



UNIT

6

The Economy and the Individual

Why It Matters

As American citizens, we live in a land of economic opportunity. Our economy provides us with a great variety of jobs, goods, and services. We can contribute to the nation's economic success by taking advantage of these opportunities. In Unit 6, you will study the American economic system and learn how it works and how it affects our lives.



Use the **American History Primary Source Document Library CD-ROM** to find primary sources about the development and growth of the American economy.

★ **BE AN ACTIVE CITIZEN** ★

What do you think economics is? Describe how, in your opinion, economics affects you. After you complete your study of Unit 6, compare your initial ideas with the new information you learn.



Sacagawea, the Shoshone who assisted the Lewis and Clark expedition, is featured on this one-dollar coin.

What Is Economics?

★ CITIZENSHIP AND YOU ★

The United States has a free enterprise system under which consumers and producers make the major economic decisions. As you study this chapter, think about how our economic system works and affects your daily life. Write your ideas in your civics journal.



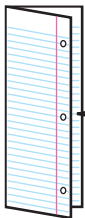
To learn more about basic economic issues, view the *Economics & You* video lesson 2: What Is Economics?

FOLDABLES™

Study Organizer

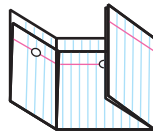
Organizing Information Study Foldable Make the following foldable to help you organize your thoughts and information as you try to answer this question: *What Is Economics?*

Step 1 Fold a sheet of paper in half from side to side.

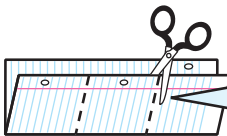


Fold it so the left edge is about $\frac{1}{2}$ inch from the right edge.

Step 2 Turn the paper and fold it into thirds.



Step 3 Unfold and cut the top layer only along both folds.



This will make three tabs.

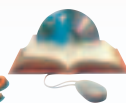
Step 4 Label as shown.



Reading and Writing

As you read the chapter, write what you learn about economics under the appropriate tab of your foldable. Write the main ideas and supporting facts of each main topic.

The study of economics will help you make better decisions. ▶

The logo for Civics Online, featuring the word "CIVICS" in a bold, blue, sans-serif font above the word "Online" in a red, cursive font.

Chapter Overview Visit the *Civics Today* Web site at civ.glencoe.com and click on **Chapter Overviews—Chapter 18** to preview chapter information.





SECTION

1

The Fundamental Economic Problem

GUIDE TO READING

Main Idea

Economics is the study of how individuals and societies make choices about ways to use scarce resources to fulfill their needs and wants.

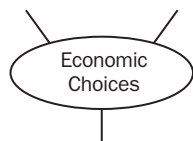
Key Terms

economics, needs, wants, scarcity, economic model

Reading Strategy

Organizing Information

As you read the section, complete a diagram like the one below by identifying the three economic choices every society must make.



Read to Learn

- What is scarcity?
- How do wants and needs differ?



Americans in Action

A school library that couldn't afford books for a visually impaired second-grader sparked a remarkably effective economics lesson for his class and led to a prestigious award for the teacher. Bonnie Nyce, whose project was one of five top winners of America's National Awards for Teaching Economics, teaches second grade at the Plains Elementary School in Timberville, Virginia. When one student pointed out that classmate Zach Shifflett, blind since birth, could only stand around during the class's weekly visit to the library, she saw an opportunity. Through her Operation CARE program (Children Learning About Braille Reading and Economics), the class raised more than \$2,000 for the purchase of Braille books. Ms. Nyce noted, "My hope is that the children who participated in Operation CARE will pursue further experiences in economics, assured that it is not a frightening topic but an interesting, relevant one that deserves attention at every level of learning."



Second-graders make a difference.

Economic Choices

In order to be a well-informed citizen, it is essential to have a good understanding of economics and the American economic system. Well-informed citizens do more than make choices in the voting booth, they also make rational economic choices, and they make these choices every day.

The choices we face are based on the fact that we do not have enough productive resources to satisfy all of our wants and needs. Even a seemingly plentiful resource such as water is considered scarce because it is not free; we pay to have it.

This is where economics comes in, because **economics** is the study of how we make decisions in a world where resources are limited. As you will discover, the study of economics will help us think about the process of making decisions—economics is sometimes called the science of decision making.



(i)Chris Anderson/Aurora; (ii)Herb Smitzer/Stock Boston

Scarcity

As individuals, we have many **needs** that are required for survival, such as food, clothing, and shelter. In addition, we also have an enormous number of **wants**, or things we would like to have, such as entertainment, vacations, and other items that make life more comfortable and enjoyable.

