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The GED Social Studies Test

Economics

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California Distance Learning Project
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#19 Passing the GED Social Studies Test

I have enough money to last me the rest of my life, unless I buy something.
Jackie Mason

Video 19 Focus: seeing economics at work in our lives

You Will Learn From Video 19:

- That economics is the study of choices in the face of scarcity.
- That a market economy is driven by individual decisions to buy, save, and borrow.
- That consumer demand influences the price of products.
- That producers adjust supply in reaction to price fluctuations.
- That competition in today's markets is global.
- That governments influence the market in various ways.

Points to Remember:

- Economics is a social science with descriptive rules, not absolutes.
- Real-life money decisions follow the rules described in economics.
- Economic graphs show theoretical or historical relationships between money and events.
- Linking economic theory to events or issues in the newspaper will deepen your understanding.

Words You Need to Know:

While viewing the video, put the letter of the meaning by the correct vocabulary word. Answers are on page 18.

___1. economics	a. the fact that because resources are limited, choices must be made
___2. scarcity	b. the availability of a product as compared to the desire for it
___3. opportunity cost	c. study of choices made by individuals, businesses, and governments
___4. supply/demand	d. rivalry among buyers or sellers to get the best price
___5. competition	e. what is given up to buy another item

Did You
Catch That?

Test your memory (or previous knowledge) of the following points made in *Program #19 – Economics.* After your first viewing of the video, mark each statement below True or False. If False, write the correct information on the line below the statement. (Watch the video again to check your answers, or look on page 18.

T F 1. People study economics to learn the hard and fast rules about investing in the stock market.

____

T F 2. Economists call the choices not selected when we make a buying or investment decision our opportunity cost.

____

T F 3. In the American economic system, the market system, most economic decisions are made by the government.

____

T F 4. The competition of foreign producers brings the prices of goods down, but if we lose too many jobs, we won't be able to afford the product, no matter how inexpensive.

____

T F 5. Getting your GED or learning a new skill has nothing to do with competition in the marketplace.

____

T F 6. Money can be thought of as traveling in an endless circle: workers are paid wages for making products and, in turn, buy goods and services which pay other workers.

____

T F 7. Those who save money are not participating in the economic system and have no effect on the general economic well-being.

____

T F 8. People are not willing to pay extra for the option of buying an item when they wish, rather than waiting to buy it until they can save enough money to pay for it in cash.

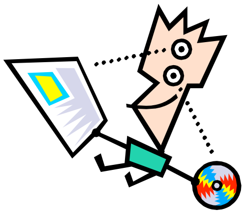
____

T F 9. The government must be able to impose taxes to pay for goods or services the public needs but for which there is no way to link payment with the benefit.

____

T F 10. If I lose my job, the U.S. Bureau of Labor will count me in the unemployment statistics until I find a new job, no matter how long it takes.

____



Scarcity and Opportunity Cost

The economic term for the fact that there is not an endless supply of money, time, or resources is *scarcity*. We can't afford to buy everything we want, and even if we could afford it, there is not enough of any commodity in the world to give every person who wants it all they want of it. If we had an endless supply of money, we would not have to give up one thing to buy another, but even the richest person in the world has only a limited supply of a very important commodity—time. Thus, every decision to buy a product or to use a resource involves an *opportunity cost*.

Every daily decision about what to eat or wear involves a weighing of the costs and benefits of our choices. Health-conscious eaters balance long-term physical well-being against the extra expense and time involved in buying and preparing a balanced meal with lean meat and fresh vegetables. They also have to consider the cost of not tasting their much-loved fish and chips!

Putting on one outfit automatically means we cannot wear any other outfit for that occasion. We might also limit the future times we can wear the outfit chosen.

Exercise

Identify two probable opportunity costs in each of the following situations. Some examples of possible opportunity costs are listed on page 18. Your answers will probably vary.

