

















Planning Guide

Key to Ability Levels

BL	Below level	AL	Above level
OL	On level	ELL	English Language Learners

Key to Teaching Resources

	Print Material		DVD
	CD-Rom		Transparency








Levels				Resources		Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess
BL	OL	AL	ELL							
FOCUS										
BL	OL	AL	ELL		Daily Focus Skills Transparencies		6, 7, 85	8	22	
TEACH										
BL	OL		ELL		Guided Reading Activities*		p. 4	p. 5	p. 6	
BL	OL	AL	ELL		Economic Content Vocabulary Activities*		p. 2	p. 2	p. 2	
	OL	AL			Critical Thinking Activities		p. 2			
BL	OL		ELL		Reading Essentials and Note-Taking Guide*		p. 10	p. 13	p. 16	
		AL			Enrichment Activities			p. 2		
	OL	AL			Free Enterprise Activities		p. 1		p. 1	
BL	OL	AL	ELL		Primary and Secondary Source Readings			pp. 1, 15	pp. 1, 15	
BL	OL	AL	ELL		Economic Cartoons				p.13	
BL	OL	AL	ELL		Economic Concepts Transparencies, Strategies, and Activities		p. 7			
BL	OL	AL	ELL		Math Practice for Economics				p. 2	
BL	OL	AL	ELL		Reinforcing Economic Skills		p. 11			
BL	OL		ELL		High School Reading in the Content Area Strategies and Activities	✓	✓	✓	✓	✓
BL	OL	AL	ELL		High School Writing Process Transparencies	✓	✓	✓	✓	✓
BL	OL	AL	ELL		Writer’s Guidebook	✓	✓	✓	✓	✓
BL	OL	AL	ELL		StudentWorks Plus CD-ROM	✓	✓	✓	✓	✓
BL	OL	AL	ELL		Vocabulary PuzzleMaker CD-ROM	✓	✓	✓	✓	✓

*Also available in Spanish



- Interactive Lesson Planner
- Interactive Teacher Edition
- Fully editable blackline masters
- Economics & You videos

- Differentiated Lesson Plans
- Printable reports of daily assignments
- Standards tracking system

Levels				Resources		Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess
BL	OL	AL	ELL							
TEACH <i>(continued)</i>										
BL	OL	AL	ELL		Economics & You Video Program DVD— <i>Economic Systems and the American Economy</i>	✓	✓	✓	✓	✓
BL	OL	AL	ELL		Graph Coach CD-ROM	✓	✓	✓	✓	✓
Teacher Resources					Differentiated Instruction Strategies	✓	✓	✓	✓	✓
					Success with English Learners	✓	✓	✓	✓	✓
					Presentation Plus! CD-ROM	✓	✓	✓	✓	✓
ASSESS										
BL	OL	AL	ELL		Section Quizzes and Chapter Tests		p. 17	p. 18	p. 19	pp. 21, 25
BL	OL	AL	ELL		Authentic Assessment Strategies and Activities			p. 2		
BL	OL	AL	ELL		ExamView® Assessment Suite CD-ROM		2-1	2-2	2-3	Ch. 2
BL	OL	AL	ELL		Interactive Tutor Self-Assessment CD-ROM		2-1	2-2	2-3	
CLOSE										
BL			ELL		Reteaching Activities*		p. 2	p. 2	p. 2	
BL	OL		ELL		Reading and Study Skills Foldables		p. 44		p. 44	
BL	OL	AL	ELL		Graphic Organizer Transparencies		pp. 9, 19			

*Also available in Spanish

Integrating Technology

Activity Using CyberScout

Research Using Browse Famous People

Technology Product

CyberScout is a convenient and dynamic search engine that provides several easy ways to locate information outside the McGraw-Hill Learning Network. CyberScout only searches Web sites that have been reviewed by teachers, so the information students find is always appropriate and accurate.


Objectives

After students learn to use CyberScout, they will be able to

- research information on famous people in economics;
- exercise research and study skills;
- practice writing skills.

Steps

- From the McGraw-Hill Learning Network home page (www.mhln.com), click on **For Students**.
- Choose **CyberScout** below **Homework Help**.
- Click on a subject area link to narrow the search.
- The CyberScout page will display a set of subcategories.
- Click the **Browse Famous People** button at the bottom of the page.
- The CyberScout page displays a set of names related to the subject area. Click a name.
- The CyberScout page displays a set of results.
- Click the link to a Web site of interest.
- Students will be redirected to the Web site in a new window.
- Students navigate through the chosen Web site to gain information on a topic and take notes.

			
	Student	Teacher	Parent
Beyond the Textbook	•	•	•
Chapter Overviews	•	•	•
ePuzzles and Games	•		•
Concepts in Motion	•		•
Multi-Language Glossaries	•		•
Online Student Edition	•	•	•
Self-Check Quizzes	•		•
Student Web Activities	•		•
Study Central™	•		•
Time Current Events	•	•	•
Teaching Today		•	
Vocabulary eFlashcards	•		•
Web Activity Lesson Plans		•	

Glencoe Media Center

> glencoe.com

Study-To-Go

- Vocabulary eFlashcards
- Self-Check Quizzes

> **Audio/Video**

- Student Edition Audio
- Spanish Summaries
- Economics & You Videos

READING SUPPORT FROM JAMESTOWN EDUCATION

- **Timed Readings Plus in Social Studies** helps students increase their reading rate and fluency while maintaining comprehension. The 400-word passages are similar to those found on state and national assessments.
- **Reading in the Content Area: Social Studies** concentrates on six essential reading skills that help students better comprehend what they read. The book includes 75 high-interest nonfiction passages written at increasing levels of difficulty.
- **Reading Social Studies** includes strategic reading instruction and vocabulary support in Social Studies content for both ELLs and native speakers of English.
www.jamestowneducation.com

Reading List Generator CD-ROM

GLENCOE BOOKLINK 3

Use this database to search more than 30,000 titles to create a customized reading list for your students.

- Reading lists can be organized by students' reading level, author, genre, theme, or area of interest.
- The database provides Degrees of Reading Power™ (DRP) and Lexile™ readability scores for all selections.
- A brief summary of each selection is included.

Leveled reading suggestions for this chapter:

For students at a Grade 10 reading level:

- *That One Man's Profit Is Another's Loss*, by Michel de Montaigne

For students at a Grade 11 reading level:

- *The Haunted Land: Facing Europe's Ghosts After Communism*, by Tina Rosenberg

For students at a Grade 12 reading level:

- *Small Is Beautiful: Economics as if People Mattered*, by E. F. Schumacher

* Review suggested books before assigning them.



National Council on Economic Education

Voluntary Standards Emphasized in Chapter 2

Content Standard 3 Different methods can be used to allocate goods and services. People acting individually or collectively through government, must choose which methods to use to allocate different kinds of goods and services.

Content Standard 16 There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income.

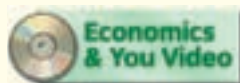
Resources Available from NCEE

- Virtual Economics®: An Interactive Center for Economic Education Version 3.0
- Capstone: The Nation's High School Economics Course
- Civics and Government: Focus on Economics, Second Edition
- Focus: Economic Systems

To order these materials, or to contact your State Council on Economic Education about workshops and programs, call 1-800-338-1192 or visit the NCEE Web site at store.ncee.net.

The **BIG** Idea

As students study the chapter, remind them to consider the chapter-based Big Idea. The **Essential Question** in the chapter launch activity below ties in to the Big Idea and helps students think about and understand important chapter concepts. In addition, the Hands-On Chapter Project relates the content from each section to the Big Idea. The steps in each section build on each other and culminate in the Wrap-Up Activity on the Visual Summary page.



To generate student interest and

provide a springboard for class discussion, access the Economics & You Topic 2 video, **Economic Systems and the American Economy**, at glencoe.com or on the video DVD.


Dinah Zike's Foldables are

three-dimensional, interactive graphic organizers that help students practice basic writing skills, review key vocabulary terms, and identify main ideas. Have students complete this chapter's Foldable activity or activities in *Dinah Zike's Reading and Study Skills Foldables* booklet. **OL**

Economics ONLINE

Introduce students to chapter content and key terms by having them access **Chapter 2—Chapter Overviews** at glencoe.com.

Why It Matters

Take a closer look at the way your high school is organized. Who makes the decisions on lesson plans? Who plans out events that take place during the year? Who makes financial decisions, and how? Are parents and voters involved in the educational system? Obtain information from your school district office or the library to create a chart that lists the rights and responsibilities of people in your school district to meet the needs of education. Read Chapter 2 to learn about the different economic systems that societies set up to meet their specific economic needs.

The BIG Idea

Every society has an economic system to allocate goods and services.

In a market economy, individuals can freely make all economic choices, including opening a store.

32 UNIT 1

Economic Systems and Decision Making



Economics ONLINE Chapter Overview Visit the *Economics: Principles and Practices* Web site at glencoe.com and click on Chapter 2—Chapter Overviews to preview chapter information.

Activity: Launching the Chapter

Comparing Have students recall the different stores that they have visited in the past week. Ask them to consider the products that were on sale at those stores and then think about who made the decision to make those products available to consumers.

Essential Question: *Why is the question of who decides which products to sell to consumers important?* (The people who decide what to produce and sell help set prices, which

impacts the lifestyles of citizens.) Write the names of three different countries on the board, and have students discuss who makes these economic decisions in those nations. **OL**

GUIDE TO READING

Section Preview

In this section, you will learn about the different types of economic systems that govern WHAT goods and services to produce, HOW to produce them, and FOR WHOM to produce them.

Content Vocabulary

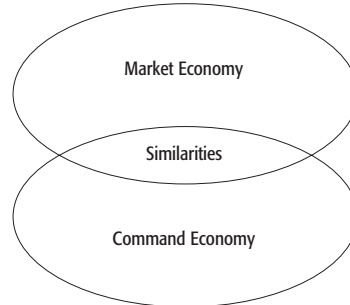
- economic system (p. 33)
- traditional economy (p. 34)
- command economy (p. 35)
- market economy (p. 37)
- market (p. 37)
- capitalism (p. 38)
- mixed economy (p. 39)
- socialism (p. 39)
- communism (p. 39)

Academic Vocabulary

- stagnation (p. 35)
- allocate (p. 36)
- emphasizing (p. 36)

Reading Strategy

Comparing and Contrasting As you read the section, complete a graphic organizer like the one below to identify ways in which a market economy differs from, and is similar to, a command economy.



COMPANIES IN THE NEWS

—Global Business Today

McDonald's and Hindu Culture

For thousands of years, India's Hindu culture has revered the cow. Hindu scriptures state that the cow is a gift of the gods to the human race. . . . [The cows] are everywhere, ambling down roads, grazing in rubbish dumps and resting in temples—everywhere, that is, except on your plate, for Hindus do not eat the meat of the sacred cow.

. . . McDonald's responded to this cultural food dilemma by creating an Indian version of its Big Mac—the “Maharaja Mac”—which is made from mutton. . . . According to the head of McDonald's Indian operations, “We had to reinvent ourselves for the Indian palate.” ■



When companies want to do business in other countries, they need to adjust their business plans to meet local customs. This is what McDonald's corporation had to do when it expanded to India. While India's economy shares many characteristics with the United States, many of its business practices are based on a more traditional economic system.

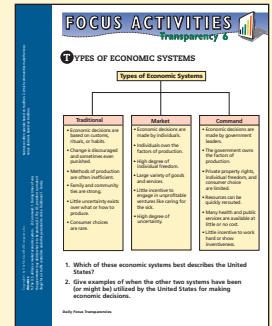
All societies use an **economic system**—an organized way of providing for the wants and needs of their people. The way societies organize themselves determines the type of economic system they have. Three major kinds of economic systems exist—traditional, command, and market economies. In practice, however, almost all economies, like that of India, combine elements of all three.

economic system organized way in which a society provides for the wants and needs of its people

Focus

Bellringer

Daily Focus Transparency 6



GUIDE TO READING

Answers to Graphic:

Market Economy: people make decisions based on their own self-interest; high degree of freedom; private ownership of resources

Command Economy: central authority makes economic decisions and owns resources; low degree of freedom

Similarities: both must decide *what, how, and for whom* to produce; both face scarcity

Resource Manager

R Reading Strategies

Teacher Edition

- Using Context Clues, p. 34
- Making Connections, p. 36
- Act. Prior Know., p. 38

Additional Resources

- Guid. Read. Act., p. 4
- Read. Ess. & Note-Taking Guide, p. 10

C Critical Thinking

Teacher Edition

- Drawing Con., p. 35
- Analyzing Visuals, p. 38
- Speculating, p. 41
- Designing, p. 42

Additional Resources

- Econ. Concepts Trans., Strat. & Act., p. 7

D Differentiated Instruction

Teacher Edition

- Logical/Math., p. 35
- ELL, p. 37
- Interpersonal, p. 39

Additional Resources

- Reading and Study Skills Fold., p. 44
- Daily Focus Trans. 6, 7, 85
- Free Ent. Act., p. 1

W Writing Support

Teacher Edition

- Narrative Writing, p. 34
- Persuasive Writing, p. 39

Additional Resources

- High School Reading in the Content Area Strat. and Act.

S Skill Practice

Teacher Edition

- Compare/Contrast, p. 36
- Visual Literacy, p. 40
- Using Tables and Charts, p. 40

Additional Resources

- Graph. Org. Trans., pp. 5, 10

Teach

R Reading Strategy

Using Context Clues

Ask: What does the term *custom* mean as it is used in the text?

(an action that has been done by others in the past) What words and phrases provide clues to this meaning? (Possible answers: “habit,” “does the bride toss the bouquet at a wedding,” “traditional culture”) **BL**

W Writing Support

Narrative Writing Have students write a short story about a young person who lives in a traditional economy. Stories should include a description of the trade that the person learns from his or her parents. Invite students to illustrate their stories with drawings or magazine images. **OL**

Caption Answer: In a traditional economy, the questions *what*, *how*, and *for whom* to produce are answered by habit or custom.