The fundamental economic problem is the issue of scarcity. **Scarcity** occurs whenever we do not have enough resources to produce all of the things we would like to have. In fact, even a country as rich as the United States does not have enough productive resources to produce all of our goods such as cars, houses, and clothing, and to provide all of our services such as public transportation, education, national defense, entertainment, and many other things we would like to have. Scarcity is the result, and because of scarcity, we have to make choices among alternatives. For

example, a rational consumer compares prices and makes choices based on his or her limited resources. A rational consumer asks whether or not he or she can afford to buy a small car or a big car, own a home or rent, purchase brand name items or generic ones, and so on.

WHAT to Produce

One of the choices a society has to face is that of **WHAT** to produce. For example, if resources are limited, we may have to choose between making goods for defense or producing services for people who are retired or are too ill to work. Or, we may have to choose between improving our roads or schools or even a nearby stadium for athletic events. Any civic leader in any community in America could extend this list almost indefinitely given the wants and needs they have in their own communities.

Economic Choices Our society has needs and wants. We need to provide police and fire protection. We want to provide things like community pools. **What is the difference between wants and needs?**





HOW to Produce

A second choice that society has to make is that of HOW to produce. If we need more crude oil to satisfy our energy needs, should we allow drilling in an Alaskan wildlife sanctuary, or should we restrict oil recovery to more traditional areas? When it comes to manufacturing products in factories, how much pollution should we allow firms to generate? After all, businesses like to produce as cheaply as possible, and that sometimes means leaving waste behind that may pollute the environment. As you can see, the question of HOW to produce is faced by every producer of a good or service.

FOR WHOM to Produce

After goods and services are produced, a society must determine how the goods and services will be distributed among its members. Who receives the new cars? Who benefits

from a new school? As you will read, most of the goods and services in the United States are distributed through a price system.

These questions concerning WHAT, HOW, and FOR WHOM to produce are not very easy for any society to answer. Nevertheless, they must be answered so long as there are not enough resources to satisfy people's unlimited wants.

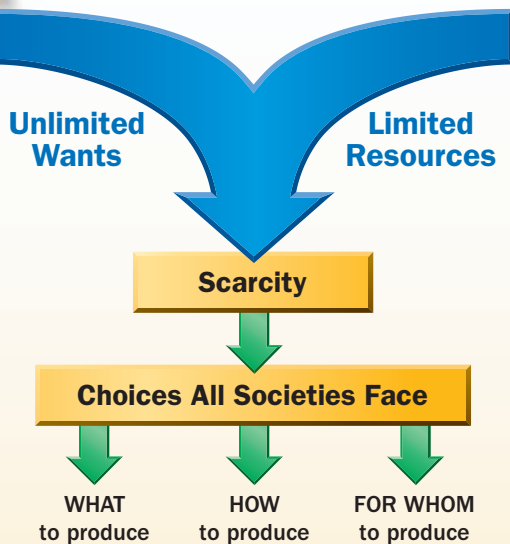
Reading Check **Explaining** Because scarcity exists, we must make choices. Explain why this is so.

Using Economic Models

To economists, the word “economy” means all the activity in a nation that together affects the production, distribution, and use of goods and services. When studying a specific part of the economy—rising unemployment, for example—economists often formulate theories and gather data. The data that economists collect are used to make economic models. **Economic models** are simplified representations of the real world that are used to explain how the economy works, or to predict what would happen if something in the economy should change. For example, a model can be used to predict what will happen to the total production of goods and services if a new tax law is passed. Many of these models appear as graphs like the one shown on the top of page 413.

It is important to remember that models are based on assumptions, or things that we take for granted as true. We use them as facts even though we can't be sure that they are facts. For example, you might assume that a restaurant is out of your price range. You might not even try it because you assume you cannot afford it. However, you might be wrong—the prices at the restaurant might be quite reasonable. The quality

Choices All Societies Face



Evaluating Charts

In a world of scarcity, choices have to be made. What are the three basic economic questions?



Political Cartoons



and it seems to be diverted toward money and...
 Schuster, two men with little hope, of negoti-
 for the economy's...
 to be divert-

Analyzing Visuals Luxuries such as concert tickets often become necessities in the eyes of consumers. How do consumers satisfy their seemingly unlimited wants?

of a model is no better than the assumptions the model is based on.

It is also important to keep in mind that models can be revised. If an economic model results in a prediction that turns out to be right, the model can be used again. If

the prediction is wrong, the model might be changed to make a better prediction the next time.

Reading Check Identifying What is an economic model?

SECTION 1 ASSESSMENT



Study Central™ To review this section, go to civ.glencoe.com and click on **Study Central™**.

