of these consumers and the supply abilities of these businesses interact can often be shown using Price/Quantity graphs like the ones on page 16. These graphs show how changes in supply affect both consumers and businesses, and vice versa.

Since some goods are purchased for a family or collection of people, the term **household** is often used. Households purchase goods for use by anyone living in the group.

In general, studying microeconomics allows you to understand the decisions made by individuals to buy or not buy a product. It also helps you understand why a firm would or would not supply that same product. These topics will be covered in greater detail in Content Domain III.

↖ **Circular Flow of Goods and Resources** ↗

The relationship between goods and resources is shown below:



In economics, a picture can be worth a thousand words. The various relationships between goods and resources can all be shown on this single diagram.

STRATEGY BOX — Go With the Flow

Study the circular flow diagram well, and be sure you understand each aspect of it. The diagram provides a simple and easy way to show how households and businesses interact, as well as how the product market and resource market are connected.

Sample Questions for Content Domain I

This section has some sample questions for you to try. After you have answered all of the questions, check your answers in the “Answers to the Content Domain I Sample Questions” section that follows. This section will give you the correct answer to each question, and it will explain why the other answer choices are incorrect.

- 1 Opportunity cost is BEST described as the**

A most expensive resource used in production
 B sum of all production costs
 C value of the best alternative forgone when a choice is made
 D monetary value of all alternatives forgone when a choice is made

- 2 Use the headline to answer the following question.**

High Tech Firms Begin Producing New Generation of Computers

What basic economic question is being addressed in this headline?

A for whom to produce
 B how to produce
 C what to produce
 D when to produce

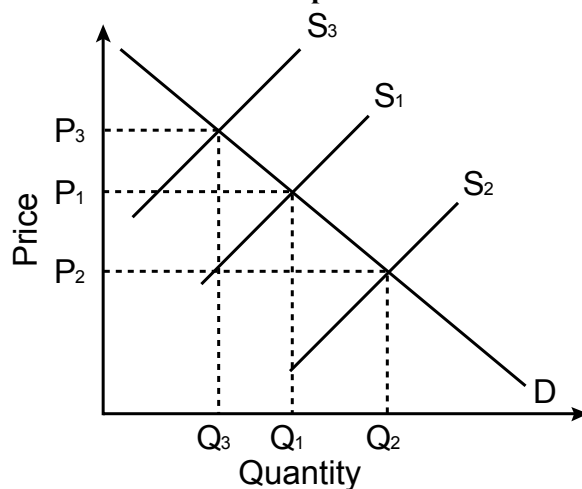
- 3 A critical principle of capitalism is the idea of**

A communal ownership
 B voluntary exchange
 C government regulation
 D limited competition

- 4 In order to build a skyscraper, Builders Inc. hires 400 construction workers and 50 managers. Builders Inc. represents**

A land
 B labor
 C capital
 D entrepreneurship

- 5 In the graph below, lines D and S₁ show the demand and supply schedules for the Anaxos Fruit Shake Company in their last month of operation.**



Anaxos just upgraded its capital equipment by buying a machine that makes fruit shakes faster and cheaper than the original machine. What effect should this have on the graph?

	<u>Price</u>	<u>Quantity</u>
A	Rises	Rises
B	Drops	Rises
C	Rises	Drops
D	Drops	Drops

Answers to the Content Domain I Sample Questions

1. Answer: **C** Standard: *Scarcity and opportunity cost*

Opportunity cost is the value of the best economic choice you did NOT make. Choice **D** is the sum of all possible opportunity costs, but opportunity costs are not added up. Only the best alternative forgone, Choice **C**, counts as the opportunity cost.

2. Answer: **C** Standard: *Allocation of resources*

Choice **D** is not one of the three basic economic questions, so it can be eliminated. (It can also be eliminated because “when” denotes an element of time, and nothing in the headline relates to a chronological order.) By beginning to produce the “New Generation of Computers,” the high tech firms are changing *what* they produce.

3. Answer: **B** Standard: *Characteristics of the U.S. economic system*

Capitalism is based on private ownership and free markets. Choice **A** is the opposite of private ownership, and it is more indicative of a communist—a word with the same root stem as *communal*—economic system. Free markets are open to anyone, so competition should not be limited, getting rid of choice **D**. Choice **C** seems plausible, because our own capitalist system does have government regulation of some markets. However, this is a choice, not a requirement of capitalism. Some markets are unregulated, and others are regulated by non-governmental agencies. Therefore, choice **C** is not correct. The best answer is **B**, because voluntary exchange is a critical component of a free market. If exchange is not voluntary, then the market is not free, and a principle part of capitalism is missing.

