

It's the

Economy



A HOT TOPICS HOT SERIALS NEWSPAPER SUPPLEMENT FROM



The Economy

What Does It All Mean?

Economics is the study of how individuals, groups, or nations allocate their limited resources to satisfy their unlimited wants and needs. In other words, economics is how we give people what they want when there is never enough to go around. The economy is the term we use to identify the economic system of an individual country or area.

For example, imagine that someone has brought three candy bars into your classroom and asked if anyone wants one. Chances are that more than three people would want one. How would your class decide how to distribute the three candy bars? Look back at the meaning of economics. In this example, the candy bars are the limited resources because more than three people want them. Deciding who gets them is where your class would "allocate" (give out) the "limited resources" (the candy).

So, how would you decide who gets the candy? Write an essay explaining a fair way to distribute the candy. That will be your economic plan. And, whether it goes well or badly will decide the condition of the economy in your class.

The word "economy" comes from a Greek word meaning, "one who manages a household." As you learn about the economy, think about the ways in which we are managing our country's household.

Why Study Economics?

Economics is everywhere. It affects your life and the life of everyone around you. When you decide which things to buy and use, that's economics. When you vote for a candidate because you think he or she will help people have more money, that's economics. Anything you have, use, buy, read, wear, live in, drive, work with, eat, play with, or just think about is somehow connected to economics. Whew! That's a lot to understand, but it will be worth the work. Understanding economics gives you the power to make decisions that will improve your life.

You already know the most important fact about economics: You can't have everything you want. You must choose some things and give up others. You can see how choosing wisely could make a big difference in getting at least some of what you want and all of what you need.

The National Council on Economic Education has written some standards – things you should know in order to understand economics.

Throughout this section, we will explain each of those standards ("**What to Know**") and some important keywords ("**Words to Know**").



Learning Activities

Skill: Identifying ways of spending money

Aunt Sally gave you \$100 for your birthday. Shop in the newspaper and pick out five things you would buy for yourself. Then narrow your five choices to the one item you most want. Write a description of your five choices, and explain how and why you picked the final one.



Smart Choices

What to Know:

People cannot have all the goods and services they want because supplies are limited. They must choose some things and give up others.

You Choose!

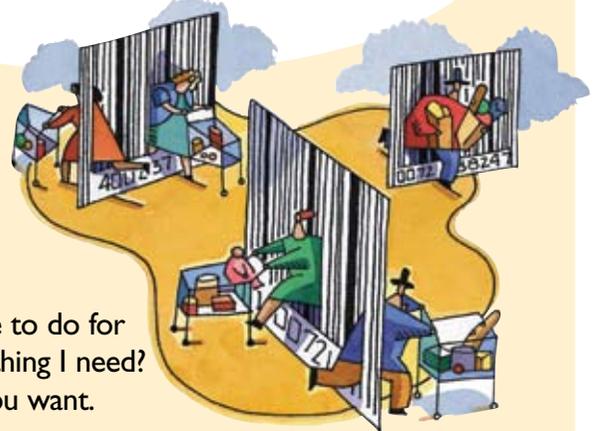
How can you choose what to buy so that you get the most for your money? You can become a smart consumer who gets information that leads to getting a good deal. There are two easy steps. Step one on your path to economic understanding is deciding what to buy. Step two is shopping carefully.

Before you buy either goods (things you can touch) or services (tasks you pay someone to do for you, such as cutting your hair), ask yourself a question: Is this something I want or something I need? The things you need are those things that keep you alive. Everything else is something you want.

Once you decide how important an item is, you choose whether it is really something you have to buy. Then you work on getting the best deal.

Words to Know:

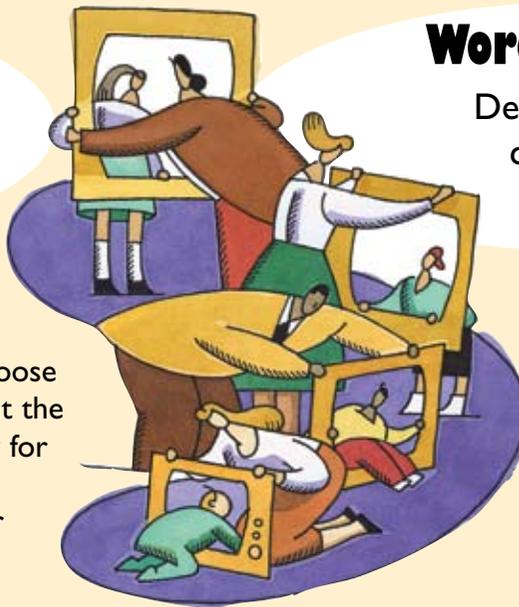
Scarcity, choice, goods, services, wants, opportunity, cost, consumer



What to Know:

Most choices involve doing a little more or a little less of something. Few choices are "all or nothing" decisions.