Checking for Understanding

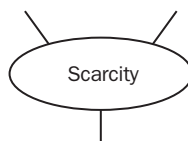
- 1. Key Terms** Use each of the following terms in a sentence that will help explain its meaning: **economics, needs, wants, scarcity, economic model.**

Reviewing Main Ideas

- 2. Identify** What is the basic economic problem that makes choices necessary?
- 3. Describe** What is the purpose of an economic model? Do economic models always accurately predict economic behavior? Explain your answer.

Critical Thinking

- 4. Evaluating Information** How do you think the study of economics can help you become a better decision maker?
- 5. Classifying Information** On a diagram like the one below, provide at least three examples of items you have had to do without because limited resources could not keep up with your wants.



Analyzing Visuals

- 6. Infer** Study the chart on page 408. If a company decides to use mass production methods that require more equipment and fewer workers, the company is addressing which question?

★ BE AN ACTIVE CITIZEN ★

- 7. Record** Find an example in your local newspaper of one effect of scarcity. Your example may come from an article, editorial, or advertisement. Describe what economic choices were made.



SECTION

2

Making Economic Decisions

GUIDE TO READING

Main Idea

Trade-offs are present whenever choices are made.

Key Terms

trade-off, opportunity cost, marginal cost, marginal benefit, cost-benefit analysis

Reading Strategy

Organizing Information

As you read this section, complete a diagram like the one below by explaining what you need to know to become a good decision maker.

Making
Decisions

Read to Learn

- How are trade-offs and opportunity costs related?
- What is the purpose of a cost-benefit analysis?



Americans in Action

“Beach replenishment was designed for the specific purpose of saving the federal government millions of dollars that would otherwise be spent in disaster assistance. More than 60 years ago, the U.S. Army Corps of Engineers . . . design[ed] a detailed cost-benefit analysis to determine which disaster-prone coastal areas could be protected through beach replenishment. . . . When this year’s [major storm] hit, . . . the Army Corps of Engineers reported that replenished beaches prevented more than \$2.9 million in damage along nine beaches in New York and New Jersey.”

—USA TODAY, April 9, 2001



A family enjoys a day at the beach on the Jersey shore.

Trade-Offs

Economic decision making is surprisingly simple. It involves only a few terms and rules. In fact, you probably already think about many problems the same way that economists do.

The situation in the story above is a good example. In this case, preventive action was taken because the cost of doing something (the expense of beach restoration) was less than the benefit to be gained (the advantage of *not* having to pay for disaster assistance). Most economic decisions are made the same way—with common sense and careful analysis.

As you learned previously, scarcity forces people to make choices about how they will use their resources. Economic decision making requires that we take into account all the costs and all of the benefits of an action.

The economic choices people make involve exchanging one good or service for another. If you choose to buy a DVD player, you are exchanging your money for the right to own the DVD player rather than something else that might cost the same amount. A **trade-off** is the alternative you face if you decide to do one thing rather than another.



Economists identify many trade-offs in life. For example, more pollution-free air means less driving, and more driving means less pollution-free air. Taking more time to study for a test means having less time to talk on the telephone with friends, and talking for a long time on the telephone means spending less time studying for the test.

Think of a trade-off on a large scale. A country wants to put more money into education. This strategy may be a good one, but putting more money into education means having less money available for medical research or national defense. Individuals, families, businesses, and societies are forced to make trade-offs every time they choose to use their resources in one way and not in another.

Opportunity Cost

Suppose you decide to go to college after you graduate from high school. If you do, you will quickly discover that the cost of college is more than the cost of books, transportation, tuition, and other fees. One of the biggest costs is the full-time income that you will not be able to earn because of the time you will have to spend studying and going to classes.



Costs of Decisions If you have basketball practice while your friends are having a party, part of the opportunity cost of basketball practice is missing the party. **Why does every choice involve an opportunity cost?**

Economists have a term for this broad measure of cost. **Opportunity cost** is the cost of the next best use of your time or money when you choose to do one thing rather than another.

Note that opportunity cost includes more than just money. It also takes into account all the possible discomforts and inconveniences linked to the choice made. After all, the opportunity cost of cleaning the house is not just the price of cleaning products. It also includes the time you could spend doing other things, like listening to music or visiting with your friends.

Other Measures of Cost

Suppose you are in the business of producing bicycle helmets. Do you know how many helmets you would produce? Would

Economics and You

Rain Forest Trade-Offs

How do trade-offs of resources affect our future? The Amazon Basin in Brazil is the world's largest tropical rain forest and river system. Within the basin an area equal to 5,000 soccer fields is being destroyed every day, though. Farmers burn the forests to gain farmland for other profitable crops. Loggers cut and export the fine hardwoods for a profit. People have penetrated the forests to strip the Amazon of its curative and medicinal plants. Do research on the Amazon rain forest to find out what the trade-offs mean for the future.



it be 100, 500, or 10,000? You may have a feeling that you should not produce too few or too many, but how would you know what too few and too many were? To begin to answer these questions, we need to look more closely at costs and revenues.