4. Answer: **D** Standard: *Factors of Production*

Entrepreneurship, **D**, is the part of the production process that organizes the other three factors so that a good or service is produced. In this case, Builders Inc. has organized construction workers and managers (both labor) to produce a skyscraper.

5. Answer: **B** Standard: *Supply and demand as it relates to scarcity*

The new machine makes shakes faster and cheaper. This allows the supplier to reduce the price, which eliminates options **A** and **C**. Since the price is lower, the number produced can increase to meet the demand (on the same curve). This eliminates option **D**.

Therefore the correct answer is **B**.

Content Domain II: Producers and Consumers



A LOOK AT CONTENT DOMAIN II

Test questions in this content domain will measure your understanding of economic producers and consumers. Your answers to the questions will help show how well you can perform on the following standards:

- ✦ Specialization and resource efficiency
- ✦ Savings, investment, and capital
- ✦ Factors of production
- ✦ Career opportunities
- ✦ Issues facing consumers
- ✦ Minority issues

When you work at a job you are, in effect, a **producer**. It doesn't matter if you are working for someone else; if you are making a good or providing a service, you can be considered a producer. When you purchase a good or service, on the other hand, you are a **consumer** of that good or service.

Content Domain II focuses on some of the key issues faced by the average producer and consumer in U.S. society. If you ever plan on holding a job or purchasing something in your lifetime, these issues will come up. Therefore, Content Domain II covers subjects that most Americans will encounter, such as:

- Finding a job
- Getting a decent wage for your job
- Saving money and investing
- Buying a house or getting some other loan
- Using a credit card

As these are only some of the topics covered, be sure to take time to consider each of the standards in Content Domain II. Not only will this help you on the ***Economics/Business/Free Enterprise*** EOCT, it will also help as you negotiate your way in the world as an adult.



Spotlight on the Standards

✦ ***Specialization and Resource Efficiency*** ✦

Suppose you are allowed to drive your own car when you turn sixteen, but with a catch: you have to build the car yourself, entirely from scratch. What would this mean? Well,

you would first have to get some metal for the frame. That means you would have to start mining (no easy task), then somehow learn how to transform iron ore into steel. Then you would have to build an engine, which could take several years of schooling to do properly. Wheels would require rubber, and learning how to fashion rubber into tires would take even more study. Just creating these rudimentary car parts would take many years to accomplish, and you haven't even started on the awesome sound system!

The fact is that people no longer do everything for themselves. You don't have to grow all your own food. Instead, you can go to a grocery store. You don't have to build your own car, either. You can get one from a company that devotes all its time to making cars. In other words, because this company *specializes* in manufacturing cars, you do not have to do so.

Specialization allows people to concentrate on a single activity or area of expertise. For an entire society, specialization helps boost overall productivity and leads to an efficient use of resources. For example, suppose one out of every 100,000 people needs the help of a brain surgeon. In the United States, this would translate to 3,000 people who need brain surgery. If the United States has enough specialized brain surgeons to help these people, then specialization will have helped save lives. These cured people could then go back to their jobs and continue to gain expertise in their own area of specialization.

In order for specialization to work, there needs to be an accepted way to exchange goods and services within the society. This is accomplished by *money*, and will be discussed in greater detail on page 39 in Content Domain III.

The brain surgery example shows how specialization can influence labor markets. People gain knowledge and skills in a certain area, and this allows them to do that job better than other non-specialists. This specialized knowledge might allow them to fashion a product faster, increasing output. It could also allow them to complete something that others could not even attempt. Either way, specialization expands the efficiency of a society, and usually helps boost overall production ability. Furthermore, this "skilled labor" can charge more for their services, which allows individual wealth to increase. A question that deals with this subject might look like this:

An assembly line can increase a factory's productivity because it allows workers to

- A** diversify their skills
- B** focus on a specific task
- C** put in overtime hours on the job
- D** use a wide range of knowledge

An assembly line utilizes the benefits of specialization by allowing individual workers to concentrate on a certain task. As each of these workers gains experience in one particular part of the production process, the entire factory is able to produce more without increasing the number of workers they employ or the time each employee spends on the job. While choices A and D can both be assets for a worker, an assembly line requires a

worker to focus on a specific task, not acquire a broad range of skills or knowledge. Choice C is incorrect because using an assembly line should allow a worker to produce more without increasing the hours that he or she works. Choice B, on the other hand, is a good description of the type of specialization that occurs when a factory uses an assembly line. This is the correct answer.