Let's say you're buying a television set, and you're looking for the best possible deal. You can choose a set that simply lets you watch shows, or you can choose a set that comes with lots of fancy features. You want the TV, but maybe you don't need to spend extra money for one that answers your phone and folds your laundry. Hey, you can do that yourself, right? Here is an ad for television sets. Look carefully to see why the sets sell for different prices. Which would you buy? Why?



Words to Know:

Decision-making, cost, benefit



BIG SALES BLOWOUT!



\$219 32" 720P LCD
HDTV 60Hz



\$498 32" 1080P LCD
HDTV 240Hz



\$898 32" 1080P LCD
HDTV 600Hz

Learning Activities

Skill: Understanding concepts of an economic system

1. List the goods and services your family uses every day. Can you find any advertised in the news?
2. Find three things you want and three things you need advertised in today's news.



Everybody Wins!

What to Know:

Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or in different nations.

In voluntary exchange, everyone wins. Let's say you baby-sit for a couple because they will pay you \$10. They pay for the work because they get the childcare that makes it possible for them to go out. You and the couple make a trade – your time for their money, and you both win. You could also trade things without money. For example, you and a friend decide to trade bikes. This kind of exchange, without money, is called barter, and it is the oldest form of trading. Write about a trade you made, either with money or without.

Words to Know:

Exchange, barter



Isn't that Special?

What to Know:

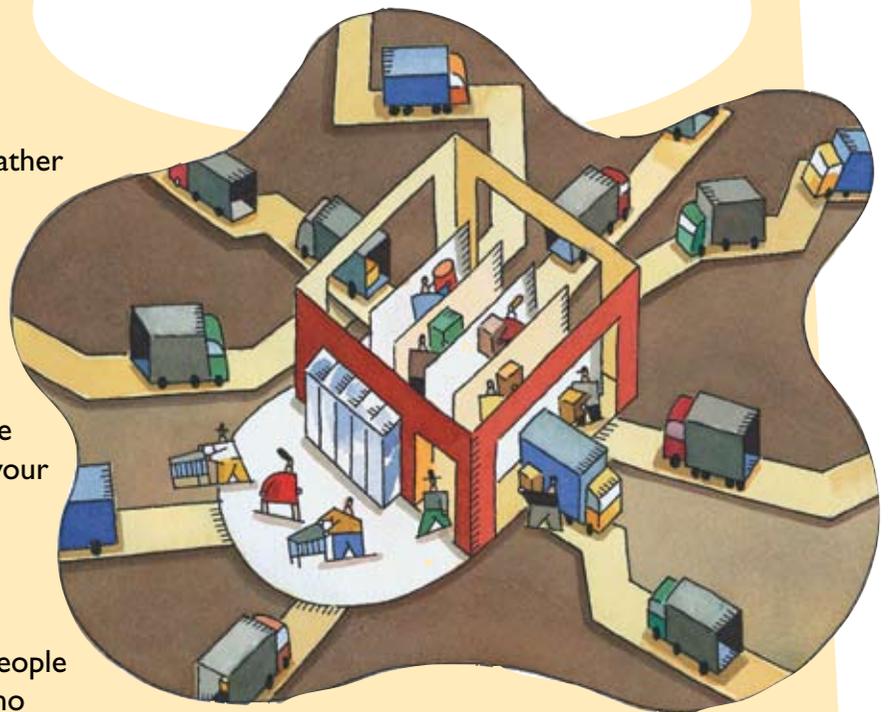
When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.

Coffee beans grow in warm climates. So countries with warm weather all year can grow coffee beans for less money than in the United States, where it isn't warm all year. It makes sense for the United States to import coffee beans from a country that specializes in growing them and can grow them more cheaply. (Imports are items we buy from another country, while exports are those we sell.) Look at the tags on the clothes you are wearing to see whether they are imported. How did importing your clothes benefit the countries involved?