Fixed Costs

All businesses have costs, but not all costs are the same. The first kind of cost is fixed costs—costs, or expenses, that are the same no matter how many units of a good are produced. Mortgage payments and property taxes are two examples of fixed costs. It makes no difference whether your company produces no bicycle helmets or a very large number, fixed costs remain the same.

Variable Costs

Another kind of cost is variable costs. Variable costs are expenses that change with the number of products produced. Wages and raw materials are examples of variable costs. These expenses will increase as production grows. Conversely, these expenses will decrease when production decreases.

Total Costs

If we add fixed costs to variable costs, we have total costs. Suppose you want to compute total costs for a month. If fixed costs are \$1,000 for the month and variable costs are \$500, then total costs are \$1,500 for the month. Many businesses focus on average total cost. To arrive at average total cost, simply divide the total cost by the quantity produced. For example, if the total cost of making bicycle helmets is \$1,500 and 50 are produced, then average total cost is \$30 ($\$1,500 / 50 = \30).

Marginal Costs

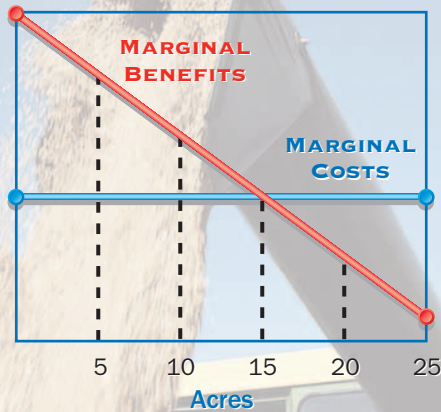
One final and very crucial cost concept remains—marginal cost. **Marginal cost** is the extra, or additional, cost of producing one additional unit of output. Suppose total cost is \$1,500 to produce 30 bicycle helmets, and \$1,550 to produce 31 helmets. What is the marginal cost of the additional (31st) unit? The change in total cost is \$50 and the change in the number of units is 1, so the marginal cost is \$50.

Opportunity Cost Making decisions involves opportunity costs.
What do you think is the opportunity cost of attending college?





Cost-Benefit Analysis



Analyzing Graphs

As long as the marginal benefit of farming more acres exceeds the marginal cost, the farmer is better off farming more acres. At what point should the farmer stop farming more acres?

Businesses use two key measures of revenue to decide what amount of output will produce the greatest profits. The first is total revenue, and the second is marginal revenue.

Total revenue is the number of units sold multiplied by the average price per unit. If 42 units of a product are sold at \$2 each, the total revenue is \$84.

Marginal Revenue

When a business is thinking about a change in its output, it will consider how its revenue will change as a result of that change in output. What will be the additional revenue from selling another unit of output? Marginal revenue is the change in total revenue—the extra revenue—that results from selling one more unit of output.

Marginal Benefit

Finally, we usually do something because we expect to achieve some benefit. In other words, we are concerned with the **marginal benefit**, the additional or extra benefit associated with an action. When we define our costs and benefits in marginal terms, we can then proceed to our cost-benefit decisions.

Reading Check Identifying What do economists call the next best alternative that had to be given up for the one chosen?

Cost-Benefit Analysis

Once we define the marginal costs and benefits of a decision, we can analyze the decision. To do this analysis, economists create an economic model called a **cost-benefit analysis**. This analysis requires you to compare the marginal costs and marginal benefits of a decision. Rational economic decision making tells us to choose an action when the benefits are greater than the costs. If the costs outweigh the benefits, we should reject the chosen option (or alternative).

Using Cost-Benefit Analysis

The graph on this page shows a sample cost-benefit analysis. Suppose you are a farmer trying to decide how much of your 25 acres to plant with wheat. Assume that the marginal (or extra) cost of planting and harvesting the wheat is the same for all 25 acres. As a result, the line showing marginal cost would be a horizontal line.

Let's assume, though, that some of the land is better than others. As a result, the size of the harvest that you can expect from each acre goes down as the number of acres increases. After all, you would plant the most fertile land first. As more



land is planted, you must use land that is less productive. As the graph on page 413 shows, the line representing marginal benefit would be downward-sloping, indicating diminishing marginal benefits.