Specialization is not limited to just labor. Other factors of production, such as capital and land, can also be specialized. A machine designed to mass-produce steering wheels is an example of specialized capital equipment designed to boost efficiency in the car-making process. Land, on the other hand, is used in specialized activities all the time. A post office specializes in sending and receiving mail, while a bank specializes in storing and transferring money.

✦ **Savings, Investment, and Capital** ✦

Ms. Kronhorst's daughter, Adelaide, happens to be an automotive engineer. In fact, she has recently discovered a new technique that has improved safety and lowered the cost of manufacturing. For her hard work and ingenuity she receives a \$5,000 bonus from the company for which she works.

At first, Adelaide isn't certain what she wants to do with this money. She narrows her choices down to three options:

- 1) keep the money in a bank account in case of an emergency
- 2) give the money to her mom in exchange for part ownership of the art gallery
- 3) use the money to enroll in a class on new techniques in hybrid automotive design

If Adelaide opts for choice #1, she will be placing the money in savings. **Savings** are monetary deposits secured for a later, undetermined use. Money in savings might eventually be spent on groceries, a vacation, or some other form of consumption. In contrast, option #2 would be considered an **investment**, since the money is used

here with the expectation of some future return or benefit. By investing the money in the art gallery, Adelaide takes the risk that the gallery will be profitable, earning her a share of future profits. There is no guaranteed rate of return (like there is with a savings account), but there is a possibility that the art gallery will be highly profitable, earning Adelaide a high rate of return for her \$5,000 investment.

Savings accounts in banks often earn the holder a small rate of interest. Banks then use the money deposited in ways that will be covered in Content Domain IV.

Many Americans are placed in the same position as Adelaide when it comes to deciding between savings and investment. Many people try to do a little of both, keeping some money in the bank while buying stock or land as a form of investment. Of course, Adelaide has a third option, taking the course to learn new techniques. If she does this, she will be investing in human capital, since the knowledge she gains through the class should improve her skills.

When *producers* are given additional money, the factors of production come into play. The amount of land is often fixed, and entrepreneurship is hard to purchase, so the question of where the additional money should be spent often boils down to, “Should the money be used for labor or capital?” Suppose Adelaide chooses option #2, earning a 10% stake in the art gallery. Ms. Kronhorst now has \$5,000 additional dollars. Does she want to spend it on labor (hiring a part-time salesperson) or capital (adding better lighting)? There are advantages to either decision. Making the right decision is the mark of a good businessperson. An extra salesperson might boost sales, but the salesperson’s salary would be continuous, so the art gallery’s fixed costs would increase. Choosing the capital improvement (the new lights) might not boost sales as much, but the cost would be a one-time expenditure that would last for quite a while at little additional cost (electricity).

In general, U.S. producers often choose to invest in capital, especially new technologies that can boost production levels. This gives U.S. businesses the ability to compete against foreign businesses that can hire workers at a fraction of the minimum wage in the United States. Even though these firms have low labor costs, U.S. firms can often maintain an advantage in production by using the best technology and heavy capital investment.

STRATEGY BOX — Choices

What consumers do with additional earnings often boils down to a choice between savings and investment. Producers with additional earnings usually face a choice of spending for more labor or more capital.

✦ Factors of Production ✦

Why does the United States produce more cars than Brazil? This question was first asked on page 14 in Content Domain I. Part of the answer can be found by looking at the factors of production.

The fact is, the factors of production vary from country to country, city to city, and business to business. Some areas have very little land, a massive amount of capital, and a highly trained labor force. This would not be a good place to start a beet farm, would it? It would probably make more sense to open a bank or an accounting firm.

Owners of land and capital have to decide how to use their resources productively. Consider someone who has a farm at the edge of town that employs 10 full-time laborers. The farmer has a fair amount of capital in the form of a bank loan. The farmer must weigh the benefits of continuing farming or doing something else with the land, such as converting the land into a new subdivision of houses. Choosing the subdivision would require a large amount of capital, more than the bank loan would cover. If the farmer doesn’t have enough capital to finish the project, he would be ruined. Furthermore, there is the question of the labor pool. The farmhands might not make good construction workers, so a new supply of labor will have to be found.