People specialize too. Your teacher went to college to learn how to teach. A factory worker is trained to do his or her job well. The economy depends on specialization to give people the goods and services they need. That way, the person who cuts your hair can be an expert at cutting hair, while your doctor knows just how to keep you healthy.

Words to Know:

Imports, exports



Learning Activities

Skill: Understanding the interdependence of economies in the world

1. Find a story about conflict somewhere in the world. Write an essay about how that conflict affects the economies of the countries involved.
2. Find five jobs in the Help Wanted section that require specialization.



Supply & Demand

What to Know:

Markets exist when buyers and sellers interact. That interaction sets market prices and allocates scarce goods and services.

Words to Know:

Markets, prices, producers, consumers, demand, supply

A great new DVD has just come out and all 30 people in your class want to buy it. Lucky you! You have 10 to sell. Would you sell them for \$10 each, or would you charge \$20 if you thought your classmates wanted them badly enough to pay that much? Meet supply and demand. The supply is the 10 DVDs; the demand is the 30 people who want that DVD. Supply and demand determine how much things cost. When demand is high and supply is low, prices are high. What happens when supply is high and demand is low? Suppose you have 10 DVDs but only one person wants to buy. What would you charge then?



What to Know:

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

Words to Know:

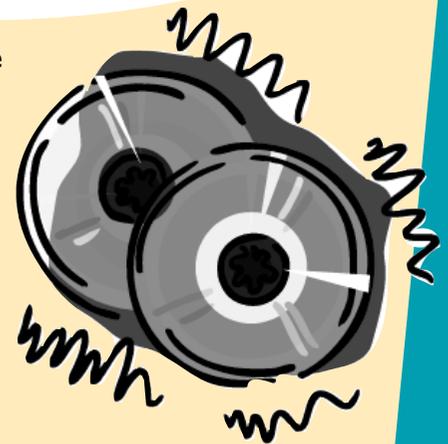
Price ceilings, price floors



Learning Activity
Skill: Understanding supply and demand

Look through the ads in today's newspaper and find three items that are in high demand and three that are in low demand.

What if you have the same new DVD to sell, but another kid in your class does, too? You and that other kid would have to compete for the same buyers. Then what would happen to the price of the DVD?



What to Know:

Competition among sellers lowers costs and prices, and it 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.

Words to Know:

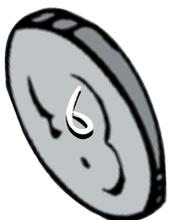
Competition



Learning activity

Skill: Understanding the impact of competition in business

Check the newspaper to find examples of businesses that are competing with each other. How can you tell?



Important Institutions

What to Know:

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.

