

P R E N T I C E H A L L

ECONOMICS

Principles in Action

Guide to the Essentials of Economics



Needham, Massachusetts
Upper Saddle River, New Jersey

TO THE TEACHER

The *Guide to the Essentials of Economics* is designed to provide students with the most essential content in their high school Economics course in an easy-to-follow format. The text summaries and graphic organizers will help students organize key information. Vocabulary terms are highlighted and defined in the text narrative, as well as in the Glossary. A chapter test at the end of each chapter checks students' understanding of the basic content.

You may wish to use the *Guide to the Essentials* as a preview or review of the textbook chapters covered in the course, or as a summary of textbook chapters that cannot be studied in detail because of time considerations.

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NATIONAL STANDARDS FOR ECONOMICS

The following guide presents the correlation of the voluntary *National Content Standards in Economics* to Prentice Hall's *Economics: Principles in Action*. The standards were developed by the National Council on Economic Education in partnership with the National Association of Economic Educators and the Foundation for Teaching Economics. The chart on these four pages lists the standards for grades 4-12 and shows which chapters in *Economics: Principles in Action* focus on each standard. The economic principle for each standard is identified in the left column; the chapters that address each standard are listed in the right column.

<p>Content Standard 1</p> <p><i>Students will understand that:</i></p> <p>Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.</p>	<p>Chapter 1</p>
<p>Content Standard 2</p> <p><i>Students will understand that:</i></p> <p>Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something; few choices are all-or-nothing decisions.</p>	<p>Chapter 1</p>
<p>Content Standard 3</p> <p><i>Students will understand that:</i></p> <p>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.</p>	<p>Chapter 2</p>
<p>Content Standard 4</p> <p><i>Students will understand that:</i></p> <p>People respond predictably to positive and negative incentives.</p>	<p>Chapters 2, 4, 5</p>

Content Standard 5

Students will understand that:

Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.

Chapter 17

Content Standard 6

Students will understand that:

When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.

Chapter 17

Content Standard 7

Students will understand that:

Markets exist when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

Chapters 4, 17

Content Standard 8

Students will understand that:

Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

Chapters 5, 6

Content Standard 9

Students will understand that:

Competition among sellers lowers costs and prices, and encourages producers to produce more of what consumers are willing and able to buy. Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.

Chapter 7

Content Standard 10

Students will understand that:

Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and well enforced property rights, is essential to a market economy.

**Chapters
8, 10, 11**

Content Standard 11

Students will understand that:

Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services.

Chapter 10

Content Standard 12

Students will understand that:

Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, thus affecting the allocation of scarce resources between present and future uses.

Chapter 11, 16

Content Standard 13

Students will understand that:

Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.

Chapter 9

Content Standard 14

Students will understand that:

Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

Chapter 8

Content Standard 15

Students will understand that:

Investment in factories, machinery, new technology, and the health, education, and training of people can raise future standards of living.

**Chapters
3, 12, 18**

Content Standard 16

Students will understand that:

There is an economic role for government to play 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.

Chapters 3, 14

Content Standard 17

Students will understand that:

Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

Chapter 15

Content Standard 18

Students will understand that:

A nation's overall levels of income, employment, and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies, and others in the economy.

Chapter 12

Content Standard 19

Students will understand that:

Unemployment imposes costs on individuals and nations. Unexpected inflation imposes costs on many people and benefits some others because it arbitrarily redistributes purchasing power. Inflation can reduce the rate of growth of national living standards, because individuals and organizations use resources to protect themselves against the uncertainty of future prices.

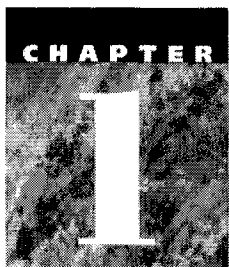
Chapter 13

Content Standard 20

Students will understand that:

Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

**Chapters
13, 15, 16**



What is Economics?

SECTION 1

SCARCITY AND THE FACTORS OF PRODUCTION

TEXT SUMMARY

People always have to make decisions about how to meet their needs and wants. A **need** is something people must have to survive, like air, food, and shelter. A **want** is something that people would like to have but is not necessary for survival. Economics is the study of how people make choices to satisfy their needs and wants.

People have to make such choices because of **scarcity**, the limited amounts of resources to meet unlimited desires.

Goods are objects, like cars and clothes. **Services** are actions that people do for others, such as teaching. A **shortage** occurs when a good or service is unavailable. Shortages occur when people have

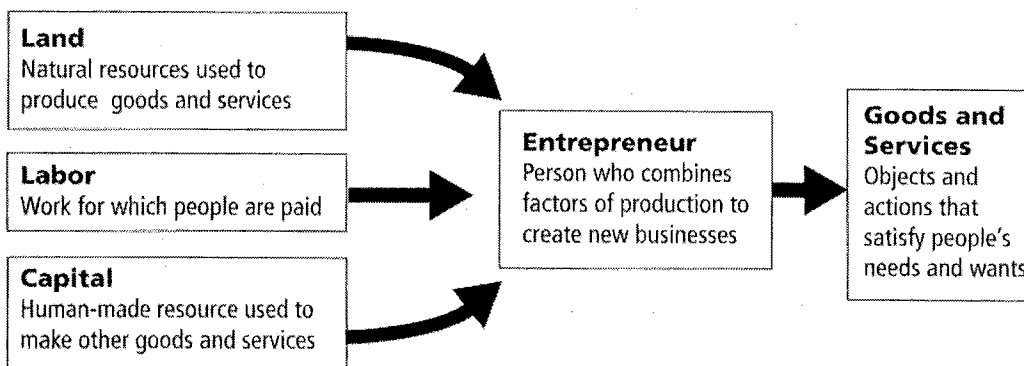
trouble supplying goods and services at current prices. Shortages may occur because of situations like war or drought. They may end quickly or last a long time.

Economists call the resources used to make goods and services **factors of production**. There are three types: land, labor, and capital. **Land** includes natural resources like coal, water, and forests. **Labor** is work for which people receive pay. **Capital** is a human-made resource used to produce other goods and services. Objects made by people, like buildings and tools, are called **physical capital**. **Human capital** refers to the knowledge and skills people gain from study and experience. **Entrepreneurs** are people who put together land, labor, and capital to create new businesses.

THE BIG IDEA

Economics is the study of how people choose from limited resources to meet their needs and wants.

GRAPHIC SUMMARY: The Factors of Production



The three factors of production—land, labor, and capital—are used to create goods and services.

REVIEW QUESTIONS

1. What is scarcity?

2. **Diagram Skills** What is the name of any human-made resource that is used to make other goods and services?