1. Gertrude buys a DVD player.

   a. ______________________________

   b. ______________________________

2. Alfonso goes to work full-time the day after he graduates from high school.

   a. ______________________________

   b. ______________________________

3. Helena spends Saturday morning surfing.

   a. ______________________________

   b. ______________________________

4. Gregory wears braces for three years to correct his overbite.

   a. ______________________________

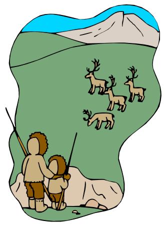
   b. ______________________________

5. (Think of a buying decision you faced.)

   ____

   a. ______________________________

   b. ______________________________



Primitive or Traditional Economies

People managed to feed, clothe, and shelter themselves for tens of thousands of years before the concept of money was introduced. Their social customs integrated the hunting, gathering, food production, manufacture of clothing and tools, and distribution of goods; these activities could not be separated from their daily lives. The concept of scarcity didn't exist for them—social laws determined how each person's needs would be met.

Why Do We Have Money?

Money alone sets all the world in motion.
Publilius Syrus (Maxims, ~100 BC)

Money became necessary when cultures with primitive economies made contact with other cultures. At first the barter system would satisfy—animal furs could be traded for dried fish at the rate agreed upon by the two traders. But when A wanted to trade animal furs for fish, B had seeds but needed furs, and C wanted furs and fish but could only offer to tend crops, the idea of using another means to measure the value of goods and services evolved. Sometimes the "money" would have intrinsic value**,** sometimes not. Everything from cacao beans, salt chunks, or stone discs, to playing cards, nails, or cigarettes has been used as money.

So one fish might be worth 3 beads, one fur worth 10 beads, and working a day in the fields equal to 5 beads. Then the traders could come away with the product they wanted or with beads to use in the future. Once money began to be used, the horizons of a community's economy were expanded. Trades could be made with any other community that would recognize a common form of money. Not only that, trades could be extended over time. Value could be stored up for future use.

Money still performs the same functions today. It provides:

- A way of calculating value (one fish = 5 beads; one pound of hamburger = $1.39)
- A medium of exchange (A can sell a bearskin for 10 beads and buy a day's labor for 5 beads; Joe can pay for his hamburger and small drink with cash or debit card.)
- A means of saving (A can hold his other 5 beads until he meets someone selling fish; Joe can deposit part of his paycheck in a savings account to save for a new car.)

Think of the ways money has been involved in your life thus far. Try listing two or three of your current or past activities in each of the following categories (no sample answers for this one!):

Earn	Spend	Save	Invest
________________	________________	________________	________________
________________	________________	________________	________________
________________	________________	________________	________________

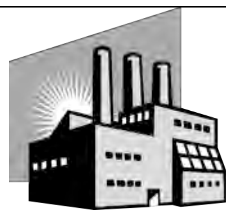
Of course, we have refined the use of money over the years. Now people can spend it before they have it, it can gain or lose value over time, it can be exchanged for the money of other countries when we want to travel, and it can be invested in the purchase of land or in businesses owned by various types of entities. Money equals power, and each country handles it differently.

Modern Economic Systems

Economic systems vary by country and evolve according to policy decisions of those in power. The three types of economic systems are Capitalism, Socialism, and Communism. A country's system is rarely entirely one or another, but it can be classified by which system predominates. A good way to look at the different systems is to ask certain questions about them. Look at the answers to these questions for each system in the table below.

System:	**Who decides what goods and services will be produced?**	**Who decides how the goods and services will be produced?**	**Who decides who will receive the goods and services that are produced?**	**Who owns the means of production?**
Communism (command)	The government	The government	The government	The government
Socialism	The government and consumers	The government and businesses	The government and consumers	The government and businesses
Capitalism (free enterprise)	Consumers	Businesses	Consumers	Businesses

Using the chart above, tell which system or systems would be most likely to exhibit the following situations Answers appear on page 18:

Communism	**Socialism**	**Capitalism**	   
			1. Airlines, railroads, and power plants are owned by the government.
			2. Banks are owned and operated by the government.
			3. Consumer demand decides what will be produced.
			4. Schools and colleges are owned and operated by the government.
			5. The method of production is decided by business owners.
			6. The government tells government-owned businesses what to produce.
			7. The government decides to which markets goods will be distributed.
			8. Hospitals are owned and run by private businesses.