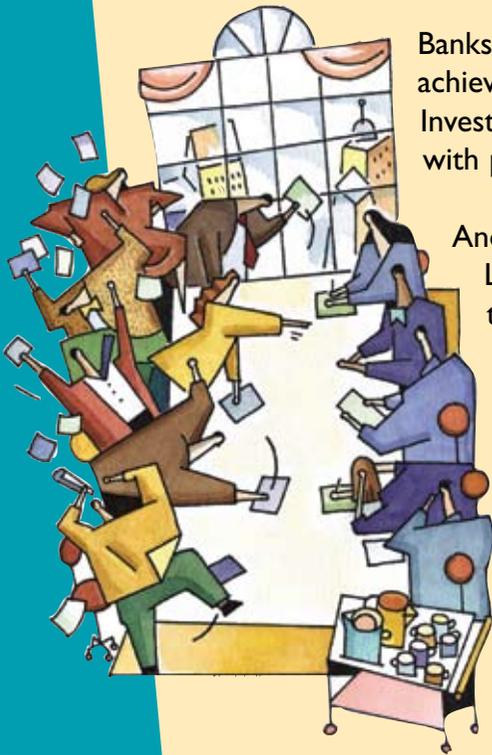
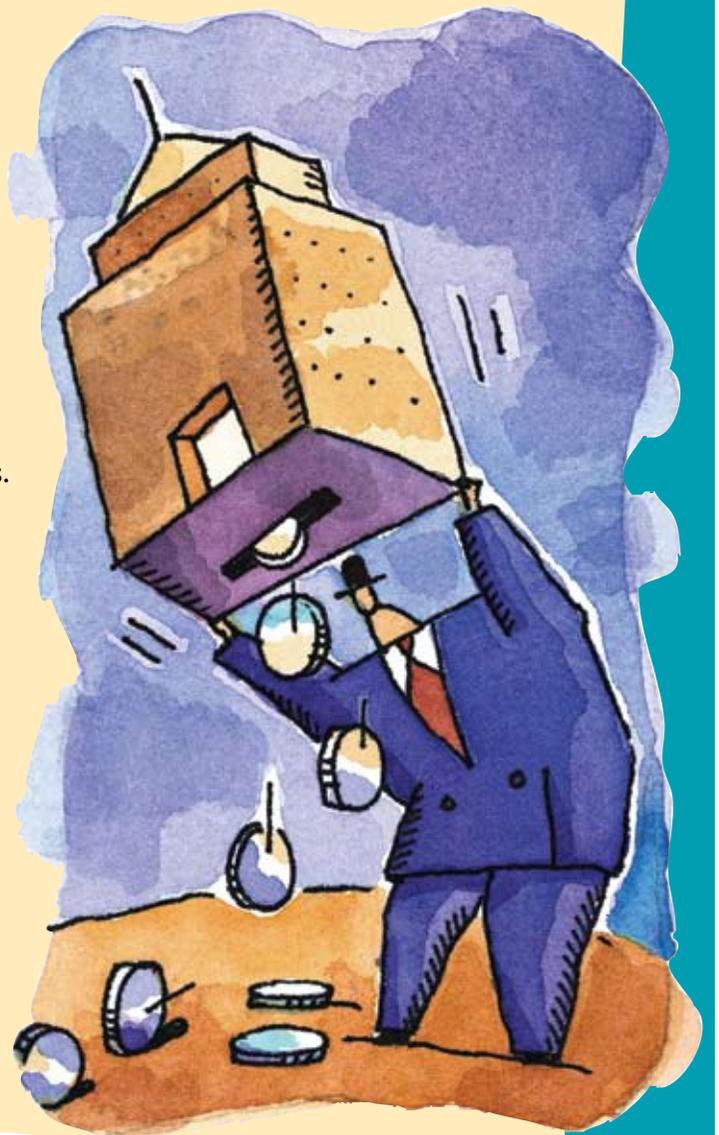
Words to Know:

Economic institutions, banking, saving, interest, savers, borrowers, labor unions

Our economy has organizations set up to help people reach their goals. Banks help people save and earn money. Let's say that you have some money to save. You could take that money to the bank, which will pay you interest in exchange for your permission to let the bank hold your money. You will actually earn money by using money you already have. The bank will then lend your money to people who need to borrow money. So the bank makes money using your money to charge other people money to borrow money. (That money is also called interest; so you earn interest when you save and you pay interest when you borrow.)

Banks match both groups of people to help them all achieve their goals. They match borrowers with savers. Investment banks match businesses that need money with people who want to invest money in business.

Another economic institution is the labor union. Labor unions are groups of people who work together. As a group, these people have more power to make good deals with their employers. You may want to go online and read about the AFL-CIO (the American Federation of Labor/Congress of Industrial Organizations, a group of 66 national and international labor unions). Find them online at www.aflcio.org.



Learning Activities

Skills: Making decisions about banking, recognizing the importance of organizations

1. Find interest rates in today's newspaper. What are banks offering people to encourage them to save?
2. Can you find any stories about labor unions in the news? Which people in the news probably belong to a union? Check for mention of labor unions in the Help Wanted ads.



Make *the* Most Of You

The Price is Right... Or Is It?

When you buy a shirt, who decides the price? Is it the store, the company that made the shirt, or you? Well, it may be all three. First, the manufacturer of the shirt figures out how many shirts are out there for you to buy. If there are lots of shirts, prices will be low. If there are not so many shirts, the prices will be higher. Then the manufacturer guesses how badly you want the shirt. If the manufacturer thinks you want it badly, prices will be higher. Finally, the manufacturer has to know how much it costs to make the shirt and to ship it to the store. At the store, the managers have to figure out how much it costs to buy the shirt and run the store. Only then can someone decide how much to charge you. Finally, when you choose to buy the shirt, you are agreeing that the price is right. If people don't buy things because they are too expensive, sometimes the price comes down.