If the farmer succeeds, he could make a great deal of money. If not, he will go bankrupt. The adage “with great risks come great rewards” applies here, and it explains why there is a difference of income among people in this scenario. The farm workers make a modest wage, and if they leave one farm, they will probably find work at about the same wage at another farm. Their input of labor does not change, and they own few capital resources, so their income will not change greatly. On the other hand, the farmer does own resources, and his ability to take a risk with these factors of production allows him to either make a lot of cash or lose it all.

The specific mix of resources in an area often affects rents, wages, prices, and profits in an area. For example,

A sandwich in New York City costs \$11. The exact same sandwich costs \$8 in Atlanta. The difference in price can BEST be explained by

- A** higher commercial rents in New York City
- B** better entrepreneurship in Atlanta
- C** higher capital costs in Atlanta
- D** a scarcity of labor in New York City

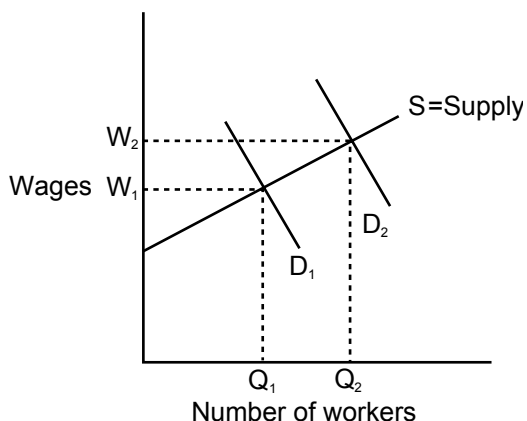
Choice B would be difficult to prove, and may not even be true at all. Choice C is incorrect because higher costs mean higher prices but the higher prices are occurring in New York City, not Atlanta. Furthermore, New York City has around eight million people, so finding labor is not a problem. That eliminates choice D. New York City’s population density does, however, create higher demand for space. This, in turn, drives up rents in New York City, so choice A is the best answer. The higher sandwich price is due to the fact that the sandwich shop in New York City has much higher fixed costs (from the higher rent), so they must charge more in order to stay in business.

Career Opportunities

At some point in your life, you will probably find yourself looking for a job. Finding the right job is a complicated process, filled with questions like:

- 1) What would you like to do for a living?
- 2) Will you get paid enough to justify the job?
- 3) Will anyone actually hire you?

The first question is a personal one, but the other two questions have some economic underpinnings. In theory, both questions can be discussed using a graph showing the demand for a service and the supply of qualified applicants. The following graph shows the supply and demand of labor in one sector of the economy.

Labor Demand for Automotive Engineers in the U.S.

This graph is used to illustrate the *theory* of how supply and demand in a certain sector of the economy interact to set wages in that sector.

Actual numbers are not used since they are not needed to show the ideas behind the theory.

The vertical axis of the graph shows the **wage**, which is the income earned by an individual for work done. Line S shows the nation's labor pool, or supply of automotive engineers. If the nation's demand for these automotive specialists is line D_1 , then wages would be W_1 and Q_1 people would be employed as automotive engineers.

Suppose demand rises to line D_2 . At this point, people would recognize that automotive engineering is a lucrative profession in high demand, and they might decide to enroll in graduate school. Doing so would help answer questions 2 and 3 on page 28; these people would know that their chances of getting hired would be good and that they would receive a wage of W_2 .

STRATEGY BOX — What's It Worth?

In general, the two factors that can boost the wages of a particular job are demand for that service and the training requirements needed for the job. High demand raises wages because it allows the limited supply of labor in that area to ask for more money and get it. Additional training (educational or job-specific) also raises wages because there is an opportunity cost associated with this unpaid training, and this opportunity cost must be offset with a higher wage. Otherwise, no one will undertake the job.

✦ **Issues Facing Consumers** ✦

A huge number of families in the United States have some form of debt. There are some advantages and disadvantages to getting into debt. On the plus side, obtaining money quickly might allow you to buy something—like a house—immediately, rather than waiting twenty years until you have enough money to purchase it outright. In other words, you could live in the house for twenty years, with debt, or you could wait outside in the rain for twenty years until you save up enough money to buy the house outright.

On the downside, all debts have some form of interest payment to them, so getting into debt means that you eventually pay more for something by getting a loan than if you could have purchased it with your own money.

There are different loans available for different types of purchases. For consumers, choosing which type of loan—or if they should get a loan at all—is often a tricky decision. The following list describes some of the more common types of loans.