Mixed Economy. Any country that combines two or more economic systems has a mixed economy. The United States prides itself on basing its economy on free enterprise and a free market that responds to the choices made by individual consumers. What are some aspects of our economy that are <u>not</u> purely capitalistic—owned by businesses, with decisions made by individual businesses or consumers? Some possible answers appear on page 18.

1. ______________________________ 3. ______________________________

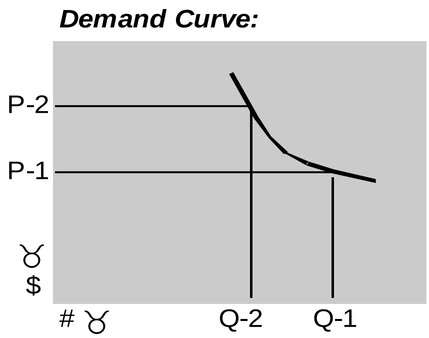
2. ______________________________ 4. ______________________________

Supply and Demand

How do consumers register their choices in a free market economy? They don't fill out a ballot that lists all possible products to indicate which ones they intend to buy and at what price. The economic voting mechanism is money. What consumers decide to buy and how much they are willing to pay guide what manufacturers decide to make and how much they can pay for the materials and labor that go into those products. Economists analyze how these decisions are made by looking at two very important graphs—the Demand Curve and the Supply Curve.

Demand. The consumer's view of a product is represented by the Demand Curve. The basic demand curve shows that when the price of an item goes up, the demand for that item will go down.

Economic graphs may simply represent relationships or may be based on actual figures. A graph's labels must be explained to make clear what it represents.

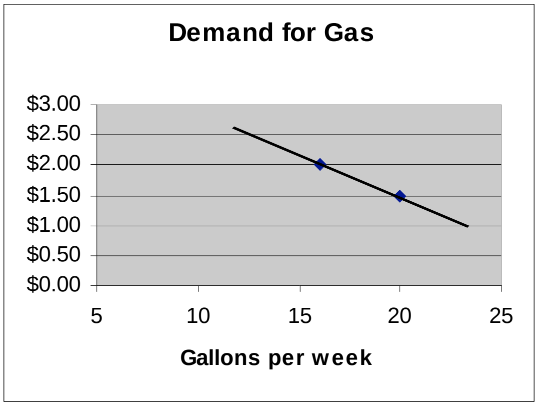


In this graph of a Demand Curve,

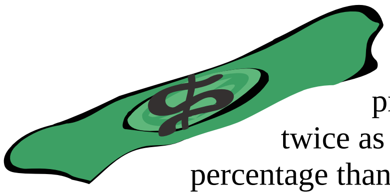
P = price. P-1 is the first price; P-2 is the second price, in this case, a higher price than P-1. (Think of the dollar amounts going up on the *y*-axis of the graph.)
Q = quantity sold. Q-1 is the quantity sold at the first price, and Q-2 is the quantity sold at the second, higher price. (The quantity increases from left to right, along the *x*-axis. Note that Quantity 2 is less than Quantity 1.)

Find the point where P-1 and Q-1 meet on the demand curve. What happens when the price goes up from P-1 to P-2? The quantity moves left, closer to zero, showing that the number of items sold goes down. (Don't worry if you found this graph confusing—the next graph will help!)

Now let's put actual numbers on the graph. Below is a graph of Mr. Ordinary Citizen's response to rising gas prices. He is shocked to see the prices have skyrocketed overnight from about $1.50/gallon to $2.00, so he resolves to drive less. He can't stop buying gas, though, because he still needs to go to work. A graph of the quantity of gas he uses in a week at the two price levels shows that his use falls from 20 to 16 gallons. (Even though a straight line is used when only two actual points are given, economists still refer to the line as a "curve.")