Opportunity Cost

When you spend money in one place, you give up the opportunity to buy something else or to save that money. While you might really want whatever it is you buy, you must always decide whether buying that thing is how you want to use that opportunity. That is known as "opportunity cost."

Save or Spend?

At one time, people saved money by banking whatever was left after paying their bills. But now the cost of living has gone up so that savings can no longer be something that gets done with your extra money. In today's economy, saving has to be something you do on purpose. If you want to save, and you should, you must have a plan, or budget, that includes savings. And the sooner you start saving, the better. The younger you are when you start saving, the easier it is to accumulate larger sums of money.

Starting to save right now is a great idea because you can begin to enjoy something called "compounding." Compounding means that you earn interest not just on what you put into a bank account but also on the interest that the bank pays you. In other words, you'll earn interest on your interest. Saving in a bank can be a great way to earn some money, but some banks pay higher interest rates than others, so you need to shop around.

Learning Activity

Skill: Analyzing data about banking

Check today's newspaper to see the differences among interest rates at different banks.



NEWS!
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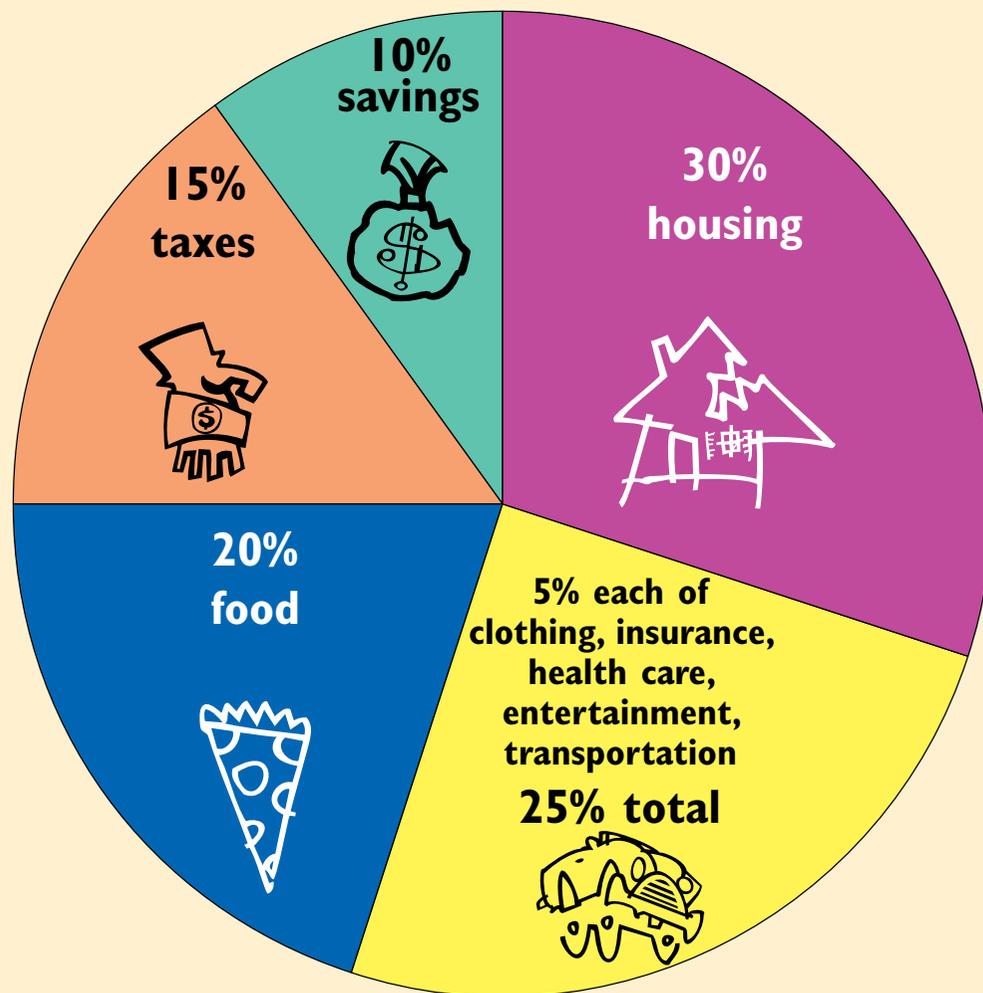
*Use the Newspaper to
Get A Life*

Building a Better Budget

Financial planners suggest that young adults spend their money as shown in this pie chart.