Hands-On Chapter Project

Step 1

Comparing Economic Systems

In this project, students will write and perform skits illustrating the types of economic systems.

Step 1: Developing a Traditional Economy. Student teams will “create” traditional economic systems.

Directions: Divide the class into teams of five to seven students, and have each team sit together in the classroom. Have each

Economics ONLINE

Student Web Activity Visit the *Economics: Principles and Practices* Web site at glencoe.com and click on Chapter 2—Student Web Activities for an activity on the economies of traditional societies.

traditional economy economic system in which the allocation of scarce resources and other economic activities are based on ritual, habit, or custom

Traditional Economies

MAIN Idea Traditional societies use ritual, habit, or customs to answer the basic questions of WHAT, HOW, and FOR WHOM to produce.

Economics & You Does your family have a tradition that has been passed down from generation to generation? Read on to learn how traditions govern the economies of some societies.

Many of our actions spring from habit and custom. Why, for example, does the bride toss the bouquet at a wedding? Such practices have become part of our traditional culture.

Characteristics

In a society with a **traditional economy**, the use of scarce resources—and nearly all other economic activity—stems from ritual,

habit, or custom. Habit and custom also dictate most social behavior. Individuals are generally not free to make decisions based on what they want or would like to have. Instead, their roles are defined by the customs of their elders and ancestors.

Examples

Many societies—such as the central African Mbuti, the Australian Aborigines, and other indigenous peoples around the world—have traditional economies. The Inuit of northern Canada in the 1800s provide an especially interesting case of a traditional economy.

For generations, Inuit parents taught their children how to survive in a harsh climate, make tools, fish, and hunt. Their children, in turn, taught these skills to the next generation. When the Inuit hunted, it was traditional to share the spoils of the hunt with other families. If a walrus or bear was taken, hunters divided the kill evenly into as many portions as there were heads of families in the hunting party. The hunter most responsible for the kill had first choice, the second hunter to help with the kill chose next, and so on. Because the Inuit shared freely and generously with one another, members of the hunting party later shared their portions with other families who had not participated.

The result was that the hunter had the honor of the kill and the respect of the village, rather than a physical claim to the entire animal. Because of this tradition of sharing, a village could survive the long, harsh winters as long as skilled hunters lived in the community. This custom was partially responsible for the Inuit’s survival for thousands of years.

Advantages

The main advantage of a traditional economy is that everyone knows which role to play. Little uncertainty exists over

Traditions This woman in Botswana weaves a basket based on methods handed down by her ancestors. **What are the main characteristics of a traditional economy?**



team select one traditional economy in the world to research. Based on their findings, each team will then “become” a traditional economy, with students taking on the specific roles of people in the traditional system, such as village leader, hunter, and hunter’s offspring. Students will perform a brief skit for the class demonstrating how their traditional economy functions. Skits should cover how the system answers the three basic economic questions. Students may wish to embellish their skits with

dramatic events such as a young woman in a village challenging the traditional structure or the introduction of a new technology. Students should take notes on the content and presentation of each skit.

Summarizing After the skits are performed, discuss the positives and negatives of a traditional economy. **OL**

(Chapter Project continued in Section 2.)



The Great Wal [Mart] of China

What do you and 1 billion Chinese consumers have in common? Access to a Wal-Mart store. China's membership in the World Trade Organization has opened the door for capitalist companies to do business in this communist country. Now a growing number of Wal-Marts—48 and counting—cater to China's upper-middle class. Chinese consumers are pleased with the cleanliness and convenience Wal-Mart has to offer. Joe Hatfield, president and CEO of Wal-Mart Asia, explains that while Chinese grocers use fans to scatter flies, "They hold us to a higher standard than others and to set the expectations for others to follow."

While each new store creates roughly 500 new jobs, the retailer's presence in China does not come without

controversy. Opponents deride the company's low wages—between \$84 and \$96 per month—and argue that Wal-Mart encourages exploitation of Chinese workers. Headlines detailing the power struggle between the All-China Federation of Trade Unions (ACFTU) and Wal-Mart have drawn attention to the retailer's anti-union stance in a Communist country. Meanwhile, the world watches as China seeks to balance modern and traditional ways, as well as capitalist and communist ideologies.



WHAT to produce. If you are born into a family of hunters, you hunt. If you are born into a family of farmers, you farm. Likewise, little uncertainty exists over HOW to produce, because you do things much the same way your parents did. Finally, the FOR WHOM question is determined by the customs and traditions of the society. In some societies, you would provide for your immediate family. In others, such as the Inuit, you would share what you have hunted with all families of the village. In other words, tradition dictates how people live their lives.

Disadvantages

The main drawback of a traditional economy is that it tends to discourage new ideas and new ways of doing things. The strict roles in a traditional society have the effect of punishing people who act differently or break the rules. The lack of progress leads to economic **stagnation** and a lower standard of living than in other economic systems.

✓Reading Check **Describing** What are the advantages and disadvantages of a traditional economy?

Command Economies

MAIN Idea Command economies rely on a central authority to make most of the economic decisions.

Economics & You As you make career decisions, does the government or other authority tell you what to do? Read on to find out how decisions are made in a command economy.

In a **command economy**, a central authority makes the major decisions about WHAT, HOW, and FOR WHOM to produce. A command economy can be headed by a king, a dictator, a president, or anyone else who makes the major economic decisions.

Characteristics

In a pure command economy, the government makes the major economic decisions. This means that the government decides if houses or apartments will be built. It also decides on the best way to build them, as well as who will receive them.

Most command economies severely limit private property rights. People are not allowed to own their homes, businesses, and

command economy economic system with a central authority that makes the major economic decisions

C Critical Thinking

Drawing Conclusions

Ask: Why do you think that leaders in traditional economies discourage or even punish change? (Possible answer: Leaders might fear that an outside influence will hurt the community's culture.)

AL

D Differentiated Instruction

Logical/Mathematical Have students write what their families ate or used for breakfast or dinner, including products, brands, containers, and utensils. Have students count how many economic decisions/choices went into putting that meal on the table. Discuss what it would be like to be responsible for making sure that each family member had what he or she wanted to eat every day. **OL**

✓Reading Check Answer:

Advantages: little uncertainty; everyone knows what to do. Disadvantages: new ideas and ways of doing things are discouraged; lack of progress leads to economic stagnation and lower standard of living

Additional Support

Extending the Content

Bartering An element of the traditional economic system—barter—remains a major part of the global economy of the twenty-first century. Barter involves the exchange of goods and services. According to the World Trade Organization, \$8.4 billion

of all international trade in 2004 was conducted on a non-cash basis. That figure represents 15% of the total value of international transactions made that year.

S Skill Practice

Comparing and Contrasting

Ask: How is the North Korean store in the photo different from a typical convenience store in the United States? How are they alike? (Possible answer: Most U.S. stores have a greater number and variety of goods, and the consumer is free to choose goods from the shelves. The stores are alike in that they both display goods on shelves and have people filling the roles of seller and buyer.) **OL**

R Reading Strategy

Making Connections

Ask: How do people make career plans in the United States? On the board, make a list of students' answers. Put a check mark beside all those that allow for individual choice. (Possible answer: following one's interests) **OL**

Caption Answer: Students might point out that government officials in command economies may make economic decisions that favor themselves instead of providing for the majority of consumers.

Additional Support



Consumer Goods Command economies often limit the production of consumer goods. The result is sparsely stocked shelves, such as in this store in Pyongyang, North Korea. **Why might command economies lack consumer goods?**

other productive resources, although they may have some personal items and tools.

R Individual freedom also is limited. For example, if the government wants engineers rather than social workers, then its universities will train more engineers. This limits individual choices because people have to live within the government's restrictions.

Finally, government officials tend to favor themselves when making economic decisions. The result is that some of the country's money often goes to luxury goods like houses, cars, and extravagant vacations for these officials.

Examples

Because they tend to be unproductive, few pure command economies exist today. North Korea and Cuba are modern examples, but in the 1970s and 1980s, the

communist bloc countries of the former Soviet Union had command economies.

In the former Soviet Union, for example, the State Planning Commission determined needs, set goals, and established production quotas for major industries. If it wanted growth in heavy manufacturing, it would **allocate** resources to that sector. If it wanted to strengthen national defense, it directed resources to military production.

Advantages

The main strength of a command system is that it can change direction drastically. The former Soviet Union went from a rural agricultural society to an industrial nation in a few decades by **emphasizing** the growth of heavy industry. During this period, the central planning agency shifted resources on a massive scale.

Activity: Interdisciplinary Connection

Literature Invite students to read a nineteenth-century short story by a Russian author such as Anton Chekhov or Nikolay Gogol. As students read the story, tell them to pay attention to details that describe effects of the Soviet Union's command economy—for example, details about jobs, economic and

social status, property rights, individual freedoms, and the government. Then have students write a report summarizing the economic effects that they found in the story. **AL**

Another advantage of command economies, especially those represented by the former Soviet Union, is that many health and public services are available to everyone at little or no cost.

Disadvantages

Pure command economies have their disadvantages. One is that they ignore the basic wants and needs of consumers. In the Soviet Union, for example, generations of people were forced to do without consumer goods and adequate housing. Similarly, the current North Korean government has put a strong emphasis on defense. In the meantime, the North Korean people have been suffering years of hunger. At times, the government even had to accept aid from international sources.

A second disadvantage is that the system gives people the incentive to fill their quotas instead of producing a good product. At one time in the former Soviet Union, quotas for electrical motors were measured in tons of output. Soviet workers then filled their quotas by producing the world's heaviest electrical motors.

A third weakness is that a command economy requires a large decision-making bureaucracy. In the former Soviet Union, an army of clerks, planners, and other administrators was needed to operate the system. This structure slowed decision making and raised the cost of production.

Yet a fourth weakness is that the planning bureaucracy lacks the flexibility to deal with minor day-to-day problems. As a result, command economies tend to lurch from one crisis to the next—or collapse completely, as did the former Soviet Union.

Finally, rewards for individual initiative are rare in a command economy. Each person is expected to perform a job in a factory or on a farm according to the decisions made by central planners.

✓Reading Check Analyzing What are the major problems with a command economy?

Market Economies

MAIN Idea In a market economy, consumers and businesses jointly answer the questions of WHAT, HOW, and FOR WHOM to produce.

Economics & You Name one or two things you like about the economic system in the United States. Read on to learn about the advantages of a market economy.

In a **market economy**, people make decisions in their own best interest. In economic terms, a **market** is an arrangement that allows buyers and sellers to come together to exchange goods and services. A market might be in a physical location, such as a farmers' market, or on an Internet site, such as eBay. Regardless of its form, a market can exist as long as a mechanism is in place for buyers and sellers to meet.

Characteristics

A market economy is characterized by a great deal of freedom. People can spend their money on the products they want most, which is like casting dollar "votes" for those products. This tells producers which products people want, thus helping them answer the question of WHAT to

market economy economic system in which supply, demand, and the price system help people make economic decisions and allocate resources

market meeting place or mechanism that allows buyers and sellers to come together (also see page 15)

Market Economies In a market economy, people have the freedom to start any business they wish. *How do the two entrepreneurs in the cartoon reflect this freedom of choice?*



"Forget lemonade. The real money's in bottled water."

CHAPTER 2 Economic Systems and Decision Making 37

D Differentiated Instruction

English Language Learners

Tell students that the woman in the cartoon is speaking figuratively, not literally; thus, students should not take her comment at face value. Ask students to replace "The real money's in bottled water" with a sentence that conveys a more literal meaning. (Possible answers: *More profits are to be made in bottled water. We can make more money selling bottled water.*) **ELL**

Caption Answer: Each person is choosing to make a different product.

✓Reading Check Answer: ignores consumer wants and needs; gives incentive to fill quotas instead of making good products; needs a large bureaucracy; cannot handle minor problems; rarely rewards individual initiative

Additional Support

Activity: Technology Connection

The Electronic Marketplace Have students use print or online sources to research how technology changed the concept of the marketplace. Ask students to write a report about how exchanging goods today contrasts with how goods were exchanged in the early

years of the United States. For example, people today buy and sell goods online, whereas in 1800 they used carts or barges to deliver goods to sell at a physical marketplace. **OL**

R Reading Strategy

Activating Prior Knowledge

Ask: What are some products that have fallen out of favor in the United States? Challenge students to write down as many of these products as they can.

Ask: Why aren't these goods as widely produced as they used to be? (Possible answers: VCRs, because DVDs last longer, provide better pictures, and take up less space. Vinyl record albums, because CDs are more convenient and compact.) **OL**

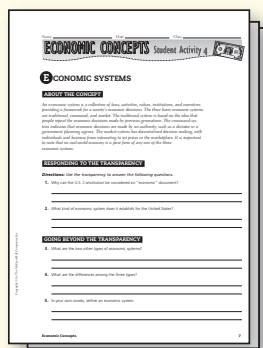
C Critical Thinking

Analyzing Visuals Ask: Why are there six information boxes on the chart? (The chart organizes information about three systems according to two factors: advantages and disadvantages. $3 \times 2 = 6$) **BL**

Economic Analysis

Answer: market economy; because it is responsive and efficient

Differentiated Instruction



Economic Concepts Trans., Strat. and Act., p. 7

capitalism
economic system in which private citizens own and use the factors of production in order to generate profits

produce. Businesses are free to find the best production methods when deciding HOW to produce. Finally, the income that consumers earn and spend in the market determines FOR WHOM to produce.

Market economies also feature the private ownership of resources. A market economy is often described as being based on **capitalism**—an economic system where private citizens own the factors of production. The term *capitalism* draws attention to the private ownership of resources, while the term *market economy* focuses on where the goods and services are exchanged. As a result, the two terms focus on different features of the same economy.