According to this graph, if gas prices rise to $2.50, Mr. Citizen will find a way to cut back even farther, perhaps by carpooling to work, so that he buys only about 12 gallons per week.



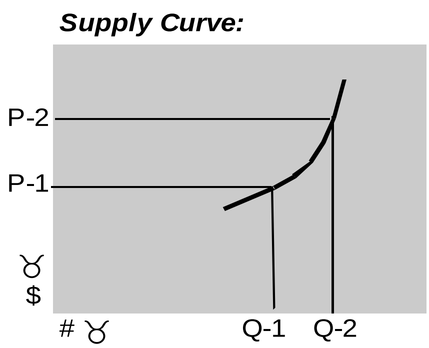
Elasticity. The demand for some items is more price-sensitive than for others. For instance, the price of table salt could double or even triple, but I would still buy about the same amount. If the price of salt were slashed by one-half, I would not suddenly buy twice as much. When the quantity sold of a product changes by a smaller percentage than the percent of price change, its demand is said to be *inelastic.*

I like to buy cut flowers and feel I can afford them monthly at $10 a bunch. At $5 a bunch, though, I might decide to buy them weekly. The price decreased by 50%, but my demand more than doubled—it quadrupled. My demand for cut flowers is very *elastic.*

The elasticity of demand for inputs needed to make a product can be affected by the availability of substitutes. Fred's Hamburger Shack owes its success to Fred's special hamburger sauce. Fred uses a secret ingredient in his sauce that is only found on one South Pacific island. If that island suffered a typhoon and the year's crop were decimated, Fred might be forced to pay a very high price for the ingredient. He would still buy about the same amount, even at double or triple the price—his demand for that product is very *inelastic*.

Supply. The other side of the economic picture is the producer's perspective. He decides whether to make a product for the consumer to buy. This product may be a physical item, such as potato chips, a shirt, or a car; or it can be a service, such as dry cleaning, a taxi ride, or tax preparation. The idea of supply can be applied to the product itself—a hamburger, say—but also to the components needed to make that product—ground beef, bread roll, pickle, etc.

The Supply Curve gives the same type of information as the Demand Curve. The graph below is the economist's representation of the relationship between price and supply.



In this graph of the Supply Curve,

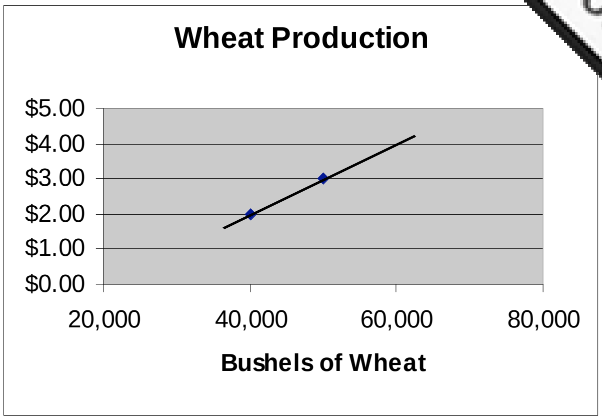
P = price. P-1 is the first price; P-2 is the second price, a higher price than P-1. (Again, the dollar amounts go up along the *y*-axis of the graph.)

Q = quantity produced. Q-1 is the quantity produced at the first price, and Q-2 is the quantity produced at the second, higher price. (The quantity increases from left to right along the *x*-axis.)

What does this graph tell us? When the supplier discovers he can get a higher price for his product, he will find a way to produce more of the product. Even if the individual producer cannot increase his output, others who see what is happening may decide it would be worthwhile to join the action.

To see an actual Supply Curve, we can graph Bill Farmer's wheat production. At the price of $2/bushel, he usually harvests 40,000 bushels. When a price of $3/bushel is expected, he leases extra land and applies more fertilizer, pushing production to 50,000 bushels. What does the graph on the next page show his production would be if the price rose to $4/bushel? ________

Did you come up with 60,000 bushels at $4? The problem for farmers is that over-production will drive the price down. If too many farmers have switched to growing wheat**,** or if good weather causes a larger than normal crop, the better price disappears.