Food, clothing, and shelter are often advertised in the newspaper. Skim the newspaper to find items that are represented in this budget. List what you find. Which category is easiest to locate? Why do you think that is so?

Check the Help Wanted ads to find a job and its monthly salary. Starting with that amount of money, figure out how much you would spend on each budget category. Then, using the newspaper ads, look for a place to live, a car to drive, fun things to do, and anything else that fits each category of the budget.



It Pays to Learn

What to Know:

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

Words to Know:

Investment, standard of living, productivity, technological change, economic growth, intensive growth, opportunity cost, risk, tradeoff, interest rates, incentives

To have a good life in the future, you have to invest right now. Are you thinking that you don't have money to invest? Not to worry. You don't need money. You must invest your time and energy in school, starting right now, in order to earn more money later. Learning will pay off, probably in a big way. The more you know, the better a worker you will be, and the more money you will earn.



Money Matters

What to Know:

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

Words to Know:

Role and function of money

What to Know:

Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed.

Words to Know:

Interest rate

Most people would like to have more money, but the real value of money is found in the goods and services that can be bought with the money. Money makes it easier for people to get what they need or want. When people buy and sell many things, the economy grows, and that's good for everyone. When people don't buy so much, the economy slows, and that's no good.

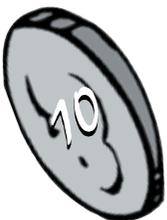
Banks and other lenders help the economy grow by allowing more money to be used in the market. When you put your money in the bank, it joins the money of other savers. Then people and businesses can borrow the money and make more things to sell so that the economy grows.



Learning Activity

Skill: Identifying ways of spending and saving money

When you buy something now and pay for it later, that's known as using credit. You don't actually get more money to spend; you just are promising to pay the money in the future. In fact, when you buy on credit, things might actually cost more because you pay extra to get something now and pay later. Find an ad for a new car and locate its price and APR (annual percentage rate). That's the amount you will be charged to borrow the money to buy the car. How much does it increase the price?



Income

What to Know:

Income for most people is determined by the market value of what they sell and how much they sell.

Everyone earns money by selling either a good or a service. You can make the most money either by selling a lot of something or by being good at the service you sell. You make more money if you are productive – if you sell more things or you get trained well to provide good service. One way you can be productive is to make sure you know what you are doing by getting the right training. Usually, the more training or school you go through, the more you get paid. People pay more for smart, well-trained workers. That's why people who work in fast-food restaurants, where not much training is needed, don't get paid as much as teachers, who need to go through years of school to learn how to teach. That's also why people who don't finish high school often earn less money than people who do get their diploma.

Learning Activity

Skill: Understanding how people earn a living

Check the Help Wanted ads to research the salaries of five different jobs, each with a different amount of school required.

Words to Know:

Labor, human resources, productivity



What to Know:

Entrepreneurs are people who take the risks of organizing resources to make goods and services.

Words to Know:

Entrepreneur, benefit, cost, risk, profit



Cold Cash

You're going to open an ice cream store in a town where it's warm all year round. Can't miss, right? Well, maybe, but businesspeople must look at the cost and the risk. This business will need a store, ice cream machines, freezers, cash registers, counters, and insurance. It will need workers to order supplies and sell ice cream. The owner will have to pay enough to keep the workers happy so that they are nice to customers. The owner will also have to pay tax and keep the price of an ice cream cone low enough for people to buy it. The profit, or income, has to be good enough to outweigh the risk of loss.



The Role of Government

What to Know:

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.

The government pays to build roads, but government workers don't actually build them. The government pays (using your tax dollars) private companies to build the roads. Why? Because the private companies know how to build the roads and can do it better than the government can. The government sometimes makes economic decisions based on what is good for everyone. Other times, the government makes decisions based on what is good for a special interest group. During an election, you need to look carefully at each candidate's economic choices to make sure you vote for someone who wants to run the government the way you think it should be run.

Words to Know:

Role of government; taxes



What to Know:

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.

Words to Know:

GDP (Gross Domestic Product), unemployment

You might think that you don't have to understand the government and its relationship to economics but if you do, you can make better choices when you vote and when you spend. First, you have to know how the economy is doing. That is measured, in part, by the GDP, or Gross Domestic Product. The GDP is the total value, measured in dollars, of all goods and services produced in the economy in one year. Another measure of how the economy is doing is based on unemployment, or the number of people who want to work but don't have jobs.