Examples

Many of the most prosperous economies in the world, such as the United States, Japan, South Korea, Singapore, Australia, Great Britain, and parts of Western Europe, are based on markets and capitalism. While there are significant differences among them, these economies share the common elements of markets and the private ownership of resources to seek profits.

Advantages

The first advantage of a market economy is its high degree of individual freedom. People are free to spend their money on almost any good or service they choose. They also are free to decide where and when they want to work, or if they want to invest further in their own education and training. At the same time, producers are free to decide whom they want to hire, which inputs they want to use, as well as the way they want to produce.

The second advantage of a market economy is that it adjusts gradually to change over time. Prior to 2005, for example, gasoline prices were low, so people tended to buy large gas-guzzling SUVs. When the price of gas rose sharply in that year, SUV sales fell, and smaller, more fuel-efficient vehicles became popular.

A third advantage is the relatively small degree of government interference. Except for certain concerns such as national defense, environmental protection, and some care for the elderly, the government normally tries to stay out of the way of buyers and sellers.

Skills Handbook
See page R45 to learn about **Comparing and Contrasting**.

Figure 2.1 ▶ Comparing Economic Systems

	Traditional	Command	Market
Advantages	<ul style="list-style-type: none"> Sets forth certain economic roles for all members of the community Stable, predictable, and continuous life 	<ul style="list-style-type: none"> Capable of dramatic change in a short time Many basic education, health, and other public services available at little or no cost 	<ul style="list-style-type: none"> Individual freedom for everyone Able to adjust to change gradually Lack of government interference Decentralized decision making Incredible variety of goods and services High degree of consumer satisfaction
Disadvantages	<ul style="list-style-type: none"> Discourages new ideas and new ways of doing things Stagnation and lack of progress Lower standard of living 	<ul style="list-style-type: none"> Does not meet wants and needs of consumers Lacks effective incentives to get people to work Requires large bureaucracy, which consumes resources Has little flexibility to deal with day-to-day changes Lacks room for individual initiative 	<ul style="list-style-type: none"> Rewards only productive resources; does not provide for people too young, too old, or too sick to work Does not produce enough public goods such as defense, universal education, or health care Workers and businesses face uncertainty as a result of competition and change

▶ Every society has an economic system. The type of system that is best for a society depends on its ability to satisfy people's wants and needs and to fulfill its economic goals.

Economic Analysis Which economic system do you think is best able to provide for the wants and needs of individuals, and why?

Economic Systems

Objective: Recognize that the U.S. Constitution provides a framework for our market economy.

Focus: Have students predict what would happen if there were no laws protecting private property.

Teach: Have students read the transparency and respond to the questions.

Assess: Ask student pairs to go over each other's answers.

Close: Have students summarize how the Constitution functions as an economic document.

Differentiated Instruction Strategies

BL Have small groups use a web diagram to summarize the definition of an economic system.

AL Ask students to write an essay on the importance of private property rights.

ELL Tell student pairs to make a chart listing the three economic systems and each system's decision-making process.

A fourth advantage is that decision making is decentralized. Billions, if not trillions, of individual economic decisions are made daily. Collectively, people make the decisions that direct scarce resources into the uses consumers favor most, so everyone has a voice in the way the economy runs.

A fifth advantage of the market economy is the variety of goods and services. You can find ultrasound devices to keep the neighbor's dog out of your yard, or you can download music and video to your cell phone. In short, if a product can be imagined, it is likely to be produced in hopes that people will buy it.

A sixth advantage is the high degree of consumer satisfaction. In a market economy, the choice one group makes does not affect the choices of other groups. If 51 percent of the people want to buy classical music, and 49 percent want to buy rap music, people in both groups can still get what they want.

Disadvantages

The market economy does not provide for everyone. Some people may be too young, too old, or too sick to earn a living or to care for themselves. These people would have difficulty surviving in a pure market economy without assistance from family, government, or charitable groups.

A market economy also may not provide enough of some basic goods and services. For example, private markets do not adequately supply all of the roads, universal education, or comprehensive health care people would like to have. This is because private producers concentrate on providing products they can sell for a profit.

Finally, a market economy has a high degree of uncertainty. Workers might worry that their company will move to another country in search of lower labor costs. Employers may worry that someone else will produce a better or less expensive product, thereby taking their customers.

✓Reading Check **Identifying** What are the main characteristics of a market economy?

Mixed Economies

MAIN Idea Most economies in the world today feature some mix of traditional, command, and market economies.

Economics & You You just learned about traditional, command, and market economies. Read on to learn how most societies combine elements of each.

While textbooks identify neat categories like traditional, command, and market economies, the real world is not so orderly. Most countries have **mixed economies**—systems that combine elements of all three types. When we consider political systems as well as economic systems, the picture gets even more complicated.

For example, **socialism** is a mixed economic and political system in which the government owns and controls some, but not all, of the basic productive resources. In socialistic countries, the government also provides some of the basic needs of its people, such as education and health care.

An extreme form of socialism is **communism**—a political and economic system where all property is collectively—not privately—owned. In a communist system, labor is organized for the common advantage of the community, and everyone consumes according to their needs. In practice, however, communist governments have become so involved in economic decisions that they are often called command economies.

Characteristics

If government or tradition, as well as markets, answer *some* of the questions of WHAT, HOW, and FOR WHOM to produce, then a society has a mixed economy. The type of political system in a mixed economy is less important than the way basic economic decisions are made.

For example, some mixed economies have a political system based on democracy, and others do not. The state's involvement in economic decisions also can vary. Some governments provide only for basic needs such as defense, a justice system, and

W **mixed economy** economic system that has some combination of traditional, command, and market economies

socialism political and economic system in which the government owns and controls some factors of production

communism economic and political system in which all factors of production are collectively owned and controlled by the state

D Differentiated Instruction

Interpersonal Organize students into small groups, and have them brainstorm answers to the following question: **How might the government help with some of the disadvantages of a market economy?** (Possible answers: provide universal health care; help the sick and the elderly through programs such as Medicare and Social Security; offer unemployment insurance to reduce insecurity) **OL**

W Writing Support

Persuasive Writing Have students write several paragraphs arguing why they believe that a market economy, command economy, or mixed economy is superior. **AL**

✓Reading Check **Answer:** freedom; consumers tell businesses what to produce through spending; private ownership of resources

CHAPTER 2 Economic Systems and Decision Making 39

Leveled Activities

BL Graphic Organizer Transparencies, p. 5

3 **Graphic Organizer**
Elliptical Chart

Strategies

This graphic organizer is an elliptical chart. It consists of a central circle with three smaller circles around it. The central circle is labeled "Cause and Effect in a Market Economy". The three smaller circles are labeled "Cause", "Effect", and "Cause and Effect".

Using Elliptical Charts in the Social Studies Classroom

World History

Students use an elliptical chart to explore the world's history. They identify the cause and effect of historical events. They use the chart to identify the cause and effect of historical events. They use the chart to identify the cause and effect of historical events.

World Geography

Students use an elliptical chart to explore the world's geography. They identify the cause and effect of geographical features. They use the chart to identify the cause and effect of geographical features. They use the chart to identify the cause and effect of geographical features.

Economics

Students use an elliptical chart to explore the world's economy. They identify the cause and effect of economic events. They use the chart to identify the cause and effect of economic events. They use the chart to identify the cause and effect of economic events.

OL Critical Thinking Activities, p. 2

CRITICAL THINKING 2

CAUSE AND EFFECT IN A MARKET ECONOMY

Read the following statements and identify the cause and effect in each statement. Write the cause and effect in the appropriate space.

Directions: Read the following statements and identify the cause and effect in each statement. Write the cause and effect in the appropriate space.

Example:

A. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

B. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

C. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

D. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

E. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

F. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

G. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

H. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

I. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

J. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

AL Reinforcing Economic Skills, p. 11

Reinforcing Economic Skills **Activity 11**

MAKING COMPARISONS

Read the following statements and identify the cause and effect in each statement. Write the cause and effect in the appropriate space.

Directions: Read the following statements and identify the cause and effect in each statement. Write the cause and effect in the appropriate space.

Example:

A. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

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Cause: A shortage of oil. Effect: The price of gasoline went up.

J. The price of gasoline went up because of a shortage of oil.

Cause: A shortage of oil. Effect: The price of gasoline went up.

S₁ Skill Practice

Visual Literacy Ask: Why do the arrows point away from socialism in both directions? (Socialism is a middle ground between capitalism and communism.) **OL**

S₂ Skill Practice**Using Tables and Charts**

Ask: If you were to list China, North Korea, Cuba, and the United States under the systems on the chart, where would you put them? (North Korea and Cuba would be under communism; China would be to the right of communism, almost under socialism; the United States would be far to the right of socialism but not directly under capitalism.) **OL**

Economic Analysis

Answer: Under socialism only some resources are government owned and operated and only some industries are planned. Under communism all resources are government owned and operated and all industries are planned.

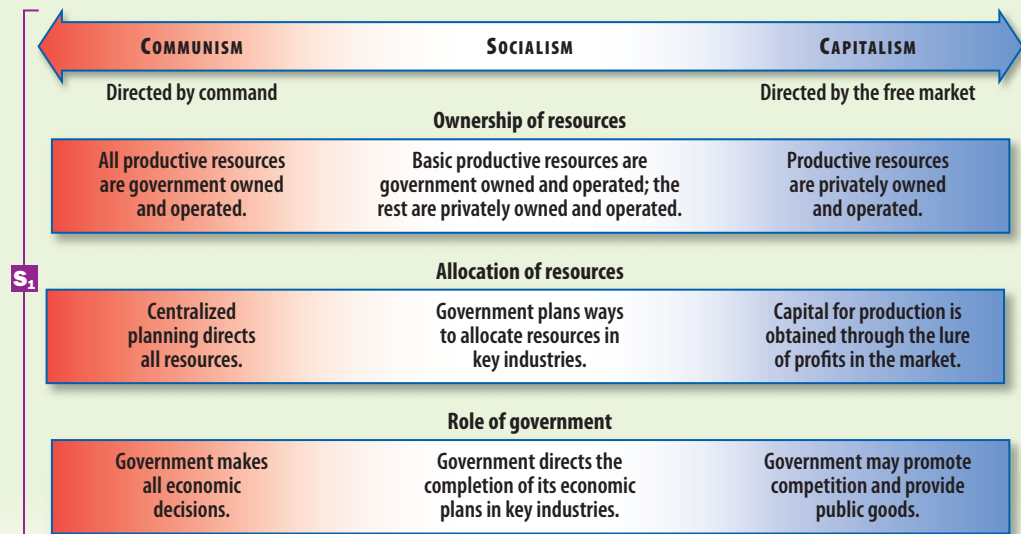
Additional Support**Figure 2.2** ▶ The Spectrum of Mixed Economies

▶ In mixed economies, government involvement can range from providing basic public goods to making most economic decisions.

Economic Analysis What distinguishes socialism from communism?

Charts in Motion

See StudentWorks™ Plus or glencoe.com.



universal education. The more socialistic a country is, the more it will make major economic decisions, often with the claim that this is done for the betterment of the people. Some governments intervene only in certain key sectors or industries and leave the rest to markets. If the government intervenes too much, a mixed economy can turn into a command economy.

Examples

There is a wide range of mixed economies. China has a mixture of traditional, command, and market economies. While tradition has a strong influence in rural areas, the government makes many of the major economic decisions and owns many of the factors of production. China is changing, however. In recent years the government has allowed some private ownership of resources, and capitalism is beginning to flourish.

In Norway, the government owns the basic petroleum industry. It uses the revenue from the sale of oil to other nations to keep its domestic gas prices low, finance education, maintain roads, and provide social welfare for its citizens. Because the government controls just one industry, the mixed economy is based on capitalism and markets with some elements of socialism.

Cuba and North Korea today are very similar to the former Soviet Union, where a socialist government controlled resources to provide for all the people. However, the ownership and control of resources were so extensive that many economists thought of the country as a command economy.

Advantages

One advantage of a mixed economy is that it provides assistance for some people who might otherwise be left out. All societies

Activity: Collaborative Learning

Monitoring Write on the board the advantages and disadvantages of a mixed economic system. Have students copy the list. Then ask small groups of students to find examples of each advantage and disadvantage in newspapers and magazines or on television or radio news programs. Suggest that groups

present their findings in pictorial essays titled "Mixed Economies: Advantages and Disadvantages." Call on group representatives to share their essays with the class. **OL**

include some people who are too young, too old, or too sick to provide for themselves, for example, and most societies have traditions that address some of these concerns.

If the society has a democracy, voters can use their electoral power to affect the WHAT, HOW, and FOR WHOM decisions even if the government owns no productive resources. For example, the government can pass laws to provide aid for those most in need or to fund road construction.

Under socialism, the FOR WHOM question is addressed more directly. Ideally, those who are not fortunate or productive enough to take care of themselves still share certain benefits, such as free or low-cost public housing, transportation, medical care, and education.

Disadvantages

While mixed economies tend to provide more services, the costs for these benefits can mean higher costs for citizens overall. Germany, for example, offers a wide range of benefits, but it also has a high tax rate. During economic downturns, when the government collects fewer taxes, less

money is available for these programs. The German government has discussed placing limits on benefits, such as unemployment and welfare, because of lower revenues.

In some socialist countries, the availability of services may be limited or the quality may deteriorate over time. Today, for example, Cuba claims that it has free health care for everyone, but the care is substandard for everyone except high-ranking members of the Communist Party and those willing to pay for services in dollars.

Historically, both socialism and communism have proved to be less efficient than capitalism. For example, if workers receive government guarantees of jobs, more workers may be hired in a plant than are necessary, driving up production costs.

Because socialism has proved to be so inefficient, many socialistic countries today allow more capitalist development. This is especially true in China, where the emergence of capitalism has helped the country to become one of the major economic powers in the world today.

✓ Reading Check **Explaining** How can you explain the range of mixed economies in the world?