Supply and demand are interrelated, and changes in price or quantity can cause a ripple-effect or opposite reactions. This interplay makes it necessary for sellers to constantly adjust prices. While consumers are comparing prices offered by different sellers, sellers are doing market research to determine what consumers most want to buy and at what price they will decide to buy it.

Have you ever looked at the price of something and asked yourself, "Who would ever pay that much?" If that product were marked down the following week, it might be that the seller found out that not enough people thought it was worth the price he was asking.

Exercise

Now that you have a basic understanding of *supply*, *demand*, *elasticity***,** and *inelasticity*, Choose the appropriate terms to complete the following statements. The answers are on page 19.

1. If I can find fresh strawberries at a good price, I use them to make my special strawberry pie. If they cost too much, I substitue frozen strawberries. My _____________ for strawberries is _____________ .
2. My medical insurance premiums doubled last year, but I had to have insurance. My demand for medical insurance is ________________ .
3. A week ago**,** I paid $19.99 for 300 one-a-day vitamins. Today**,** I found them on sale for $9.99. I didn't buy any more vitamins because my _______________ for vitamins is ________________ .
4. Gasoline prices rose in California when two out of six refineries were shut down, but sales did not significantly decrease. The demand for gasoline is _____________ , but the development of alternative fuels may make it more _________________ .
5. For a sales agent traveling cross-country to call on accounts, the demand for air travel is ______________ . He will not reduce his travel 25% in response to a 25% rise in air fares.
6. Kiki Kayak Rentals offers a few part-time jobs during the summer, for which many high school students compete. A large _____________ of workers will push the wages down.
7. Kiki Kayak Rentals also hires three kayaking instructors. Their ______________ of qualified instructors is much more restricted, resulting in higher pay for the instructors.
8. With the availability of software programs to help individuals complete their taxes, the ___________ for tax preparation services has become more ________________ .
9. Consumers who want a diamond necklace will not buy two necklaces because the price is reduced 50%. The demand for this luxury product is ________________ .

Financial Institutions

Even people who do not personally own a checking or savings account are aware that banks are institutions offering such accounts. Banking services are also offered by savings and loans and credit unions. Each institution is governed by different laws, and they may be owned in different forms, but their services to consumers are similar. Just what do banks do, and how do they make a profit? First, we will consider what banks do.

Banking Services. Banks offer checking services, savings accounts, safe deposit boxes, currency conversion, and other services, some for fees and some as enticements to customers. To discover what services a bank offers and at what rates, a prospective customer can visit the bank or its website. Below is the description of one of many checking accounts offered by a nationwide bank.

MyAccess Checking®

If you want free checking with direct deposit and prefer to bank at ATMs, online or by phone, this account is for you.

Features

- Opening deposit of $100
- Free with a monthly direct deposit to your account
- No minimum balance required
- Unlimited check writing
- Free Online Banking with Bill Pay
- Check Card with Photo Security® option
- Easy and unlimited access to your funds using Bank of America ATMs, Online Banking and Telephone Banking
- Three teller transactions each month
- O d ft t ti il bl

Source: http://www.bankofamerica.com/deposits/checksave/index.cfm?template=check_myaccess

Direct deposit is the means by which a person's employer transfers his or her paycheck directly to the bank each payday. The employer likes it because it saves writing and mailing paychecks.

1. Why would the bank offer a free checking account with direct deposit?

____

____

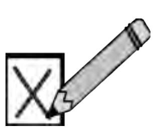
2. Why does the bank limit the number of teller transactions each month?

____

____

Answers are on page 19.

Financial Products. Consumers have a seemingly infinite number of choices for banking services. Remember, conveniences in our use of money—ATM machines, debit or credit cards, check overdraft protection, etc.—are the products of businesses being operated for a profit. Banks follow the laws of supply and demand, just like the makers of dishwashing detergent. Their advertisements aim at convincing consumers they can't live without these products. It takes some careful investigation to locate the combination of services an individual finds most useful at the most reasonable price. If available, *Contemporary's GED Social Studies'* comparison of credit cards in "Personal finances," page 238, provides a good example of points to consider.