Types of Financial Loans and Associated Terms

- 1. Home loan.** Since the cost of a house is often quite high, many people receive a loan called a **mortgage** to pay for a house. Mortgages are loans that are usually paid out over a considerable length of time, such as ten, fifteen, or thirty years. Most mortgages are fixed; the interest rate is set at the time of the loan and does not change. The fixed rate allows households to know how much payments will be for the life of the loan; if the loan was at a variable rate, fluctuations in the interest rate might cause financial turmoil for the household.
- 2. Consumer loan.** Sometimes people just need a little extra money. The money might be used to buy a new car, for some type of home repair, or just to throw a really, really great birthday party. Consumer loans are not as large as most home loans, and they often have an interest rate that is a little higher than a home loan. Also, the duration of most of these loans is relatively short, averaging around 1-5 years in length.
- 3. Credit card loan.** Credit cards allow people to purchase goods and services easily. When traveling, you can carry these strips of plastic instead of a great deal of currency that could be stolen. Although credit cards are convenient, consumers pay for this convenience with high interest rates. Interest rates around 18% are not uncommon, and the rates are variable, so consumers often find themselves holding a large amount of high-interest credit card debt if they are not careful with their spending habits. Interest on a credit card typically accrues on a monthly basis.
- 4. Finance companies.** Banks are not the only institutions dealing in loans. Some finance companies buy and sell loans, while others offer specialized loans directly to consumers.
- 5. Interest rates.** The interest rate is the percentage amount of payment by borrowers to the lender. An annual interest rate of 5% on a \$100 loan would translate to an interest payment of \$5 each year, since
$$5\% = 0.05$$
$$5\%(\$100) = (0.05)(100) = \$5$$
After one year, the person would now owe \$105.
With a **simple** interest rate, the interest is determined annually with the *original* loan amount. In the second year, the interest would again be \$5, so a person would owe $\$105 + \$5 = \$110$ after the second year. With a **compound** interest rate, future

interest is determined with the *existing* amount owed. In the second year of a compound debt, the interest would be

$$5\% (105) =$$

$$(0.05)(105) = \$5.25$$

$$\$105 + \$5.25 = \$110.25$$

so the compound interest rate is greater than the simple interest rate. The current difference is only a quarter (\$110 versus \$110.25), but compound interest can build up a lot over a period of time.

A flood has destroyed Mr. Patterson’s barn. The barn was not insured, and the cost of repairing the damage should be about \$4,000. Mr. Patterson believes he could accrue that amount of money in about three years. Which finance option should he choose if he wants to repair the barn immediately?

- A short-term consumer loan
- B credit card loan with variable interest
- C long-term mortgage
- D student loan

The interest on the credit card would accrue too quickly, and choices C and D are both specialized loans that are not relevant to Mr. Patterson’s situation. Choice A is the best answer.

✦ *Minority Issues* ✦

In the past sixty years, the available labor pool in the United States has changed dramatically. The initial cause of this change was World War II. With vast numbers of white males, who had held most manufacturing jobs, entering the armed services, factories and other businesses faced a shortage of labor at a time when demand for war-related items was peaking. Minority males and women of all ethnic groups provided the answer, entering the work force in greater numbers in the 1940s. After World War II, many women did not want to go back to their traditional roles as housewives.

A similar change took place in the 1960s, when the Civil Rights movement in America reached a turning point. Slavery had been abolished for some time, but segregation, Jim Crow laws, and other racially motivated policies kept African Americans and other minorities at the margins of U.S. society. The Civil Rights movement helped end segregation and other racial policies, pushing the United States closer to a more equal, color-blind society. The result was that increasing numbers of African Americans entered colleges and took opportunities to obtain jobs in higher paying occupations.

As you might imagine, these events have had a great impact on U.S. society. Families with two working parents are now quite common, a change from the pre-World War II years. This change has also created a drastic change in the United States economic system.

Questions in this standard will focus on the changes brought about by the entrance of women and minorities into the work force. The changes are too numerous to list here, but in general, the following points can be made:

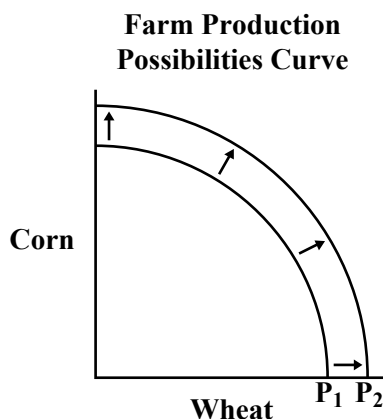
- 1) The available labor pool was greatly expanded.
- 2) The entrance into the work force gave women and minorities more influence in America's political and social arenas.
- 3) As consumers with income, women and minorities now influence economic production decisions.
- 4) Women and minorities have made great gains, but absolute equality has not yet been reached.