The information in the graph makes it easy to decide how much land you should plant. Clearly, you should plant the first 5 acres, because the marginal cost is low when compared with the marginal benefits to be gained. It would also be beneficial to plant 10 acres, even though the benefits are a bit lower. In fact, it would make sense to plant up to 15 acres because to that point the marginal benefit is greater than the marginal cost. However, you would not want to plant more than 15 acres. After 15 acres, the extra cost is greater than the extra benefit.

Answering the Basic Questions

The previous example shows how to use a cost-benefit analysis to answer the question of how much to produce. The same method can be used to answer other basic economic questions.

For instance, you could prepare a similar graph showing the costs and benefits of planting those 25 acres with crops other than wheat.

Then you compare the results for all the different crops. Assuming the marginal costs are the same for all crops, the one that produces the greatest marginal benefits is the one you should plant. In this way, cost-benefit analysis can be used to answer the question of WHAT to produce.

You can also use this method to decide FOR WHOM to produce. Think of the costs and benefits of selling your wheat in a nearby town compared to selling it in a town 100 miles away. Shipping the wheat farther will probably cost more than trucking it locally, so that makes the marginal benefit of selling it nearby greater.

CIVICS Online 
Student Web Activity Visit civ.glencoe.com and click on **Student Web Activities—Chapter 18** to learn more about protecting consumer decisions.

 **Reading Check** **Describing** What is the purpose of cost-benefit analysis?

SECTION 2 ASSESSMENT

CIVICS Online  **Study Central™** To review this section, go to civ.glencoe.com and click on **Study Central™**.

Checking for Understanding

- Key Terms** Use each of the following terms in a sentence that will help explain its meaning: **trade-off, opportunity cost, marginal cost, marginal benefit, cost-benefit analysis.**

Reviewing Main Ideas

- Explain** What does making a trade-off require you to do?
- Describe** In what way is marginal benefit related to economic choice?

Critical Thinking

- Making Comparisons** How do fixed costs differ from variable costs?
- Categorizing Information** Identify a large purchase you would like to make. What are the trade-offs involved and what are the criteria you use to evaluate the alternatives? Illustrate your decision in the form of a grid like the one below.

Alternatives	Criteria 1	Criteria 2

Analyzing Visuals

- Infer** Study the graph on page 413. Should the farmer plant more than 15 acres? Why?

★ BE AN ACTIVE CITIZEN ★

- Compare** Because your time is limited, you are constantly facing trade-offs. Make a list of the trade-offs you have made in choosing how you used your time during a one-week period. What activities did you choose to do? What were the opportunity costs involved in your choices?

Critical Thinking SKILLBUILDER

Reading a Circle Graph

Why Learn This Skill?

Today, we can gather a great many facts and figures. Presenting the facts and figures in organized ways makes them more understandable. A circle graph, sometimes called a pie chart, organizes data visually. Its circular shape represents a whole amount. The wedge-shaped sectors inside the circle represent particular parts of the whole. Reading circle graphs can help you see relationships and make comparisons.

Learning the Skill

To read a circle graph, follow these steps:

- Examine the title of the graph. The title tells you what the graph is about, or the kind of information the graph displays.
- Look at the sectors dividing the circle into parts. The size of each sector tells you its portion of the whole.

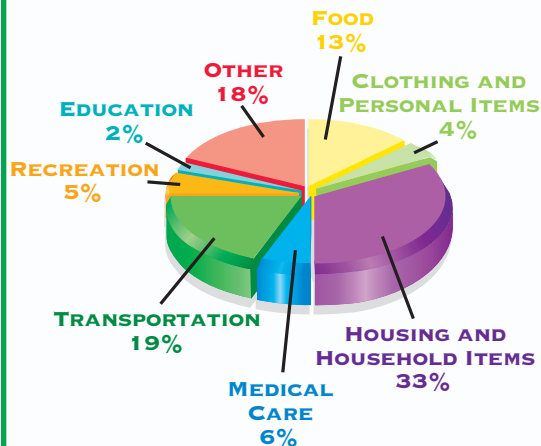
- Examine the labels for each sector. The name of a sector tells you the category of information it represents. The sector labels usually give mathematical data, or statistics, as well. The data may be shown as percentages or perhaps actual amounts.
- Study the sizes of the sectors. See how they relate to the whole. See how the size of each sector compares with the sizes of other sectors.

Practicing the Skill

On a separate sheet of paper, answer the following questions about the circle graph on this page.

- 1 What kind of information does the graph illustrate?
- 2 How many sectors are included?
- 3 What category takes up the largest sector?
- 4 How does the largest sector compare with the whole?
- 5 How does the amount spent on recreation compare with the amount spent on education?
- 6 What category represents the smallest amount of consumer spending?