Test Tip: GED Social Studies test questions may be based on portions of banking documents. Your personal experience with finances will help you choose the correct responses to these questions.

The Business of Lending Money

A bank's main income comes from using the money placed with it in checking and savings accounts or certificates of deposit to make loans to consumers and businesses. The bank pays interest on the money placed with it at a rate that varies from .5% to 3% or higher, depending on the economy. It charges higher rates on the loans it makes than it pays to investors; the difference is the bank's income.

Secured Loans. When banks and other lending institutions make loans, they usually ask for collateral—something of value to guarantee payment. For real estate loans, a lien on the property allows the bank to seize the property and sell it if the borrower defaults. Automobile loans work similarly—the car's title is in the bank's name until the loan is repaid. Signature loans, which require no collateral, are only made to individuals with excellent credit records. The interest rate offered varies by type of loan and according to the borrower's credit history.

Consumer Credit. Another form of lending is the credit card. Most banks offer one or more nationwide credit cards. Customers use the card to pay for goods or services; the bank covers the charge and enters the charge on the cardholder's account. The cardholder receives a monthly statement and may choose to make a minimum payment or larger amount, up to the total amount charged to the card. If the charges made during the month are paid in full, the bank usually charges no interest, but on any unpaid balance, the interest rate may be anywhere from 4% to over 20%, depending on the credit card agreement. The number of cardholders carrying a balance more than compensates the bank for the free service to those who pay their full balance monthly.

Banks also offer debit cards, which are accepted almost as widely as credit cards. A debit card authorizes immediate transfer of funds from the individual's bank account. No loan is being made unless the user takes advantage of an overdraft protection plan. Another convenience with possible fees is the ATM (Automated Teller Machine) card, which gives access to the individual's account outside bank business hours and at convenient locations.

Try this **Consumer Credit Test**. The GED test won't expect you to just know the answers to these questions; this test is designed to lead you to ask more questions—and finding your own answers will improve your general economic knowledge. The answers are on page 19.

1. Within their first year of being a credit cardholder, one in five students carries a debt of more than ___________.
   1) $1,000 2) $10,000 3) $500
   4) $100 5) $5,000

2. About _________ percent of Americans graduate high school with instruction in personal finance.
   1) 10 2) 20 3) 30
   4) 40 5) 50

3. Americans will pay ___________ this tax season for high-interest tax refund loans.
   1) $80 billion 2) $8 billion 3) $800 million
   4) $80 million 5) $8 million

4. The number of people who will declare bankruptcy this year is projected at ____.
   1) 140,000 2) 14,000 3) 56,000
   4) 560,000 5) 1,400,000

5. It is estimated that 7 percent of people who declare bankruptcy this year will be in the _________ years age group.
   1) 46-54 2) 18-24 3) 31-36
   4) 37-45 5) 25-30

Source: http://www.ncfe.org/press_releases.cfm#14.

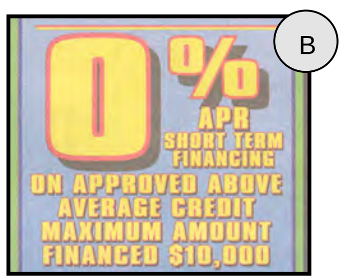
% **Interest Rates.** Both the interest earned on savings and the interest paid on loan or credit card balance will be described by their APR—Annual Percentage Rate. The government requires use of this measure because interest can be calculated in a variety of ways. If interest earned is compounded, each time it is calculated the previous interest earned is added to the balance. Interest may be compounded annually, quarterly, monthly, or daily. Because consumers should not have to calculate whether 4% compounded quarterly is greater than 3.5% compounded daily, the APR provides a measure that tells the final effect of the compounding.