Inflation & Unemployment

What to Know:

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.

Inflation means prices go up. When things cost more, you can't buy as much, so inflation is not good for the economy. Here's an example. Let's say that a pair of pants cost \$15 last year. If you had \$30, you could have bought two pairs. But suppose inflation raises the price of a pair of pants to \$25 this year. Now you can buy only one pair with your \$30. If people can't buy as many pairs of pants, factories need fewer workers to make pants, and stores need fewer salespeople to sell pants. When more people are out of work, they can't spend money. So you can see how inflation, and its rising prices, hurts the economy.

Sometimes, when people vote for president, they choose someone whom they believe will be good for the economy. What do you think the president or the government can do to control inflation?

Inflation affects the economy in other ways, too. During times of inflation, people may worry that prices will go even higher. When that's a fear, some people would rather save their money than spend it. When people don't spend, the economy slows down.



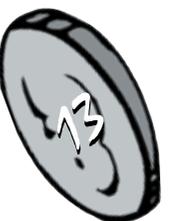
Learning Activity

Skill: identifying problems in an economic system

Check the prices of cars, groceries, and televisions in today's newspaper. Write a list of the prices you find. Ask an adult to look over your list and tell you what some of these things cost when he or she was your age. What does this tell you about inflation? What do you think happens to people who are on a fixed income that doesn't go up with inflation?

Words to Know:

Inflation, unemployment, labor force



Today's Economy Explained

While the economy is always newsworthy, it's been discussed and debated more prominently during the last year or so. Why all the fuss?

It's complicated. But, basically, since our economy has moved into what's known as a recession, more people are paying attention to personal and public financial health.

A recession is a downturn in the economy. Its official definition involves the Gross Domestic Product or GDP. The GDP is the total value, measured in dollars, of all goods and services produced in the economy for one year. When the GDP's growth goes down for two quarters in a row (a quarter means a quarter of a year), that's considered a recession. There is a government agency – the National Bureau of Economic Research – that officially declares a recession. It looks at the GDP but it also looks at unemployment – the number of people who are out of work. When the GDP goes down and many people are unemployed, we're in a recession.

If the economy gets even worse, it can go into a depression. That's when the GDP goes down by more than 10%. The last time that happened was from May 1937 to June 1938. Economists tell us it isn't likely to happen again. They also say that the recession should only last about a year.

How did we get here? Again, it's complicated. But, here's a look back at some of the events that brought our economy to its current condition:

- In the late 1990s, lots of people invested in companies doing business on the Internet. It was new, it was exciting, and it promised great things. Millions of dollars were lost when many of those Internet companies failed to make money. This was known as the "dot com bubble burst." Since so many people lost money, the Federal Reserve – the government agency that controls the flow of money – lowered interest rates so that more people could borrow money and not have to pay so much for it. Interest is the money that one pays in order to borrow money. So, if you borrow \$5 from a friend but pay him back \$6, you've paid \$1 in interest.

- Low interest rates meant that lots of people bought homes. If it's easy to "get credit" and borrow money, people get bank loans and use the money for things they want,

like houses. When interest rates are low, people can afford mortgages (money borrowed to buy houses, usually paid back over many years with interest) more easily than when interest rates are high.

- Mortgage companies sold low-interest loans to some people who really couldn't afford to pay them back. Those were known as "subprime" loans. In some cases, those mortgages were set up so that in the first few years the payments were based on low interest rates but after the first few years, the interest rates could rise and raise the payment.



Recession & Recovery

- In about 2006, interest rates went up as inflation (the rise in the prices of goods and services) increased.
- People who couldn't pay their mortgages lost their homes. The homes were put on sale. Plus, since more and more people couldn't afford to keep their homes, many homes were put up for sale. That brought down the prices (because the supply was more than the demand), making everyone's house less valuable.
- Meanwhile, some of the mortgage companies had sold the loans to banks and other big lending companies. When the borrowers couldn't pay their mortgages, the banks that bought the loans also suffered. When those companies fail, the people who own stock in them or work for them lose money.