The face of our society is constantly changing. Looking at the economic changes can sometimes help you understand the social changes, and vice versa. This is certainly true about the impact of women and minorities in the economy.

Sample Questions for Content Domain II

This section has some questions for you to try. After you have answered all of the questions, check your answers in the “Answers to the Content Domain II Sample Questions” section that follows. This section will give you the correct answer to each question, and it will explain why the other answer choices are incorrect.

- 1 Use the information to answer the following question.**



What BEST explains the shift of the production possibilities curve from P_1 to P_2 ?

- A** improvements in agricultural technology
- B** inflationary increases in prices
- C** higher costs of producing computers
- D** higher costs of producing televisions

- 2 A good example of the effect of learning on income would be that**

- A** employees who learn to perform high-risk jobs always get paid more than those with low-risk jobs
- B** workers who learn to make high-demand products are better paid than workers making low-demand products
- C** job applicants with good high school grades are offered better pay than applicants with low high school grades
- D** people with college degrees usually earn more than those with less education

- 3** Use the following information to answer the question.

James is comparing credit cards. Card A charges 17% interest and a \$60 annual fee. Card B charges 19% interest with no annual fee. He plans to charge a \$2000 set of living room furniture on the new card and to pay it off after one year. Assume that he pays nothing until the end of the year, and then pays the entire \$2000 with simple interest.

After one year, what will the finance charge be if James uses Card A?

- A \$170
- B \$340
- C \$400
- D \$510

- 4** Alex and Dylan mow a lawn and then trim it together. Currently, each man mows and trims a lawn by himself, but the process takes a long time. They would **MOST LIKELY** improve their efficiency if

- A Alex and Dylan mow a lawn and then trim it together
- B Alex mows a lawn while Dylan trims the same lawn
- C Alex trims Dylan's lawn while Dylan trims Alex's lawn
- D Alex and Dylan reduce the number of lawns they mow and trim

Answers to the Content Domain II Sample Questions

1. Answer: **A** Standard: *Savings, investment, and capital*

An outward expansion of a production possibilities curve means greater productivity. One way greater productivity can be achieved is by improving technology.

2. Answer: **D** Standard: *Career opportunities*

Choice **A** is usually true, but it is not “always” true, so the use of the word *always* makes this an incorrect choice. Choice **B** sounds good at first, but high-demand products are not always very expensive, so “workers” might not get paid much to produce low-cost items. The rate of pay for a particular job is usually not based on one’s high school grades, so choice **C** is untrue. Choice **D** accurately reflects the fact that additional learning increases human capital and comes with an opportunity cost that is usually offset by a higher wage.

3. Answer: **B** Standard: *Issues facing consumers*

The finance charge for the 17% card is simply the interest rate multiplied by the amount of the loan, \$2000. In this case,

$$(17\%)(\$2,000) = (0.17)(2000) = \$340$$

This is choice **B**. The membership fee is part of the *total* cost of the card, but it is not part of the finance charge. It is interesting to note that even though Card A has a lower interest rate, the total cost of Card A is greater than Card B because of the membership fee.

$$\begin{aligned}\text{Total cost of Card A} &= \text{membership fee} + \text{finance charge} \\ &= \$60 + 340 \\ &= \$400\end{aligned}$$

$$\begin{aligned}\text{Total cost of Card B} &= \text{membership fee} + \text{finance charge} \\ &= \$0 + (0.19)(2000) \\ &= \$380\end{aligned}$$

Choosing Card B would have saved James \$20 dollars.

4. Answer: **B** Standard: *Specialization and resource efficiency*

One of the best ways to improve efficiency is to specialize, which means each person in a production process concentrates on a specific task. Choice **A** would still require each man to mow and trim, while choice **C** simply changes the lawn each man is trimming. Choice **D**, on the other hand, reduces the total number of lawns they mow but does not improve the efficiency with which they complete their task. Only choice **B** would be a specialization of labor. In this case Dylan now does one task in the production process (trims) while Alex does another task (mows). According to economic theory, this specialization will make each man better at his respective task and reduce the time it takes to change from one task to another, thereby increasing their overall efficiency.