**Personal Consumer Spending
in the United States, 2003**



Source: U.S. Bureau of the Census, 2003.

Applying the Skill

Locate a circle graph in the news, library, or your school resources. Write three sentences based on the graph: one sentence describing the kind of information displayed, one relating a sector category with the whole, and another comparing two individual sectors.



Practice key skills with Glencoe's
Skillbuilder Interactive Workbook
CD-ROM, Level 1.



SECTION

3

Being an Economically Smart Citizen

GUIDE TO READING

Main Idea

In a market economy, people and businesses act in their own best interests to answer the WHAT, HOW, and FOR WHOM questions.

Key Terms

market economy, capitalism, free enterprise, incentive, rational choice

Reading Strategy

Organizing Information

As you read this section, complete a diagram like the one below by describing your rights and responsibilities in a market economy.



Read to Learn

- Why is it important to be informed about economic activity?
- What is rational choice?



Americans in Action

“There are two senses in which increasing economic literacy contributes greatly to the functioning of our society. First, a free-market economy works well only when the participants—producers, consumers, savers, investors—have the information they need to make intelligent decisions. Second, democracy works well only when citizens participate, vote and make their views known to public officials. Without a basic understanding of how the economy works, what the essential terms and concepts are, the average citizen is likely to feel completely left out of any conversation, whether in the media or around the water cooler, about what is happening in the economy and what to do about it.”

—Alice Rivlin, former Vice Chair, Board of Governors of the Federal Reserve System, May 13, 1999



Making democracy work

Understanding Your Role in the Economy

To be good economic citizens, we must be informed. This means that we need to have an understanding of what part we play and how we affect the economy, and how the economy affects us. We have a **market economy**. This is an economic system in which supply, demand, and prices help people make decisions and allocate resources. Most economic decisions are made by individuals looking out for their own and their families’ self-interests. A market economy is a participatory economy because the choices you make as a consumer affect the products that businesses make. Your choices also affect the prices that businesses receive for their products. Likewise, the products offered and their prices affect the choices you make. When people understand that they are a part of a larger process, their self-esteem rises.



A market economy is sometimes described as being based on **capitalism**. This is a system in which private citizens own most, if not all, of the means of production. A market economy is also based on **free enterprise**, because businesses are allowed to compete for profit with a minimum of government interference. Both “capitalism” and “free enterprise” describe the economy of the United States.

Keeping Informed

Keeping informed about how our economy works means developing an awareness of other features of the economy. You will learn about many aspects of our economy in later chapters. Keeping informed also means reading news stories, listening to news reports, and gathering information about the economic activities of business and government.

Understanding Incentives

Another important part of being economically smart citizens is understanding how economic incentives influence behavior. **Incentives** are rewards that are offered to try to persuade people to take certain economic actions. Price is one incentive, but there are many others. Businesses offer bonuses to salespersons who sell more of a product than expected. Credit-card companies offer low interest rates to try to convince consumers to choose their credit cards. Knowing how these incentives work can help individuals make wise choices about them.

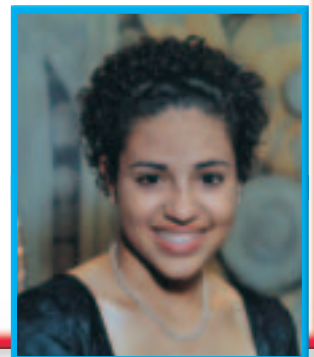
Understanding the Role of Government

Understanding how our economy works also helps us understand the proper role of government in our economy. For example, if we understand how competitive markets establish prices, then we can see

When Barbara Brown of Victoria County, Texas, said, “Don’t Be Crude,” she meant it. She was not talking about being impolite—she was referring to the oil recycling program that she and two fellow 4-H friends drummed up in 1997. Don’t Be Crude started when Brown’s friend saw her father pouring used motor oil onto the ground—a common practice among the people of her area. The girls worried that the oil was polluting the land and groundwater. They felt they had to take action and started at the county level.

“We went to the county government and talked about starting oil recycling sites,” says Brown. “We also talked to a local oil recycling company, and the Texas Natural Resource Conservation Commission.” Soon after, Brown told TIME, Don’t Be Crude was given county approval. A recycling company set up several storage tanks in the area. The used crude was eventually carted away and made into asphalt for Texas highways. Today, there are six recycling sites in Victoria County alone, serving more than 30,000 people. At least two neighboring counties also participate in the program.

“The response [was] great,” says Brown, who has received the Environmental Protection Agency’s (EPA) Presidential Environmental National Youth Award, and the Texas Conservation Commission Environmental Excellence Award. Now Brown also works as an adviser to Earth Force, a youth-led environmental group.