SECTION 1

Review

Vocabulary

- 1. Explain** the significance of economic system, traditional economy, command economy, market economy, market, capitalism, mixed economy, socialism, and communism.

Main Ideas

- 2. Describing** Use a graphic organizer like the one below to describe how economic systems answer the basic economic questions.

	WHAT, HOW, and FOR WHOM?
Traditional economy	
Command economy	
Market economy	
Mixed economy	

- 3. Explain** how a command economy differs from the other economic systems.

Critical Thinking

- 4. The BIG Idea** Why do market economies tend to be more efficient than traditional or command economies?
- 5. Analyzing Visuals** Look at the chart on page 40. Why does the top row show arrows on the left and right?
- 6. Inferring** Why are market economies more innovative than either traditional or command economies?
- 7. Analyzing** How does a traditional economy differ from a mixed economy like that of the United States today?

Applying Economics

- 8. Mixed Economy** List specific examples to illustrate why the U.S. economy is categorized as a mixed economy.

C Critical Thinking

Speculating **Ask:** Why else might socialism be less efficient than capitalism? (Possible answers: People are not rewarded for hard work. Central planners cannot efficiently make the number of economic decisions needed to serve current population levels.) **OL**

✓ Reading Check

Answer:

People are different around the world, and they develop different solutions to problems. They also have different histories and priorities.

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 1, and then assign the Section 1 Review as homework or as an in-class activity.

Close

Making Connections Have students write about how a recent purchase would have been different if it had been made in a traditional, command, or market system. **OL**

Review

SECTION 1

1

Answers

- All definitions can be found in the section and the Glossary.
- Traditional economy:** All decisions made according to tradition and custom.
Command economy: Questions answered by central planners in the government.
Market economy: Consumers decide *what*, businesses decide *how*, and *for whom* is according to who is willing and able to pay.
Mixed economy: Consumers decide *what* (government is also a consumer); businesses decide *how*, with regulation from government; *for whom* is according to who is willing and able to pay, although some people are helped by the government.
- Under a command economy, all productive resources and most other properties are owned collectively.
- because they are able to respond to change and because they provide incentives to be efficient and innovative
- The arrows indicate that there is a spectrum rather than concrete divisions.
- because they welcome change and improvement and provide incentives that reward them
- In a traditional economy, habit or custom answers the economic questions. In a mixed economy, the government or tradition, as well as markets, answer some of the economic questions.
- Answers will vary but should reflect an understanding of mixed economies.



CASE STUDY

Teach

C Critical Thinking

Designing Have students suggest products or services that, like home improvement, might benefit from being tailored to a specific gender. Ask students to suggest possible design modifications. (Possible answers: TVs and stereos might be marketed in colors to go with a room's design; auto upholstery might be made in custom fabrics; strollers and car seats might come in more neutral colors; hardware stores could have more female employees.) **OL**

Analyzing the Impact

Answers:

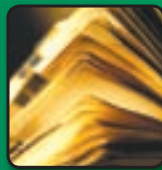
1. through hands-on demonstrations and step-by-step instructions aimed at women
2. Answers will vary but should identify five products, the gender that each was targeting, and how the advertisement "hooked" the consumer.

Additional Support

Teacher Tip

Arranging Student Groups

Organize groups so that they include students with mixed abilities. Suggest that artistic students include original drawings to complement their e-mail journals.



CASE STUDY

The Home Depot®

Fast Rise to Riches

In 1978, co-founders Bernie Marcus and Arthur Blank tapped into America's love of "big" and bargains when they started a chain of retail warehouses stacked floor to ceiling with everything a builder or homeowner could want or need. Thus The Home Depot® was born.

NEWS FLASH

Rethinking Pink

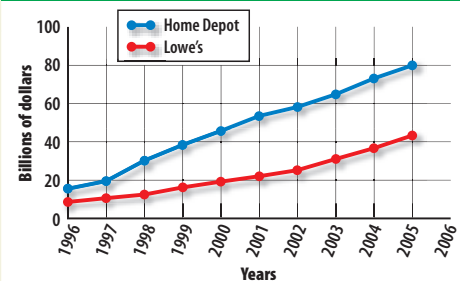
Other predominantly "male" markets are also reaching out to women, and not just by changing a product's color to pink. Harley-Davidson has created a section on its Web site for its growing female base. When Apple introduced its multicolored iPod Mini, it experienced a 74 percent jump in sales.

Lagging Sales

In the early 2000s, however, Home Depot's largest competitor, Lowe's, gained sales faster. Its secret? Focusing on women customers. The home-improvement market is huge, estimated at a quarter of a trillion dollars. Roughly one-fourth of that (over \$50 billion) consists of purchases made by women. Hardware retailers big and small began courting women—with features such as brighter lighting, wider aisles, and easy-to-reach shelves.



NET SALES FOR THE HOME DEPOT AND LOWE'S, 1996–2005



Source: www.homedepot.com and www.morningstar.com.

"Do It Herself"

The Home Depot decided to jump on the bandwagon, but it took this courtship one step further. It set up nationwide Do-It-Herself Workshops, taught by experienced Home Depot associates who offer hands-on demonstrations and step-by-step instructions for completing a project. The first workshop took place in May 2003. A little over a year later, more than 200,000 women had attended one of the Do-It-Herself remodeling workshops.

Today The Home Depot is the world's second-largest retailer, after Wal-Mart. As of spring 2006, the company operated 2,054 stores in 50 states, the District of Columbia, Puerto Rico, U.S. Virgin Islands, 10 Canadian provinces, and Mexico.

Analyzing the Impact

1. **Summarizing** How did The Home Depot market its stores toward women?
2. **Making Inferences** Think about recent television and magazine advertisements. Which gender do you feel marketers were targeting? Describe five products and the "hook" used to capture the consumer's attention.

Activity: Collaborative Learning

Entrepreneurship Organize students into small groups, and have them imagine that they are entrepreneurial teams, like the founders of Home Depot. Have them choose an idea for a new business and then outline the tasks that need to be accomplished to get the new business

started. Have students write a series of e-mails to each other, communicating how they imagine their work on the tasks might progress. They can then put the e-mails together into a journal describing how the business began. **OL**

GUIDE TO READING

Section Preview

In this section, you will learn how economic freedom, economic security, and economic equity are related to the level of satisfaction people have with their economic systems.

Content Vocabulary

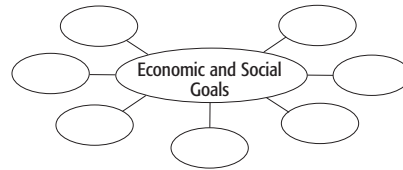
- minimum wage (p. 44)
- inflation (p. 45)
- Social Security (p. 45)
- fixed income (p. 45)

Academic Vocabulary

- adverse (p. 45)
- accommodate (p. 46)

Reading Strategy

Differentiating As you read the section, identify seven major economic and social goals by completing a graphic organizer like the one below.



COMPANIES IN THE NEWS

—Newsweek

Fruits That Go Fizz

Schoolkids in Oregon are trying something new at lunch: carbonated fruit that the Fizzy Fruit Co. hopes will lead to effervescent profits. Founder Galen Kaufman discovered his product when he ate a pear that had been stored in dry ice, which is made of carbon dioxide. The pear was fizzy and sweet, and ever since, Kaufman's been trying to commercialize the idea.

Not a few exploded kitchen experiments later, Kaufman has found his market. School-lunch supplier Sodexo has been serving the fruit in a pilot project at 14 Oregon schools, and it is expected to be in about 500 schools nationally by next month. Fizzy Fruit will also soon be sold in vending machines and at convenience stores. The trick is in the packaging. Because the fruit loses its fizz within about 20 minutes of being exposed to air (think of a soda bottle left uncapped), it's got to be wrapped tight. ■



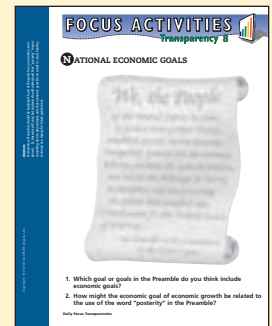
When Galen Kaufman discovered that fruit could fizz, he made it his goal to market the idea. Economic systems also have goals. These goals provide a way to guide economic decisions. They can also help people measure how well the system is working to meet its goals.

If our economic system fails to achieve our goals, we may decide to seek changes. We could demand laws to modify the system until our needs are met. In the United States, efforts to meet our economic and social goals have caused the economy to evolve slowly over time.

Focus

Bellringer

Daily Focus Transparency 8



GUIDE TO READING

Answers to Graphic: economic freedom, economic efficiency, economic equity, economic security, full employment, price stability, economic growth

Resource
Manager**R** Reading
Strategies

Teacher Edition

- Making Connections, p. 46

Additional Resources

- Guid. Read. Act., p. 5
- Read. Ess. & Note-Taking Guide, p. 13

C Critical
Thinking

Teacher Edition

- Det. Cause/Effect, p. 44

Additional Resources

- Authentic Assess., p. 2
- Pri./Sec. Source Read., p. 1
- Quizzes and Tests, p. 17

D Differentiated
Instruction

Teacher Edition

- ELL, p. 44
- Naturalist, p. 45

Additional Resources

- Pri./Sec. Source Read., p. 15
- Enrichment Act., p. 2

W Writing
Support

Teacher Edition

- Personal Writing, p. 44

Additional Resources

- Writer's Guidebook
- Econ. Content Vocab., p. 2

S Skill
Practice

Teacher Edition

- Visual Literacy, p. 45
- Using Tables and Charts, p. 47

Additional Resources

- Daily Focus Trans. 8
- Reteaching Act., p. 2

Teach

W Writing Support

Personal Writing Ask students to write a letter to a figure from American history, expressing their thoughts and feelings on how the person embodied or contributed to American economic freedom.

AL

C Critical Thinking

Determining Cause and Effect **Ask:** What effect does efficiency have on the number of goods available? (Higher efficiency produces a larger number of goods.) OL

D Differentiated Instruction

English Language Learners **Ask:** What is the difference between equity and equality? (Equity means “fairness”; equality means “the same.”) Have students write a sentence using each word. ELL

Caption Answer: One person’s desires or actions may interfere with another’s.

Differentiated Instruction

minimum wage lowest legal wage that can be paid to most workers

Economic and Social Goals

MAIN Idea Americans share several major economic and social goals.

Economics & You As you approach graduation, what kinds of goals have you set for your future? Read on to learn about the economic goals of the nation.

In the United States, people share many broad economic and social goals. While it might be difficult to find all of our goals listed in any one place, they are repeated many times in statements made by friends, relatives, community leaders, and elected officials. We can categorize those statements into seven major economic and social goals.

Economic Freedom

Americans traditionally place a high value on the freedom to make their own economic decisions. They like to choose their own occupations, employers, and uses for their money. Business owners like the freedom to choose where and how they

produce. The belief in economic freedom, like the belief in political freedom, is one of the cornerstones of American society.

Economic Efficiency

Most people recognize that resources are scarce and that factors of production must be used wisely. If resources are wasted, fewer goods and services can be produced and fewer wants and needs can be satisfied. Because economic decision making must be efficient, economic efficiency is also one of our major goals.

Economic Equity

Americans have a strong tradition of justice, impartiality, and fairness. Many people, for example, believe in equal pay for equal work. As a result, it is illegal to discriminate on the basis of age, sex, race, religion, or disability in employment. At the national level, we have established the **minimum wage**—the lowest legal wage that can be paid to most workers. While not everyone supports it, the minimum wage does put a floor on the amount of income that some workers earn.

Economic Freedom

Americans are free to open any business they choose, such as this music store. How might the goal of economic freedom conflict with other goals?



The Goals of the Economy

Objective: Describe the goals and characteristics of the U.S. free enterprise system.

Focus: Ask students to suggest goods or services that they wish the government would provide.

Teach: Review the procedure outlined in the activity.

Assess: Use the rubric to assess students’ work.

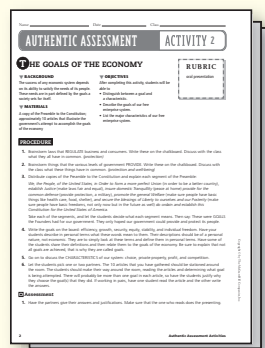
Close: Have students identify other examples of the government seeking to accomplish economic goals.

Differentiated Instruction Strategies

BL Give students a chart listing the meanings of each segment of the Preamble.

AL Have students write essays explaining one U.S. economic goal and how the government helps accomplish it.

ELL Have students explain the difference between a *goal* and a *characteristic*.



Authentic Assessment Strategies and Activities, p. 2

Most people believe that advertisers should not be allowed to make false claims about their products. Many states even have “lemon laws” that allow new car buyers to return cars with too many defects.

Economic Security

Americans desire protection from such **adverse** economic events as layoffs and illnesses. As a result, many states have set up programs to help workers who lose their jobs through no fault of their own, and many employers have insurance plans to cover the injuries and illnesses of their workers. At the national level, Congress has set up **Social Security**—a federal program of disability and retirement benefits that covers most working people.

More than 90 percent of all American workers participate in the Social Security system. Retirees, survivors, disabled persons, and Medicare recipients are eligible for benefits. Survivors are spouses and children of deceased persons covered by Social Security. Medicare also provides health insurance for persons 65 or older.

Full Employment

When people work, they earn income by producing goods and services for others. Without jobs, people cannot support themselves or their families, nor can they produce output for others. As a result, most people want their economic system to provide as many jobs as possible. The goal of full employment even became law when Congress passed the Employment Act of 1946 in an effort to avoid the widespread joblessness before World War II.

Price Stability

Another goal is to have stable prices. If **inflation**—a rise in the general level of prices—occurs, workers need more money to pay for food, clothing, and shelter. People who live on a **fixed income**—an income that does not increase even though prices go up—find that bills are harder to pay and planning for the future is more difficult.

Did You Know?