Spending Slows

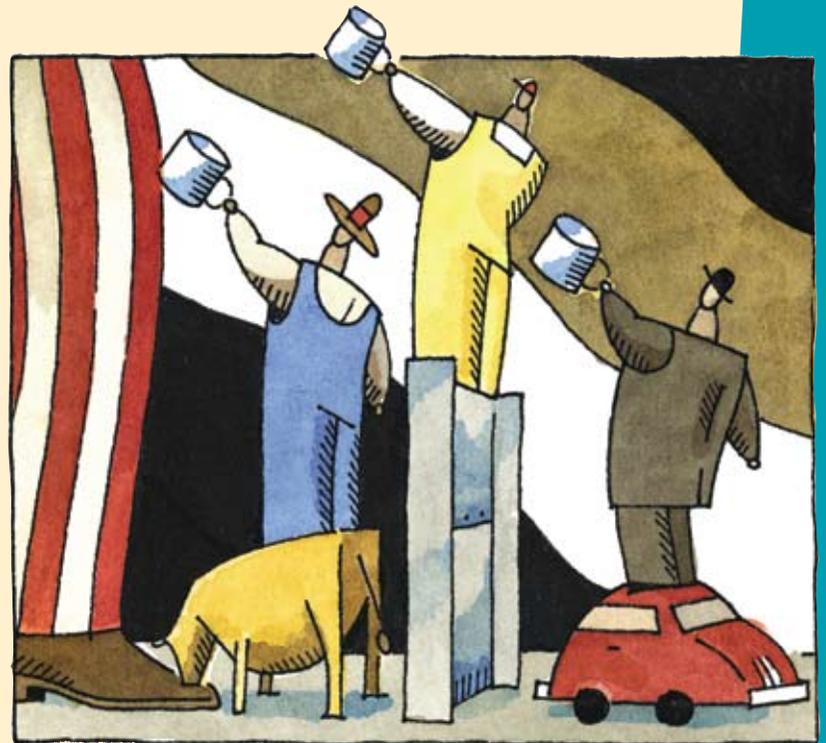
People stopped spending money. They stopped buying things. So, companies that made stuff to sell stopped making as much. Then they didn't need as many workers so people lost their jobs. Plus, companies who aren't doing as much business also experience falling stock prices. Stock prices are based on a company's success. When a company isn't doing well, its stock price drops. Anyone who owns stock loses money. Then those people spend less and so on.

America Bounces Back

You can see that a recession is complex with lots of factors. It's not something that happens overnight. This one goes back many years, before President Obama took office.

But, it's his job, along with other government officials, to fix it. For example, even before Obama's election in fall of 2008, the government invested billions of dollars in banks and lending institutions to help them cover some of the losses from bad loans. Then the government took over several banks and, in 2009 it took over General Motors, a failing car company. They hope to run them better so they can make money again. If banks do better and can lend money again then people can begin borrowing (hopefully more wisely this time) and buying again. More buying, more things will be needed to buy and more people will get jobs making those things.

Obama also plans to invest in "green" jobs, those that are environmentally friendly so that the country's economic rebound is also an environmental boost.



But, the government can't make the economy bounce back without the help of the American people. During a recession, people need to be smarter consumers. They spend and borrow less. They cut back on things they don't really need. Even young people like you are affected. Think about this: How has the economy touched your life? What can you do to make things easier for yourself and your family today?

And, what about tomorrow? By learning about how the economy works, you can make plans for your future so that your personal financial health is strong for life.

This Hot Topics Hot Serials section was:

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Glossary

APR (Annual Percentage Rate): The cost of credit on a yearly basis.

Barter: A voluntary exchange of items.

Budget: A plan that organizes spending and saving.

Competition: The number of buyers and sellers in the market.

Credit: A loan that enables you to buy something now and pay more later.

Demand: The quantity of goods or services that buyers are willing to purchase at the stated price at a given time.

Economics: The study of choices people make to satisfy their unlimited wants.

Goods: Objects that people want or need, such as shirts, cars, or hamburgers.

Gross Domestic Product (GDP): Value of the total output of an economy for a year.

Income: Wages paid for work.

Interest: Money earned on savings or charged to borrowers by lenders.

Market: Any place where buyers and sellers exchange goods and services.

Opportunity cost: What is given up when an economic choice is made.

Profit: Business income minus expenses.

Risk: The chance of loss.

Scarcity: The condition that results when there isn't enough of something.

Services: Things that people do for someone else in exchange for money or other services.

Supply: Quantity of a good or service.

Wages: The price of labor.