Barbara Brown
from Texas



why it is important for government to let this process work. As a result, economists argue that the role of government should be

to maintain competitive markets, not to intervene to establish prices for the benefit of one group or another.

At the same time, there are a number of services such as public education, national defense, justice, and even welfare that the private sector does not provide. A major role of government is to provide these services.

The government also plays important roles in the economy as a whole. For example, the government tries to make markets competitive. Competition forces firms or businesses to use the society's resources more efficiently to produce not only the goods and services that people prefer, but also to produce quality products at low costs. With low costs of production, consumers benefit by paying low prices for products.

Finally, the government influences the decisions of people and businesses by rewarding or punishing certain actions. It can offer "carrots"—incentives—to encourage people to take certain actions. For example, the government can encourage the consumption of services such as education by awarding scholarships and financial aid. The government can encourage the production of goods through subsidies (grants of money), for example, farm subsidies. The government can also use taxes as "sticks" to discourage other actions. For instance, tax laws can punish companies that cause pollution. The government can also discourage the consumption of goods by imposing high taxes on them. An example of such a tax is the cigarette tax.

Reading Check **Describing** What are incentives?

Making Wise Choices

The ultimate goal of being an economically literate citizen is to be able to make wise choices. Good decision making leads to more satisfaction because we consider all the costs and benefits before making a decision.

American Biographies



Stephen Wozniak

(1950–)

Steven Jobs (1955–)

Before the two Steves—Wozniak and Jobs—started tinkering with electronic gadgets, there was no such thing as a "personal" computer. "Woz" and Jobs had an idea, however. They wanted to figure out how to bring huge, complicated computers to ordinary people. Woz created the

machine—a cross between a television and a typewriter—and the software to run it. Jobs planned the company to build and sell the computer.

To raise capital, the two entrepreneurs sold Jobs's van and Woz's calculator for a total of \$1,350. Jobs was 21 and Woz was 26. On April 1, 1976, the company—Apple Computer—

opened for business in Jobs's garage. That May, a local store owner bought 100 computers at \$500 each. The two partners used the profits from the Apple I to develop the Apple II. It came with the first disk drive and floppy disk for a personal computer, which had been invented by Woz in two weeks. It was soon the top-selling computer in the world. Jobs and Woz became multimillionaires.



More inventions followed, including the highly successful Macintosh. The two friends eventually went their separate ways, but not before bringing a revolution to the whole computer industry—all for an investment of \$1,350.





When you make consumer decisions based on opportunity cost, you are engaging in rational choice. **Rational choice** is choosing the alternative that has the greatest value from among comparable-quality products. As a consumer, you will make rational choices when you purchase the goods and services you believe can best satisfy your wants for the lowest possible costs.

Do not get the impression that wise consumers will all make the same choices. Remember the definition: A rational choice is one that generates the greatest *perceived* value for any given expenditure. Rational choices that are based on careful consumer decision making will still lead to billions of different consumer choices yearly.

Being an economically smart citizen will help you to use scarce resources wisely. Resources are scarce in the world today, and they are likely to become even more scarce in the future. If each of us uses those resources wisely, society as a whole benefits. In this way, wise decision making by individuals benefits society.

In a sense, the economic decisions we make are similar to the political decisions we make. A successful democracy is based

\$

Economics and You

Microeconomics and Macroeconomics

As you read this textbook, keep in mind that economics is divided into two branches. In microeconomics, economists look at the small picture. They study the behavior and decision making by small units such as individuals and businesses. Macroeconomics looks at the big picture. It deals with the economy as a whole and decision making by large units such as government. Think of other terms you know that start with the prefixes *micro* and *macro*.

on an informed electorate. When we go to vote for political candidates, we are expected to understand the issues so that we can make the best possible choices. The same is true when we cast our dollar “votes” for goods and services. Being fully informed is the best way for all of us to make the best choices.

Reading Check Explaining Do all rational consumers think alike? Why or why not?

SECTION 3 ASSESSMENT



Study Central™ To review this section, go to civ.glencoe.com and click on **Study Central™**.

Checking for Understanding

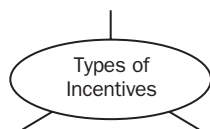
- Key Terms** Use each of the following terms in a sentence that will help explain its meaning: **market economy, capitalism, free enterprise, incentive, rational choice.**

Reviewing Main Ideas

- Identify** What is an incentive? Provide an example of a government incentive.
- Explain** Why must we use our resources wisely?

Critical Thinking

- Analyzing Information** Explain the importance of the consumer in a market economy.
- Organizing Information** Complete a diagram like the one below, and list different types of incentives.