► **On Easy Street?** The earliest reported recipient of Social Security was Ernest Ackerman, a retired Cleveland motorman. Ackerman retired one day after the Social Security program began. In return for the nickel withheld from his pay for this one day, he received a lump-sum payment of 17 cents, barely higher than the smallest payment ever of 5 cents. Such lump sum payments were made until 1942, with an average payment of \$58.06. Ida May Fuller from Ludlow, Vermont, became the first recipient of monthly Social Security benefits.

High rates of inflation can even discourage business activity. During times of inflation, interest rates on loans tend to increase along with the prices of goods and services. If interest rates get too high, they can discourage both borrowing and spending by businesses. Price stability adds a degree of certainty to the future for businesses and consumers alike.

Economic Growth

The last major goal of most Americans is economic growth. Most people hope to have a better job, a newer car, their own home, and a number of other things in the future. Overall growth enables more people to have more goods and services. Because the nation’s population is likely to increase, economic growth is necessary to meet everyone’s needs.

Future Goals

The seven goals we have discussed so far are the ones on which most people seem to agree. As our society evolves, however, it is possible for new goals to develop. Do people feel that a cleaner environment is important enough to be added to the list of goals? Should we add the preservation of endangered species such as the California Channel Islands fox? In the end, we are the ones who decide on the goals that are most important to us, and it is entirely possible that our goals could change in the future.

Social Security
federal program of disability and retirement benefits that covers most working people

inflation rise in the general level of prices

fixed income
income that does not increase even though prices go up

✓ **Reading Check** **Interpreting** What major themes can you identify in the list of seven economic goals?

CHAPTER 2 Economic Systems and Decision Making 45

Comparing Economic Systems

Step 2: Developing a Command Economy. Student teams will “create” a command economic system.

Directions: Have students reassemble into their teams and select and study one of the few remaining command economies in the world. Each team will then “become” a command economy, with students taking on the specific roles of people/entities in

that system, such as dictator, government planners, and workers. After completing their research, have students perform a brief skit for the class demonstrating the workings of their command economy. Skits should cover how the system answers the three basic economic questions. Suggest that teams include major events like famine, drought, lack of needed resources, or five-year plans. Students should take notes on the content and presentation of each skit.

Summarizing After students’ presentations, discuss how a command system functions and why so few nations in the world today operate as command economies. **OL**

(Chapter Project continued in Section 3.)

S Skill Practice

Visual Literacy Ask students to create a poster about one of the seven major economic and social goals. Students can use magazine and newspaper photos to illustrate their chosen goal. Have students write a short sentence explaining how each photo represents the goal. **OL**

D Differentiated Instruction

Naturalist **Ask:** How might the goal of protecting the environment conflict with the goals of efficiency or full employment? (Possible answer: Protecting the environment might mean limiting the use of resources such as timber, which would cost jobs, or regulating the amount of pollution that firms could produce, which might drive some firms out of business.) **OL**

✓ **Reading Check** **Possible Answer:** fairness; safety; improvement

Hands-On Chapter Project

Step 2

R Reading Strategy

Making Connections

Ask: What are some other ways that Americans have modified the free enterprise economy?

(Possible answers: Government provides social goods such as schools and police and fire protection. Products such as cigarettes and alcohol have age limits on them. Only drugs approved by the FDA can legally be sold.) **OL**

✓Reading Check Answer: Some goals conflict with each other.

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 2, and then assign the Section 2 Review as homework or as an in-class activity.

Close

Organizing Have students use information from the text to create a chart of American economic goals. Ask students to list three specific examples for each goal. **OL**

SECTION 2 Review

Skills Handbook

See page R48 to learn about Problems and Solutions.

Resolving Trade-Offs Among Goals

MAIN Idea Conflicts among goals can be solved by comparing the cost of a goal to its benefit.

Economics & You You learned earlier about trade-offs when deciding how to spend a monetary gift of \$100. Read on to find out how trade-offs also apply to economics goals.

People often have different ideas about how to reach a goal, or the goals themselves might conflict. Even our economic policies have opportunity costs.

For example, a policy that keeps foreign-made shoes out of the United States could help achieve the goal of full employment in the domestic shoe industry, but it could work against individual freedom if people have fewer choices of shoes to buy.

Even an increase in the minimum wage involves a conflict of goals. On one hand, supporters of the increase argue that an increase is the equitable, or "right," thing to do. Opponents argue that an increase may cause fewer workers to be hired. In addition, it restricts the freedom of employers to pay wages that they think are fair.

How are trade-offs among goals resolved? In most cases, people compare their estimate of the costs to their estimate of the benefits, and then vote for political candidates who back their position. If the majority of voters feel that the minimum wage is too low, then it will be raised. The minimum wage then tends to stay at this new level until the majority of people feel that it needs to be changed again.

People, businesses, and government are usually able to resolve conflicts among goals. Fortunately, the economic system of the United States is flexible enough to allow choices, **accommodate** compromises, and still satisfy the majority of Americans.

In a democratic society, government reflects the will of a majority of its people. As a result, many government functions reflect people's desire to modify the economic system to achieve their economic goals. A program such as Social Security, as well as laws dealing with child labor and the minimum wage, reveal how Americans have modified their free enterprise economy. This system most likely will undergo further change as the goals and objectives of the American people change.

✓Reading Check Explaining Why do trade-offs among goals exist?

SECTION 2

Review

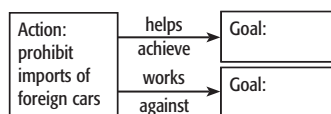
Vocabulary

1. **Explain** the significance of minimum wage, Social Security, inflation, and fixed income.

Main Ideas

2. **Explain** why it is important for a nation to set economic and social goals.

3. **Determining Cause and Effect** Use a graphic organizer like the one below to illustrate how economic and social goals may conflict with one another.



Critical Thinking

4. **The BIG Idea** How does an increase in the minimum wage involve a conflict of goals?

5. **Inferring** What can Americans do to influence the economic goals of the nation?

6. **Applying** How do laws against false or misleading advertising promote the goal of economic equity?

Applying Economics

7. **Economic Security** Interview a friend or relative who is retired or approaching retirement to find out if he or she believes the government has achieved the goal of economic security for its senior citizens, and why. Write a paragraph to describe these views and explain why you agree or disagree with them.

Answers

- All definitions can be found in the section and the Glossary.
- Goals serve as benchmarks that help us determine whether our economic system meets most, if not all, of our needs.
- The action helps achieve the goals of economic security or full employment while working against the goal of economic efficiency.
- Increasing the minimum wage promotes the goal of economic equity by providing workers with higher paying jobs. It conflicts

with the goals of economic freedom and economic efficiency by setting a wage that might be higher than what the market would pay.

- People can weigh the costs and benefits and then exercise their right to vote.
- Making false claims reduces the consumer's ability to make sound choices. Such actions give the seller an unfair advantage over the consumer. Having laws that prevent this ensures fairness.

- Answers may include opinions related to issues such as Social Security, Medicare, Medicaid, senior housing, and taxes. Students should explain whether they agree or disagree with the views.

We do not usually associate economic efficiency with fun. In the past few years, though, some companies have found a new and unusual tool to make job training more efficient—and more fun.

On-the-Job Video Gaming

Laura Holshouser's favorite video games include *Halo*, *Tetris*, and an online training game developed by her employer. A training game? That's right. The 24-year-old graduate student, who manages a Cold Stone Creamery ice-cream store in Riverside, Calif., stumbled across the game on the corporate Web site in October.

It teaches portion control and customer service in a cartoon-like simulation of a Cold Stone store. Players scoop cones against the clock and try to avoid serving too much ice cream. The company says more than 8,000 employees, or about 30% of the total, voluntarily downloaded the game in the first week. . . .

The military has used video games as a training tool since the 1980s. Now the practice is catching on with companies, too. . . . Corporate trainers are betting that games' interactivity and fun will hook young, media-savvy employees like Holshouser and help them grasp and retain sales, technical, and management skills. . . .



Companies like video games because they are cost-effective. Why pay for someone to fly to a central training campus when you can just plunk them down in front of a computer? Even better, employees often play the games at home on their own time. . . .

Games are especially well-suited to training technicians. . . . Last year, Cisco rolled out six new training games—some of them designed to teach technicians how to build a computer network. It's hard to imagine a drier subject. Not so in the virtual world. In one Cisco game, players must put the network together on Mars. In a sandstorm. . . . Sounds suspiciously like fun.

—Reprinted from *BusinessWeek*

\$736	Cost of traditional training per employee
8,000	Number of employees who download the game in the first week
\$5,888,000	Cost of traditional training for 8,000 employees
\$500,000	Average cost of corporate training game

S

Examining the Newsclip

- Summarizing** How has on-the-job video gaming made workers and companies more efficient?
- Analyzing** How do companies make video training games appealing for their employees?

Activity: Hands-On Economics

Designing Have small groups of students write an outline of a video game that would help employees learn an aspect of a job typically held by a teenager (for example, baby-sitting, retail, food service, yard work, dog walking, and so on). Students should begin by identifying the overall job and then the major tasks involved in the job. Encourage students to think about how they could make

the game educational and fun for employees. Ask groups to present their outlines to the class. Then have students vote on their favorite video game idea. **OL**

Teach

S Skill Practice

Using Tables and Charts

Ask: According to the chart, how much money would a company save by using video games for training? (\$5,388,000) **OL**

BusinessWeek ONLINE

To find up-to-date news and analysis on the economy, business, technology, markets, entrepreneurs, investments, and finance, have students search feature articles and special reports on the BusinessWeek Web site, www.businessweek.com.

Examining the Newsclip

Answers:

- It is less expensive and it encourages employees to play the games on their own time.
- Possible answer:** They use fun and interesting graphics, unusual settings, and elements of competition.

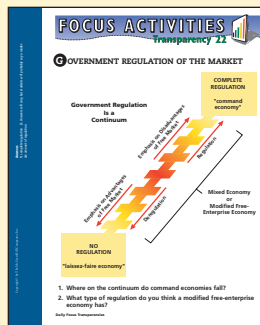
Additional Support

American Free Enterprise

Focus

Bellringer

Daily Focus Transparency 22



GUIDE TO READING

Answers to Graphic:

Characteristics: economic freedom, voluntary exchange, private property rights, profit motive, competition

Possible Examples: freedom to choose your occupation, buying and selling goods, right to own land and goods, earnings of an entrepreneur, struggle among sellers to attract buyers

GUIDE TO READING

Section Preview

In this section, you will learn how under capitalism the basic economic decisions of WHAT, HOW, and FOR WHOM to produce are made through the free interaction of individuals looking out for their own best interests.

Content Vocabulary

- free enterprise (p. 48)
- voluntary exchange (p. 49)
- private property rights (p. 50)
- profit (p. 50)
- profit motive (p. 50)
- competition (p. 50)
- consumer sovereignty (p. 51)
- mixed or modified free enterprise economy (p. 53)

Academic Vocabulary

- incentive (p. 50)
- catalyst (p. 51)
- regulator (p. 52)

Reading Strategy

Listing As you read the section, complete a graphic organizer like the one below to identify the five characteristics of a free enterprise economy. Then provide an example of each.

Characteristic	Example

COMPANIES IN THE NEWS

—adapted from *BusinessWeek*

Hot Growth at Claire's

When Bonnie and Marla Schaefer became vice-CEOs of Claire's Stores Inc., they had much to prove to the company's board. Within a few years they did just that: profits nearly doubled, earning Claire's a slot on *BusinessWeek*'s 2005 list of Hot Growth companies.

How did the sisters do it? One way was to focus on a troubled recent acquisition they renamed Icings. The new store appeals to the 17-to-27 crowd. Unlike their father, Rowland Schaefer, founder and former CEO of Claire's, the sisters use market research to identify teen trends. They also licensed popular celebrities such as Mariah Carey to provide cosmetics and jewelry lines.

The sisters won't stop there. The company already has stores in Europe and Japan, and franchises are now expanding into other continents. ■



free enterprise capitalistic economy in which competition is allowed to flourish with a minimum of government interference

Capitalism has become the economic system of choice in many parts of the world because of its ability to generate wealth, just as it has for Claire's. Capitalism, as you have learned, is an economic system in which private citizens own and use the factors of production to generate profits.

The U.S. economy is based on free enterprise. Under **free enterprise**, resources are

privately owned, and competition is allowed to flourish with a minimum of government interference. We often use the terms *capitalism* and *free enterprise* interchangeably, but they have different meanings. While capitalism stands for the private ownership of resources, free enterprise is the unhindered use of privately owned resources to earn profits.

Resource Manager

R Reading Strategies

Teacher Edition

- Inferring, p. 50
- Skimming, p. 52
- Making Connections, p. 58

Additional Resources

- Guid. Read. Act., p. 6
- Read. Ess. & Note-Taking Guide, p. 16

C Critical Thinking

Teacher Edition

- Classifying, p. 49
- Ident. Cent. Issues, p. 51
- Drawing Con., p. 54
- Assessing, p. 59

Additional Resources

- Pri./Sec. Source Read., p. 1

D Differentiated Instruction

Teacher Edition

- Interpersonal, p. 51
- Visual/Spatial, p. 53

Additional Resources

- Econ. Cartoons, p. 13
- Free Enterprise Act., p. 1

W Writing Support

Teacher Edition

- Expository Writing, p. 52

Additional Resources

- Reading and Study Skills Fold., p. 44
- High School Writing Process Trans.

S Skill Practice

Teacher Edition

- Visual Literacy, p. 49
- Compare/Contrast, p. 50

Additional Resources

- Daily Focus Trans. 22
- Math Prac. for Econ., p. 2

Characteristics of Free Enterprise Capitalism

MAIN Idea The American economy incorporates the main characteristics of a free enterprise economy.

Economics & You How much freedom do you have to make your own economic choices? Read on to learn how this freedom characterizes our own market economy.