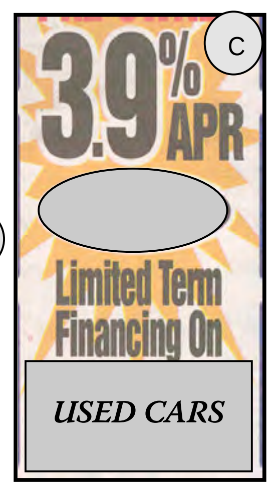
Interest paid on a loan can also be calculated in various ways, especially on credit card accounts where the loan balance increases with each charge. For example, some companies begin charging interest as soon as a charge is made; some give enough days grace to allow the consumer to pay off the balance each month. Others begin charging interest the day the card is used only if the balance was not paid in full the previous month.

Mortgage loans with a fixed interest rate are paid off according to an *amortization* (its word roots mean "to the death") schedule. The payment is the same each month, and**,** at first**,** most of the payment may be interest. The portion paid beyond the interest due is principal, and each payment of principal reduces the loan balance. The next month the interest is less and the principal is greater, until at the end of the loan term, the final payment is almost entirely principal. If the borrower does not make a payment on time, the loan schedule is not changed, but a stiff late fee is charged.

Again, interest rates are a financial "product," advertised by competing sellers of the use of money—lenders. To entice customers to buy their products and to cash in on the profits to be made in consumer credit, many big-ticket item marketers offer their own financing.

Refer to these advertisements to answer the questions below about car dealers' offerings of low-interest financing. Answers are on page 19.





1. In advertisement "A," about how much does the car dealer or manufacturer think giving 0.0% APR on selected models will cost per car?

1) $1,000 2) $1,500 3) $2,000
4) $2,500 5) $3,000

2. In advertisement "B," for what time period will the 0% APR apply?

1) 3 years 2) 2 years 3) 1 year
4) 6 months 5) undisclosed

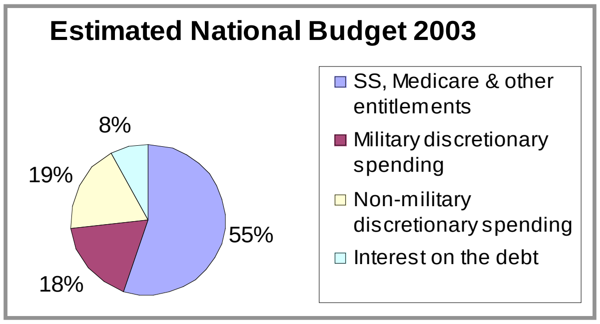
3. Why would the interest rate on used cars (3.9% in advertisement "C") be higher than that offered on new cars?

1) Not as many people want used cars.
2) People who have to buy used cars are more desperate and willing to pay higher interest.
3) The profit margin on used cars isn't as great as on new cars, so the dealer can't afford to offer free interest.
4) It's illegal to offer 0% loans on used cars.
5) Used cars are not likely to keep running for the life of the loan.

Government and the Economy

The government impacts the economy in several wa both directly and indirectly. Agencies developed to me our social needs—health, welfare, education, transportation, and safety, to name a few, have become both huge slices of our national budget pie and major employers and customers in the spending of their piece of the pie.

National security is big business: the Defense Department encompasses all the armed services, both at home and abroad. Research is conducted by government controlled institutions—NASA (National Aeronautics and Space Administration), the CDC (Centers for Disease Control), Lawrence Livermore National Laboratory, to name a few, and through DARPA (Defense Advanced Research Projects Agency) grants which are awarded to colleges, universities, and technology-developing businesses.



Other agencies have grown out of the government's need to regulate aspects of business. The Department of the Treasury prints and mints our money, collects taxes, and regulates banking. The Department of Commerce, for example, comprises an amazing list of bureaus and agencies:

Bureau of Industry and Security	National Oceanic & Atmospheric Administration
Economics and Statistics Administration	National Telecommunications & Information Administration
Bureau of Economic Analysis	Patent and Trademark Office
Bureau of the Census	Technology Administration
Economic Development Administration	National Institute of Standards & Technology
International Trade Administration	National Technical Information Service
Minority Business Development Agency	

Source: http://www.commerce.gov/organization.html

The Federal Reserve System directly influences the nation's economy. As bank to the nation's banks, it sets the *discount rate*, the rate at which it lends money to the banks. When the economy is slow, making money available at a low interest rate can help to stimulate more investment. The reverse also works: increasing the discount rate will cool an inflationary economy.