Analyzing Visuals

- Write** Look at the photograph on page 405. Write a caption for the photograph that includes the terms *incentive* and *rational choice*.

★ BE AN ACTIVE CITIZEN ★

- Record** For one week, keep track of all your economic decisions—the money you spend and the choices you make. Be aware of each decision and your reasons for making it.

Assessment & Activities

Review to Learn

Section 1

- The fundamental economic problem is scarcity.
- Economists define needs as those things that are necessary for survival.
- Wants are those things we desire but are not needed to survive.



Section 2

- Individuals face trade-offs among alternatives.
- The opportunity cost of an economic decision is the alternative given up when one course of action is chosen over another.
- Cost-benefit analysis is a process that involves comparing the costs of a course of action to its benefits.

Section 3

- In a market economy, people and businesses act in their own best interests to answer the WHAT, HOW, and FOR WHOM questions.
 - The economic system of the United States is based on capitalism and free enterprise.
 - The study of economics helps people make informed decisions.



FOLDABLES™ Study Organizer

Using Your Foldables Study Organizer

Use your completed foldable to make a list of ways in which people can be economically smart citizens. See who can create the longest list.

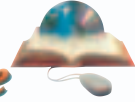
Reviewing Key Terms

Write the key term that matches each definition below.

1. a basic requirement for survival
2. the term for a market economy in which the productive resources are privately owned
3. the study of how people satisfy seemingly unlimited and competing wants with the careful use of scarce resources
4. the problem that results from a combination of limited resources and unlimited wants
5. an alternative that must be given up when one choice is made rather than another
6. the cost of the next best alternative use of money, time, or resources when one choice is made rather than another
7. when you choose the alternative that has the greatest value from among comparable-quality products
8. a reward offered to try to persuade people to take certain economic actions
9. a representation that describes how the economy works or is expected to perform
10. a good or service that makes life more comfortable but is not required for survival

Reviewing Main Ideas

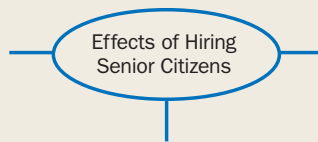
11. What are the three basic economic questions?
12. Why is an economic model useful?
13. What do economists call exchanging one good or service for another?
14. What is marginal cost?
15. When we make an economic choice, we expect to gain something from it. What do economists call this gain?
16. What economic model helps you compare the marginal costs and marginal benefits of a decision?
17. What is capitalism?
18. Why can our economy be defined as a participatory economy?



Self-Check Quiz Visit the *Civics Today* Web site at civ.glencoe.com and click on **Self-Check Quizzes—Chapter 18** to prepare for the chapter test.

Critical Thinking

- 19. Categorizing Information** Your friend says, “I need some new clothes.” Under what conditions would this be expressing a need? A want?
- 20. Understanding Cause and Effect** Assume you want to make a model to describe the effects of hiring senior citizens into previously held teenage job markets. What factors would you analyze?



- 21. Drawing Inferences** Nick is planning on attending college. The tuition is \$10,000 per year. Assuming Nick goes to college for four years, is the opportunity cost of his attending college \$40,000? Why or why not?

Practicing Skills

Reading a Circle Graph Study the circle graph on page 415. Then answer the following questions.

- 22.** What are the top three categories of consumer spending?
- 23.** Draw a circle graph like the one shown. Develop your own categories that reflect how you spend your income. Then calculate the amount you spend in each category.



Economics Activity

- 24.** List your five favorite foods. Then visit five different food stores, or scan food advertisements in newspapers, and compare the prices of your listed items at each store. Explain why you think the stores had similar or different prices for each item.

★ CITIZENSHIP COOPERATIVE ACTIVITY ★

- 25.** With a partner, locate a source of statistics on the United States in your library. One

good source would be the *Statistical Abstract of the United States*. Select a topic that has a statistical table, such as the employment rate for different age groups. Study the table. Then write a summary of what the statistics show. Share your findings with the class.

Analyzing Visuals

- 26.** Examine the figure from page 408. Select a specific good. Then list the three economic choices that were made to produce the good.



Technology Activity

- 27.** Search the Internet for recent articles discussing scarcity. Summarize two articles and share your findings with the class.

Standardized Test Practice

Directions: Choose the *best* answer to complete the following statement.

Scarcity results from

- F** trade-offs and opportunity costs.
G limited wants and limited resources.
H limited resources and seemingly unlimited wants.
J the cost of the next best alternative use of resources.

Test-Taking Tip

As you read the stem of the multiple choice question, try to anticipate the answer before you look at the choices. If your answer is one of the choices, it is probably correct.