A capitalistic free enterprise economy has five important characteristics: economic freedom, voluntary exchange, private property rights, the profit motive, and competition.

Economic Freedom

Economic freedom means more than being able to buy the things you want. It means that you have the freedom to choose your occupation, your employer, and your job location. You can even leave your current

job and move on to another job that offers greater opportunity.

Businesses also enjoy considerable economic freedom. They are free to hire the best workers, and they are free to produce the products they feel will be the most profitable. Businesses can make as many items as they want, sell them wherever they please, and normally charge whatever price they choose. In short, they are free to risk success or failure.

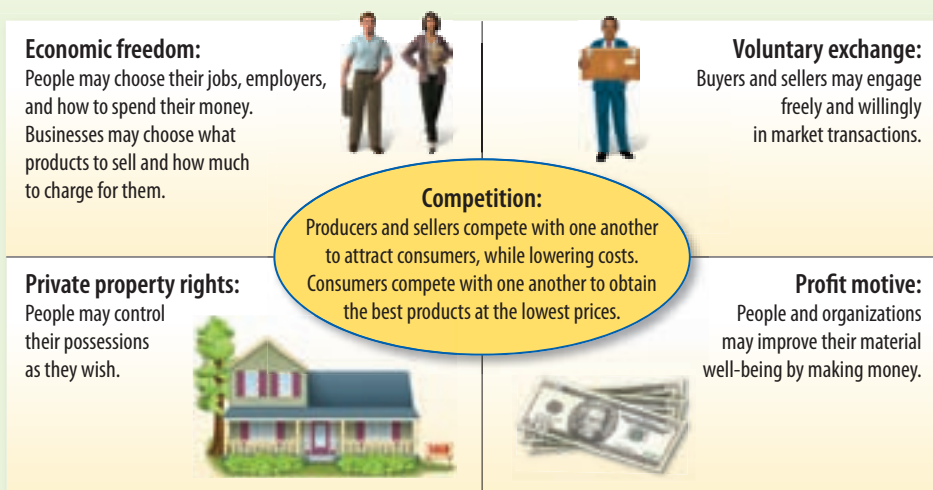
Voluntary Exchange

A second characteristic of capitalism is **voluntary exchange**—the act of buyers and sellers freely and willingly engaging in market transactions. Voluntary transactions benefit both the buyer and the seller, or the exchange would never occur.

For example, when buyers spend their money on a product, they act on a belief that the item they purchase is of greater

voluntary exchange act of buyers and sellers freely and willingly engaging in market transactions

Figure 2.3 ▶ Characteristics of Free Enterprise Capitalism



▶ "Free enterprise capitalism" describes a market economy in which private citizens own the factors of production and businesses compete with minimal government interference.

Economic Analysis What items are included in the category of private property?

Comparing Economic Systems

Step 3: Developing a Market Economy. Student teams will "create" a market economic system.

Directions: Have student teams research the basic principles of a market economy. Each team will then "become" a market economy, with students taking on the specific roles of people/entities in that system, such as entrepreneurs, laborers,

and consumers. After completing their research, students will then perform a brief skit demonstrating the workings of their market economy. Skits should cover how the system answers the three basic economic questions. Students are encouraged to add lively events to their skits such as a price war or a workers' strike for higher wages. Students should take notes on the content and presentation of each skit.

Summarizing After students' presentations, discuss the workings of a market economy, including its advantages and disadvantages. **OL** (Chapter Project continued in Visual Summary.)

Teach

C Critical Thinking

Classifying Tell students that some economists classify consumer decisions in three major categories—habitual, impulsive, or rational. Habitual decisions are made routinely, such as purchasing gasoline. Impulsive decisions are made on the spur of the moment. Rational decisions are given great thought and usually involve the purchase of an expensive item. Have students give three examples for each classification and decide which purchase is the most responsible. **ELL**

S Skill Practice

Visual Literacy Ask: Which characteristic in the illustration holds the other characteristics together? (competition) **BL**

Economic Analysis

Answer: everything a person might possess, including both consumer and capital goods

Hands-On Chapter Project

Step 3

R Reading Strategy

Inferring Ask: Why is it economically efficient and necessary for people to keep the rewards they earn? (Possible answer: If they can keep their rewards, they will work harder and be willing to take risks.) **OL**

S Skill Practice

Comparing and Contrasting
Tell students that some industries, such as fast-food restaurants, are highly competitive, while others have little competition (for example, some cities have a single cable TV provider). Have students identify one example of a competitive industry and one example of an industry with little competition. Ask them to compare and contrast the two industries. **OL**

✓Reading Check Answer:
A buyer gives up money for a good she thinks is worth more than the money, while the seller gives up the good for money that she thinks is worth more than the good.

Differentiated Instruction

private property rights fundamental feature of capitalism that allows individuals to own and control their possessions as they wish

profit extent to which persons or organizations are better off financially at the end of a period than they were at the beginning

profit motive incentive that encourages people and organizations to improve their financial and material well-being

competition the struggle among sellers to attract consumers

\$ Personal Finance Handbook

See pages R6–R9 for more information on saving and investing.

value than the money they give up—or they would not make the purchase. When sellers exchange their products for cash, they believe that the money they receive is more valuable than the product they sell—otherwise they would not make the sale.

Private Property Rights

Another major feature of capitalism is **private property rights**, which allow people to own and control their possessions as they wish. People have the right to use or even abuse their property as long as they do not interfere with the rights of others.

Private property gives people the **incentive** to work, save, and invest. When people are free to do as they wish with their property, they are not afraid to accumulate, improve, use, or lend it. They also know they can keep any rewards they might earn.

Profit Motive

Under free enterprise capitalism, people are free to risk any part of their wealth in a business venture. If it goes well, they will earn rewards for their efforts. If it goes poorly, however, they could lose part or all of their investment.

Profit is the extent to which persons or organizations are better off financially at the end of a specific period than they were at the beginning. The **profit motive**—the incentive that encourages people and organizations to improve their material well-being—is largely responsible for the growth of a free enterprise system.

Competition

Capitalism thrives on **competition**—the struggle among sellers to attract consumers. Competition is possible because individual entrepreneurs have the freedom to produce the products they think will be the most profitable. Free enterprise capitalism allows competition to flourish, benefiting both producers and consumers alike.

✓Reading Check Summarizing How does voluntary exchange work in the free enterprise economy?

The Role of the Entrepreneur

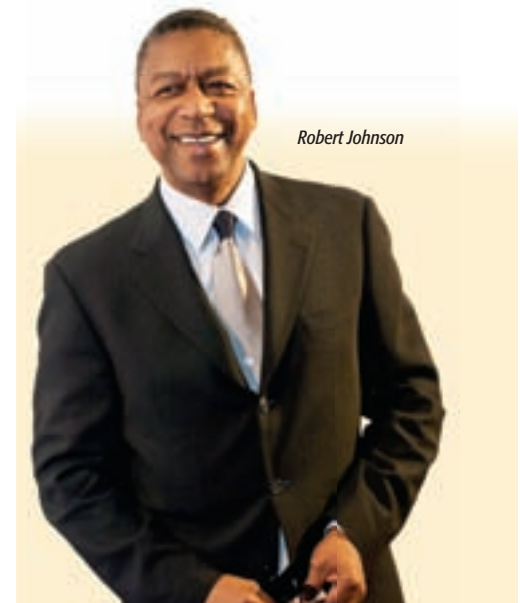
MAIN Idea Entrepreneurs are the driving force of the free enterprise system.

Economics & You Can you think of a successful entrepreneur and the business he or she runs? Read on to learn why entrepreneurs are important in a free enterprise economy.

The entrepreneur plays one of the most important roles in the free enterprise economy. The entrepreneur organizes and manages land, capital, and labor in order to seek the reward called profit.

Entrepreneurs are the people who start up new businesses such as restaurants, automobile repair shops, Internet stores, and video arcades. They include people who may have worked for others at one time, but who decided to quit and start their own businesses. Entrepreneurs want to “be their own boss” and are willing to take risks to make their dreams come true.

Many entrepreneurs fail. Others survive and manage to stay in business with varying degrees of success. A few, and only a very few, manage to become fantastically wealthy. Well-known entrepreneurs include Robert Johnson, founder of BET,



Robert Johnson

Budding Entrepreneurs

- Objective:** Learn about the skills needed to run a successful business.
- Focus:** Ask students to brainstorm qualities of successful business owners.
- Teach:** Have students read the article and then answer the questions that follow.
- Assess:** Discuss as a class the answers to the questions.
- Close:** Ask students to write a paragraph about whether entrepreneurial skills are inborn or can be taught.

Differentiated Instruction Strategies

- BL** Have students list qualities that the entrepreneurs share.
- AL** Ask students to explain which of the three individuals in the article impressed them the most and why.
- ELL** Have students look up unfamiliar words in a dictionary and then write sentences using the words.



Bill Gates, who founded Microsoft, and Mary Kay Ash, who founded Mary Kay Cosmetics.

Despite the high rate of failure among entrepreneurs, the dream of success is often too great to resist. The entrepreneur is both the spark plug and the catalyst of the free enterprise economy. When an entrepreneur is successful, everybody benefits. The entrepreneur is rewarded with profits, a growing business, and the satisfaction of a job well done. Workers are rewarded with more and better-paying jobs. Consumers are rewarded with new and better products. The government is rewarded with a higher level of economic activity and larger tax receipts that can be used to build roads, schools, and libraries for people not even connected with the original entrepreneur.

It does not stop there. Successful entrepreneurs attract other firms to the industry who rush in to “grab a share” of the profits. To remain competitive and stay in business, the original entrepreneur may have to improve the quality of the product or cut prices, which means that customers can buy more for less. In the end, the entrepreneur’s search for profits can lead to a chain of events that brings new products, greater competition, more production, higher quality, and lower prices for consumers.

✓Reading Check Analyzing Why are entrepreneurs considered both spark plugs and catalysts of the free enterprise economy?

The Role of the Consumer

D MAIN Idea The economy in the United States adapts to consumers’ wants.

Economics & You When you go shopping and cast your dollar “votes,” do you realize that you are helping to answer the question of WHAT to produce? Read on to learn how consumers help decide what products are offered in a free market economy.

Consumers have power in the economy because ultimately they determine which products are produced. If consumers like a new product, the producer will be rewarded with profits. If consumers do not buy it, the firm may lose money or even go out of business. The term **consumer sovereignty** recognizes the role of the consumer as sovereign, or ruler, of the market. The phrase “the customer is always right” reflects this power.

In recent years, producers have had outstanding successes with products ranging from video games to Internet search engines such as Google. Other products—including “Crystal” Pepsi, celery-flavored Jell-O, and Dr. Care’s aerosol toothpaste (which kids discovered they could spray around the bathroom)—were rejected.

In addition, consumers’ wants change constantly as people are exposed to new ideas and products. Today, Americans purchase more home computers every year than TV sets, even though computers were

consumer sovereignty role of consumer as ruler of the market when determining the types of goods and services produced

Skills Handbook

See page R40 to learn about Analyzing Information.

CHAPTER 2, SECTION 3

D Differentiated Instruction

Interpersonal Have each student describe to a partner a business that a teenager could open. Then tell students to ask these questions about his or her partner’s business:

- What are the start-up costs?
- How much time would you need to devote to the business?
- Who are your target customers?

Have partners present each other’s answers to the class. **OL**

C Critical Thinking

Identifying Central Issues

Have student pairs develop a list of economic rights and responsibilities of consumers. Ask pairs to share their ideas. **OL**



Entrepreneurs and Consumers

Some entrepreneurs, like Robert Johnson, develop corporations for consumers nationwide, while others serve local customers. **How do consumers influence the economy?**

photo: Hot dog stand in Los Angeles

✓Reading Check Answer:

Entrepreneurs act as spark plugs by energizing the economy. They also act as catalysts by causing economic events to happen.

Caption Answer: By casting dollar “votes,” consumers decide what products get produced.

Leveled Activities

BL Reading Essentials and Note-Taking Guide, p. 16

Chapter 2, Section 3 (pages 46-53)

American Free Enterprise

Big Idea

The free market system is based on the principle of voluntary exchange. It is a system in which individuals and businesses interact to produce goods and services. The system is based on the principle of voluntary exchange, which means that individuals and businesses interact to produce goods and services. The system is based on the principle of voluntary exchange, which means that individuals and businesses interact to produce goods and services.

Characteristics	Examples

Notes **Read to Learn**

Characteristics of Free Enterprise Capitalism (page 46)

Major Generalizations

As an individual, you have the right to own property. You have the right to make decisions about your own life. You have the right to make decisions about your own life. You have the right to make decisions about your own life.

OL Economic Cartoons, p. 13

ECONOMIC CARTOON 9

CONSUMER: A TOUGH ROLE

The cartoon depicts a consumer in a state of confusion, surrounded by various products and services. The consumer is looking at a list of items, including a car, a house, and a vacation. The consumer is looking at a list of items, including a car, a house, and a vacation. The consumer is looking at a list of items, including a car, a house, and a vacation.

AL Math Practice for Economics, p. 2

MATH PRACTICE FOR ECONOMICS

ACTIVITY 2

MAKING A PROFIT

You are going to sell candy, homemade jam, and popcorn. You have a good idea of how much you will sell. You have a good idea of how much you will sell. You have a good idea of how much you will sell.

Item	Cost	Price	Profit
Candy	\$0.50	\$1.00	\$0.50
Jam	\$1.00	\$2.00	\$1.00
Popcorn	\$0.25	\$0.50	\$0.25

R Reading Strategy

Skimming Have students skim the section on “The Role of Government” to find the answer to this question: **What are four functions of the government in the U.S. economy?** (to protect, provide, regulate, and consume) **BL**

W Writing Support

Expository Writing Have students select one of the economic roles of the government and then use historical and current materials to research whether the role changed over time. Students should write a report about their findings, including visuals such as charts and graphs where appropriate. **OL**

✓Reading Check **Answer:** They determine which products are produced; they are the rulers of the market.

Additional Support

Teacher Tip

Working With Web Sites

You may wish to provide students with the addresses for your city and state government Web sites. Help below-level learners navigate to the employment section of each site.

barely known just 25 years ago. They buy products all over the world and frequently use the Internet to research products and make purchases.

The dollars consumers spend in the marketplace are the “votes” that give them a say in what is, and what is not, produced. Because of this, consumers play an important role in the American free enterprise economy.

✓Reading Check **Summarizing** What role do consumers play in a free enterprise system?

R The Role of Government

MAIN Idea The economic role of the U.S. government is decided by its citizens.

Economics & You What economic roles do you think federal, state, and local governments play in your life? Read on to learn how the government has modified our country's economic system.

The role of government—whether national, state, or local—stems from the desires, goals, and aspirations of its citizens. Government has become involved in the economy because the citizens want it that way. Consequently, government has become a protector, provider, **regulator**, and consumer. In general, the role of government in the economy is justified whenever the benefits outweigh the costs.

Protector

As protector, the United States government enforces laws such as those against false and misleading advertising, unsafe food and drugs, environmental hazards, and unsafe automobiles. It also enforces laws against abuses of individual freedoms. Employers, for example, cannot discriminate against workers because of their age, gender, race, or religion.

Provider

All levels of government provide goods and services for citizens. The national government supplies a system of justice and national defense. It provides subsidies to parts of the economy, such as agriculture. In addition, it gives funding to state and local governments for some programs such as road construction. State governments provide education, highways, and public welfare. Local governments provide parks, libraries, sanitation, and bus services.

Regulator

In its role as a regulator, the national government is charged with preserving competition in the marketplace. It also oversees communications, interstate commerce, and

CAREERS

Construction and Building Inspector (Zoning Officer)

The Work

- * Examine the construction or repair of buildings, sewer and water systems, dams, bridges, highways, and streets to ensure compliance with building codes, zoning regulations, and contract specifications
- * Review blueprints, write reports and detailed logs, and schedule inspections

Qualifications

- * Profound knowledge of construction materials and practices
- * Experience with survey instruments, metering devices, and test equipment
- * Degree or certificate in building inspection with an emphasis on blueprint reading, construction technology, drafting, mathematics, and English and Spanish
- * Background in engineering or architecture or a degree from a community college

Earnings

- * Median annual earnings: \$43,670

Job Growth Outlook

- * Faster than average

Source: *Occupational Outlook Handbook*, 2006–2007



Activity: Technology Connection

The Role of Government Have students visit three government Web sites, preferably of different levels of government. For example, they might visit a city Web site, a state Web site, and the federal government Web site. Have them search the careers/jobs/employment sections of the sites for jobs that show

government fulfilling the roles discussed in the text. Have students find three job examples for each role and then share their findings in a class discussion. **OL**

even entire industries, such as banking and nuclear power. Many state governments oversee insurance rates, while local governments regulate economic activity with building and zoning permits.

The regulatory role of government is controversial. Most businesses do not like to be told how to run their affairs. Consumers, however, do not always know when they are at risk from hazards, such as potential poisoning from unsafe food preparation or false and misleading advertising from some companies. As a result, they want the government to monitor and regulate such activities.

Consumer

The tasks of protecting, providing, and regulating are expensive. All levels of government, like any business, consume scarce resources to fulfill their role. Government has grown so much in recent years that it is now the second-largest consuming unit in the economy, after the consumer sector, eclipsing spending by all private businesses combined. You will learn later

in this textbook how the government collects and spends the money required to accomplish these tasks.

Modified Free Enterprise

Perhaps an unintended consequence of government's role as protector, provider, regulator, and consumer is the emergence of the **mixed**, or **modified free enterprise economy**. In this economy, people and businesses carry on their economic affairs freely, but they are subject to some government intervention and regulation.

Some people prefer to have no government involvement in the economy, but this is not possible. After all, some services, such as national defense and a system of laws and justice, cannot be supplied by the private sector alone. Unfortunately there is no clear answer to the question of how much government involvement is necessary, but if it changes, it will be because the voting public wants it that way.

✓Reading Check Explaining Why do Americans want government to play a role in the economy? Use specific examples.

mixed or modified free enterprise economy economy where people carry on their economic affairs freely but are subject to some government intervention and regulation

CHAPTER 2, SECTION 3

D Differentiated Instruction

Visual/Spatial Have students search for examples of advertising that could be misleading. Have them construct a poster showing the examples they find with captions that explain why each ad might be misleading. **OL**

✓Reading Check Possible

Answer: It can reduce the disadvantages of a market system. For example, it can reduce insecurity through its role as provider, and it can decrease consumer risks through its role as regulator.

SECTION

3

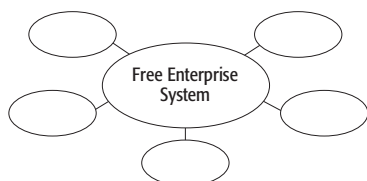
Review

Vocabulary

- 1. Explain** the significance of free enterprise, voluntary exchange, private property rights, profit, profit motive, competition, consumer sovereignty, and mixed or modified free enterprise economy.

Main Ideas

- 2. Describe** the five major characteristics of a free enterprise system by completing a graphic organizer like the one below.



- 3. Explain** the differences in the roles of entrepreneurs, consumers, and the government.

Critical Thinking

- 4. The BIG Idea** When consumers cast their "votes" in a free enterprise economy, how do they influence what is and is not produced?
- 5. Analyzing Visuals** Look at the photo on page 51. How are the consumers demonstrating their sovereignty?
- 6. Drawing Conclusions** How is the protection of private property rights necessary to the other characteristics of free enterprise?
- 7. Analyzing** Explain why entrepreneurs are the driving force of the free enterprise system.

Applying Economics

- 8. Voluntary Exchange** Cite at least three examples of voluntary exchanges you made this week. How are you better off by having made the exchanges? Did the person with whom you exchanged gain too? How?

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 3, and then assign the Section 3 Review as homework or as an in-class activity.

Close

Drawing Conclusions Ask: How would life be different if the government did not play certain roles in the economy? **OL**

Review

SECTION

3

Answers

- All definitions can be found in the section and the Glossary.
- economic freedom, voluntary exchange, private property rights, profit motive, and competition
- Entrepreneurs take the initiative to combine the other resources to start businesses. Consumers decide what is to be produced by casting their dollar votes. Government serves as a consumer, regulator, provider, and protector.
- Consumers buy products that they like, providing profits to the firms that make the products. Consumers do not buy products that they dislike, causing firms to lose money and possibly go out of business.
- The consumers are getting the goods that they want.
- Possible answer:** If private property rights are not protected, the profit motive cannot work because people cannot keep the rewards for their work. Competition would not exist because there would be no incentive for it. Exchanges would not be voluntary; whoever was the biggest and strongest would be able to take everything.
- Entrepreneurs organize and manage the factors of production. They seek profits by opening new businesses, selling new products, and improving older ones.
- Students' answers should include a discussion of how both parties benefited from each voluntary exchange.

Teach

C Critical Thinking

Drawing Conclusions

What characteristic did Tony Hawk's daily skateboarding illustrate? (determination) Is this a characteristic that an entrepreneur needs? Why or why not? (Possible answer: Yes, entrepreneurs need determination because they often face setbacks that they must overcome.) **OL**

Examining the Profile

Answers:

1. He has used his name to promote skateboarding-related products, such as skateboards, clothes, and video games.
2. He worked closely with developers to ensure that the video game he was going to brand was authentic.

Additional Support

Profiles **in** Economics



When Tony Hawk first started skateboarding, he saw it as a fun way to spend some time. Just three years later, he signed with his first sponsor, and today he has turned it into a multi-million-dollar business.

Tony Hawk (1968–)

- professional athlete at age 14 and best skateboarder in the world by age 16
- owner of a successful business empire based on resurgence of skateboarding and name recognition

Making a Name

Tony Hawk did not set out to become a businessman. When his brother gave him his first skateboard at age nine, all he wanted to do was have some fun. But he was determined that he would learn how to ride it. This determination—and 6 hours of skateboarding a day—led to success. By age 16, Hawk was the best skateboarder in the world. He also opened a skateboarding company, Birdhouse Projects, that brought him his first big financial success.

The Hawk Takes Off

While Hawk had made a name for himself, skateboarding itself faded in popularity, and with it Hawk's company. Then ESPN decided to broadcast the X Games in 1995. The show's immense success revitalized the skateboarding phenomenon and brought Hawk's name into the mainstream. At the end of his competitive career in 1999, Hawk had won 73 first-place competition titles, created some 80 new tricks, and pioneered a new form of vertical skateboarding.

Hawk's skills piqued the interest of software developer Activision. In 1998 the company approached him with an idea for his own skateboarding video game. Hawk wanted to "make sure that the skating aspect is authentic." He met weekly with the game developers, nixing unrealistic moves and refining aerial stunts. The next year, "Tony Hawk's Pro Skater" flew off the shelves. The Pro Skater games eventually sold 20 million copies and gave Hawk over \$6 million a year in royalties.

In 2002 Hawk launched the Boom Boom HuckJam tour, an extreme sports event that brings the world's best skateboarders, BMX bikers, and motocross racers to arenas around the country. On top of that, his combined brands, which today include skateboards, clothes, shoes, video games, and action figures, generate about \$300 million a year in retail sales.

Examining the Profile

1. **Drawing Conclusions** How has Tony Hawk used his sport to develop into an entrepreneur?
2. **Making Inferences** How do you know that Hawk is careful about which products he brands? Explain.

54 UNIT 1 Fundamental Economic Concepts

Activity: Hands-On Economics

Name Branding Have students identify a special talent or skill that they have or would like to have that could serve as a basis for a business. Ask students what special considerations might arise because the product bears their name. How would they ensure that the product met the highest of standards? Have

each student write a one-page business plan describing the business and addressing these concerns. Invite students to include a drawing showing how they would like their name to appear on their products. **OL**

Visual Summary



Study anywhere, anytime!
Download quizzes and flash cards to your
PDA from glencoe.com.

Visual
Summary

▶ **Economic Systems** Most countries have a mix of three different types of economic systems.

Traditional	Command	Market	Mixed
<ul style="list-style-type: none"> Most economic activities based on ritual, habit, or customs Everyone knows which role to play Little innovation 	<ul style="list-style-type: none"> Government makes all major economic decisions Private property severely limited Can be adjusted quickly to meet a country's demands Does not meet all of consumers' wants and needs Is inefficient and discourages innovation 	<ul style="list-style-type: none"> People make economic decisions based on supply, demand, and the price system High degree of individual freedom and innovation Does not provide for the basic needs of everyone 	<ul style="list-style-type: none"> Provides a mix of all three economic systems Government involvement varies Government provides help to some people who might otherwise be left out Systems like socialism and communism are less efficient than capitalism

▶ **Economic and Social Goals** In the United States, we share several economic and social goals.



▶ **Free Enterprise** The U.S. economic system is based on the free enterprise system and is characterized by competition and private ownership of resources.

Characteristics	Role of Entrepreneurs	Role of Consumers	Role of Government
<ul style="list-style-type: none"> Economic freedom Voluntary exchange Private property rights Profit motive Competition 	<ul style="list-style-type: none"> Organize land, capital, and labor in order to seek profit Accept the risk of loss Decide HOW to produce Are innovators and catalysts 	<ul style="list-style-type: none"> Decide WHAT is produced by how they spend their money Spur development of new products by changing their wants 	<ul style="list-style-type: none"> As protector, provider, and regulator, ensures and enforces that economic and social goals are carried out Is a large consumer in the economy

Personal Writing Direct students to choose one of the economic and social goals and write about a personal experience involving the goal. **OL**

Determining Importance

Ask: Which event in American history was most significant in developing and enhancing the U.S. economic system? Why?

(Possible answer: the writing of the Constitution; it established the rights and protections that enable the U.S. economic system to function) **AL**

Evaluating Have students list what they think are the top five problems that exist in the U.S. economy today. Have a volunteer write the suggested problems on the board. Have other volunteers identify what role the government would play if it took on the problem. Conduct a poll to find which problems students think are the most important. **BL**

Comparing Economic
Systems**Step 4: Make the Comparisons.**

Student teams will synthesize what they learned in Steps 1–3.

Directions: Using the notes that students compiled on the skits, have students write

essays reviewing the performances of other teams' skits. Essays should focus on how the skits demonstrated the different functioning of the three economic systems. Students should include specific scenes or bits of dialogue that they observed that highlighted these differences. After students have completed

their essays, discuss as a class how the different economic systems impact the societies in which they operate. **OL**

Hands-On
Chapter Project

Step 4: Wrap Up

ExamView® Assessment Suite

This easy-to-use software includes extensive question banks and allows you to create fully customized tests that can be administered in print or online.

Review Content Vocabulary

1. c
2. d
3. f
4. a
5. e
6. g
7. b
8. h

Review Academic Vocabulary

- 9.–16. Students' sentences will vary but should demonstrate understanding of each term's meaning in an economic context.

Review the Main Ideas

17. All economic activity is conducted according to ritual, custom, or tradition.
18. does not meet consumer wants, lacks incentives to get people to work, requires a large bureaucracy, has little flexibility to deal with small changes, and discourages individuality and new ideas
19. Individuals and firms make decisions by interacting and communicating through markets and prices.
20. There is help for people who might be left out. Voters can influence economic decisions. A disadvantage is that there are greater costs to citizens.
21. Individuals can choose their occupation and employer. Businesses can produce, sell, and price goods and services however they want.
22. workers who have lost their jobs, the elderly, the sick, the disabled


Review Content Vocabulary

On a separate sheet of paper, write the letter of the key term that best matches each statement below.

- | | |
|-------------------------|----------------------------|
| a. capitalism | e. private property rights |
| b. command economy | f. profit motive |
| c. consumer sovereignty | g. traditional economy |
| d. economic system | h. voluntary exchange |
1. the idea that buyers and sellers rule the market
 2. a society's organized way of providing for its people's wants and needs
 3. the incentive that encourages people and organizations to try to improve their material well-being
 4. an economic system in which the factors of production are owned by private citizens
 5. the right and privilege to control one's own possessions
 6. an economic system in which ritual, habit, and custom dictate most economic and social behavior
 7. an economic system in which a central authority makes economic decisions
 8. the act of buyers and sellers freely conducting business in a market

Review Academic Vocabulary

On a separate sheet of paper, define and illustrate each of the following terms. See the sample below.

Term	Definition	Illustration
• Incentive	• Something that encourages or motivates	

- | | |
|----------------|-----------------|
| 9. allocate | 13. catalyst |
| 10. emphasize | 14. regulator |
| 11. stagnation | 15. accommodate |
| 12. adverse | 16. incentive |

Review the Main Ideas

Section 1 (pages 33–41)

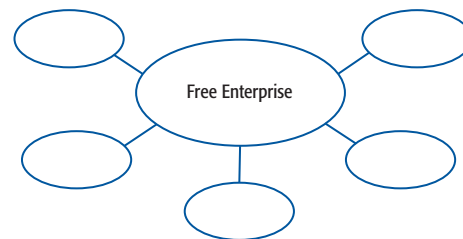
17. **Describe** the main characteristics of a traditional economy.
18. **Identify** the five major weaknesses of a command economy.
19. **Explain** who makes economic decisions in a market economy.
20. **Describe** the advantages and disadvantages of a mixed economy.

Section 2 (pages 43–46)

21. **Describe** how individuals and businesspeople benefit from economic freedom.
22. **Discuss** who benefits from economic security.
23. **Explain** how a society resolves conflicts between economic and social goals.

Section 3 (pages 48–53)

24. **Describe** the five major characteristics of free enterprise.



25. **Explain** why entrepreneurs are thought to have important roles in the economy.
26. **Describe** how consumers have influenced the success of products in recent years.
27. **List** the five major roles that the government plays in the economy.

23. Citizens weigh benefits against costs and then vote for the candidates who best represent their desires.
24. economic freedom (freedom of individuals and businesses to determine work-related issues), voluntary exchange (act of buyers and sellers freely and willingly engaging in market transactions), private property rights (allow people to own and control their possessions), profit motive (incentive that encourages people and organizations to improve their material well-being), and

competition (the struggle among sellers to attract consumers)

25. They combine the other factors of production and manage the resulting businesses.
26. When consumers like a product, they buy it and therefore make it profitable.
27. protector, provider, regulator, and consumer

Critical Thinking

- 28. The BIG Idea** Some people believe that the profit motive conflicts with the goals of economic security and equity. Do you agree? Why or why not?
- 29. Understanding Cause and Effect** How has the development of modern transportation and communication systems affected the type of economy that exists in the United States?
- 30. Making Inferences** What incentive does owning private property give people?
- 31. Making Comparisons** Reproduce the following diagram on a separate sheet of paper. Then, in the spaces indicated, identify several elements of command and tradition in the U.S. economy that make it a mixed, or modified private enterprise, economy.



Analyzing Visuals

- 32. Critical Thinking** Look at the chart on page 40. Explain how government involvement differs under communism, socialism, and capitalism. Where on the spectrum does the economy of the United States fit, and why?

Math Practice

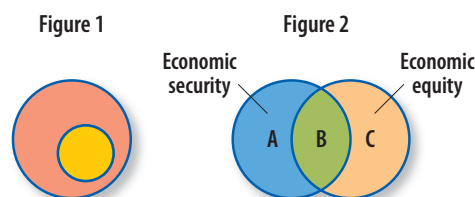
- 33.** If the typical minimum-wage employee works 40 hours a week and has two weeks' unpaid vacation, how much will that person earn in a year if the minimum wage is \$5.15/hour? How much extra will that person earn for every \$0.25 increase per hour in the wage?

Thinking Like an Economist

- 34. Critical Thinking** Not all societies have market economies. Some have command or traditional economies. Use the discussion of opportunity cost and cost-benefit analysis in Chapter 1 on pages 20 and 24 to explain why you would or would not like to live in a society with a different economic system. Prepare a decision grid similar to the one on page 20 to help you with your analysis. Write a paragraph that summarizes your conclusion.

Applying Economic Concepts

- 35. Tradition** Most people tip for service in restaurants, but not for service at clothing stores or gas stations. Explain how this illustrates economic behavior by tradition rather than by market or command.
- 36. Economic and Social Goals** Compare the figures below and then answer the questions that follow.
- If the diagram in Figure 1 represents "needs" and "wants," how would you label the two diagrams in the figure? Explain your choice.
 - If the two circles in Figure 2 represent the goals of economic security and economic equity, where would you place a federal policy such as the minimum wage law—in area A, B, or C? Explain your choice.
 - If you were to change "Economic security" to "Economic efficiency" in Figure 2, would this change your placement of the minimum wage policy? How?



CHAPTER 2 Economic Systems and Decision Making 57

Critical Thinking

- 28.** Answers will vary, but students should demonstrate a clear understanding of the two goals.
- 29.** It has increased the level of government involvement in the economy through its regulatory function.
- 30.** the incentive to work, save, invest, and be successful
- 31.** Answers will vary but may include traditional economy: any products or choices based on habits or customs such as father/son businesses and greeting

cards for traditional holidays; command economy: banning certain products, setting prices, regulatory actions, defense; market economy: any example illustrating interaction of individuals and businesses.

Analyzing Visuals

- 32.** Government makes all economic decisions under communism and far fewer decisions under socialism. Under capitalism government promotes competition and provides public goods.

Economics ONLINE

Have students visit the Web site at glencoe.com to review Chapter 2 and take the **Self-Check Quiz**.

The U.S. economy fits between socialism and capitalism because it has a mixed economy.

Math Practice

- 33.** Annual income: \$10,300; \$500 annual additional income per \$.025/hour increase

Thinking Like an Economist

- 34.** Answers will vary but should use a decision grid and summary to describe the advantages and disadvantages of the different economic systems.

Applying Economic Concepts

- 35. Possible answer:** It is a custom to tip at restaurants and not clothing stores or gas stations. Tipping is not a government requirement (command), and it is not done because it is in the customer's best interest (market).
- 36. a.** Needs are smaller than wants, so students should label the smaller circle "needs."
- b.** Since the minimum wage increases both security and equity, it should be placed in area B.
- c.** Yes. The minimum wage interferes with efficiency, and so it would need to be moved to area C, indicating that it increases equity only.



Focus

Tell students that a recent study by the Los Angeles Economic Development Corporation found that global piracy and counterfeiting reduced profits for the city's companies by more than \$5 billion in 2005. This loss cost Los Angeles nearly \$500 million in tax revenues. Have students consider how the pirating of intellectual property could be affecting their city.

Teach

R Reading Strategy

Making Connections

Have students study the table and the graph on this page.

Ask: What connections can you make between the PC Software Market graph and the Software Piracy table? (Possible answer: Both the graph and the table show that software piracy occurs at a much higher rate in developing countries; the piracy rate is lowest in developed nations.) **OL**

Additional Support

Pirating Intellectual Property

A major feature of capitalism is the concept of private property rights—the freedom to own and control your possessions as you wish. Another major feature is the profit motive—taking a risk with your labor, property, or money in order to reap financial gains. Unfortunately, in our global economy the risks you take don't always result in rewards—at least for you.

Stolen Profits

Pirates of intellectual property reduce profits in some industries by as much as 50 percent. The term *intellectual property* (IP) refers to creations of the mind: inventions, literary and artistic works, symbols, names, images, and designs. Piracy of CDs, software, and clothing designs has expanded in recent years, along with counterfeit money and prescription medications. The illegal trade in pirated and counterfeit goods costs the legal world economy an estimated \$630 billion per year.

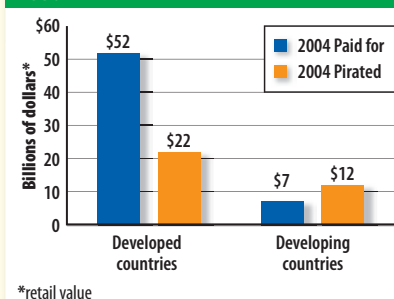
Case Study: China

In Silk Alley, a street in Beijing, bargain hunters can find just about anything on the cheap, including inexpensive knockoffs of Gucci, Chanel, Prada, and

SOFTWARE PIRACY*			
Highest piracy rates		Lowest piracy rates	
Vietnam	92%	Germany	29%
Ukraine	91%	Finland	29%
China	90%	Japan	28%
Zimbabwe	90%	Switzerland	28%
Indonesia	87%	Denmark	27%
Russia	87%	United Kingdom	27%
Nigeria	84%	Sweden	26%
Tunisia	84%	Austria	25%
Algeria	83%	New Zealand	23%
Kenya	83%	United States	21%

*Percentage of software pirated versus paid for
Source: Second Annual BSA and IDC Global Software Piracy Study, 2005

PC SOFTWARE MARKET



Source: Second Annual BSA and IDC Global Software Piracy Study, 2005

North Face products. Chinese piracy has made a significant dent in American music, movie, and software profits. In 2004 alone, U.S. companies lost an estimated \$40 billion to IP piracy, the majority of which allegedly took place in China.

In the past, China blamed its flourishing culture of piracy on a myriad of issues. Yet the Chinese government also fostered a culture of piracy by maintaining that intellectual property was not an individual right, but a benefit to the state.

Now that the country is a member of the World Trade Organization, China must follow market-economy rules. It did a remarkable job of cracking down on its own domestic pirates, who have attempted to profit from the 2008 Beijing Olympics. U.S. officials now want to see similar efforts to protect U.S. intellectual property.

Extending the Content

Fighting Back Against IP Piracy in China For several years, companies in the United States and Europe had little success in stopping intellectual property pirates in China from robbing them of billions of dollars. Suing Chinese companies in China usually ended in failure. Courts, government officials, and reporters in the home city of the company

being sued invariably sided with the defendants. Recently, however, Chinese premier Wen Jiabao has promised that his nation will better protect IP rights. Encouraged by this pledge, foreign companies are taking a more aggressive approach to asserting their legal rights in China. These companies have learned that bringing suit in a city outside a Chinese

company's home region and generating international media coverage yields better results. In 2007, Starbucks won a high-profile case in China against a Shanghai coffee chain that used a name and logo similar to that of the U.S. company.

Worldwide Problem

Piracy has become a worldwide problem and affects the bottom line of companies everywhere. IP theft also raises unemployment rates and lowers tax revenues, especially in developing countries. Losses in tax revenue are more costly than one might think. Experts estimate that in four years, a 10 percent drop in the global piracy rate would add roughly 2.4 million new jobs, \$400 billion in profits, and \$67 billion in tax revenues world-wide.

What Does It Mean For You?

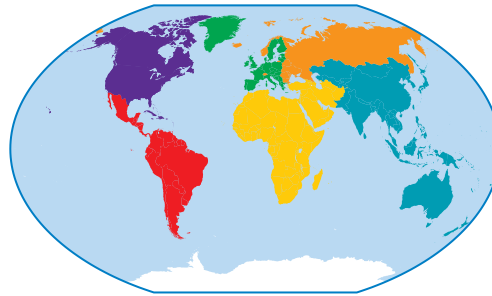
While you might think that software piracy does not affect you directly, this is far from the truth. Companies that lose profits from IP theft often pass the cost of piracy on to you—the honest consumer. For every song or movie downloaded or sold illegally, businesses must charge paying customers more to cover their production costs. In addition, government revenue that could go to your education, parks, or better roads instead is funneled into law enforcement to prevent IP piracy. But perhaps the biggest loser in IP piracy is creativity. After all, if you were an artist or designer, would you be willing to spend your money as well as months or years of your life to develop a new product, only to have it copied and your profits taken away by someone else?

Analyzing the Issue

- Identifying** What economic policy allowed IP piracy to grow in China?
- Describing** What is the relationship between piracy rates and developing countries?
- Applying** Check your local newspaper, news magazines, or Internet news sources for recent articles about intellectual property theft. How does IP piracy affect your state?

PIRATED SOFTWARE DOLLAR LOSSES BY REGION (IN MILLIONS)

European Union (\$12,151)	Asia Pacific (\$7,897)
North America (\$7,549)	Rest of Europe (\$2,313)
Latin America (\$1,546)	Middle East/Africa (\$1,239)



Source: Second Annual BSA and IDC Global Software Piracy Study, 2005

photo: A bulldozer destroying pirated CDs, DVDs, and videos in Moscow, Russia



Assess/Close

C Critical Thinking

Assessing Have students select a U.S. company that has been affected by IP piracy. Ask students to research the effects of the IP pirates and then prepare a report assessing the impact of IP piracy on the company. Reports should include examples of the products pirated, statistics quantifying the losses, and strategies the company has used to protect its rights. **OL**

Analyzing the Issue

Answers:

- the policy of maintaining that intellectual property is not an individual right, but a benefit to the state
- It is an inverse relationship. Piracy rates are higher in developing countries and lower in developed countries.
- Students should assess how IP piracy affects their state.

Additional Support

Activity: Technology Connection

Designing Organize the class into small groups. Instruct each group to choose an item that has commonly been pirated (for example, CDs, DVDs, computer software, clothing designs, and so on). Have groups design a new technological device or procedure that would prevent or reduce the piracy of their item. Encourage students to research efforts that companies have already used to prevent piracy of different

types of items. Have groups create a sketch, diagram, or computer program that illustrates the specifications and functioning of their new anti-piracy device or procedure. Ask groups to present their ideas to the class. Have the class take notes during group presentations and then speculate on the effectiveness of each device or procedure in a class discussion. **OL**