Use the above information, your previous knowledge, and your common sense to match these terms and statements. The answers are on page 19.

a. Inflation
b. Census takers
c. Money makers
d. Discount rate
e. National debt interest

___ 1. The interest rate banks pay when they borrow money
___ 2. Certain employees of the Department of the Treasury
___ 3. The smallest piece of the National budget pie
___ 4. Certain employees of the Department of Commerce
___ 5. An increase in the prices of goods and services

The Economics Of Labor

Everyone in the United States is involved in the labor market in some way—as an employee, as a self-employed worker, as an employer, or as an individual who cannot or does not need to work but whose needs are met by workers. Let's begin by thinking of the workers pictured above. Can you match each worker with his or her average income? Then describe the average education required for the entry level worker. Education expectations can vary greatly within these occupations, so there is no single correct answer. Compare your results with the answers on page 19.

Hourly Wage	Education		Hourly Wages*
________	______________________	Construction worker	$ 8.26
________	______________________	Manager	$ 9.72
________	______________________	Teacher/librarian	$17.47
________	______________________	Food preparer/server	$19.31
________	______________________	Farm worker	$37.92

*Source: Dept. of Labor's Occupational Employment Statistics Service, Bureau of Labor Statistics (http://www.bls.gov/oes/)

The laws of supply and demand govern the availability of jobs and workers and influence the wage levels offered. Other aspects of employment—safe working conditions, employee benefits, and protection against discrimination or harrassment—have been achieved by the concerted efforts of workers who banded together in unions. Individual workers acting alone could easily be replaced if they demanded changes. When all the workers at a factory walked out, the managers were forced to negotiate better wages and conditions or suffer the greater economic loss of disrupted production. Although unions still occasionally vote to strike, most labor agreements are hammered out during contract negotiations or are settled with the help of third-party mediators.

Minimum Wage. Besides requiring compensation for workers injured on the job and unemployment insurance for workers terminated through no fault of their own, federal and state legislatures set the minimum wage for most workers in the United States. Look at the graph of minimum wage rates from 1988-2002 and consider the following statements, underlining the terms in parentheses that complete them correctly. The answers are on page 19.

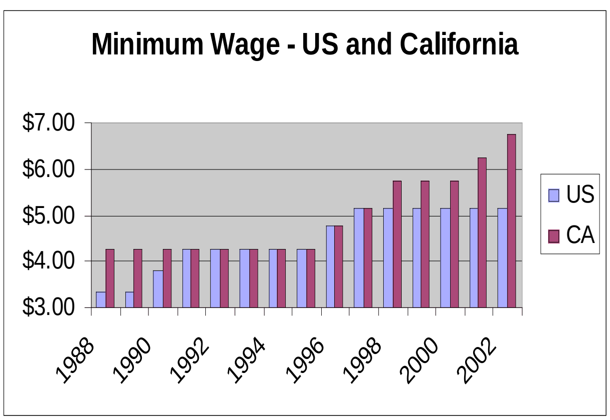
1. The federal minimum wage has held steady at $5.15 for the last six years. Since 1997, the minimum wage earner's buying power has (decreased, remained the same, increased). Why? ______________________________

____

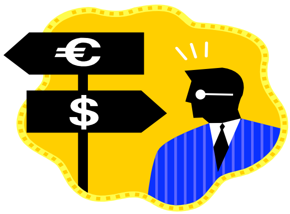
2. The minimum wage in California has been higher than the federal level for the last five years. This difference (discourages, has no effect on, encourages) the movement of businesses into California. Why? __________

____

____



Data sources: www.dol.gov/esa/minwage/chart.htm, and www.dir.ca.gov/Iwc/MinimumWageHistory.htm



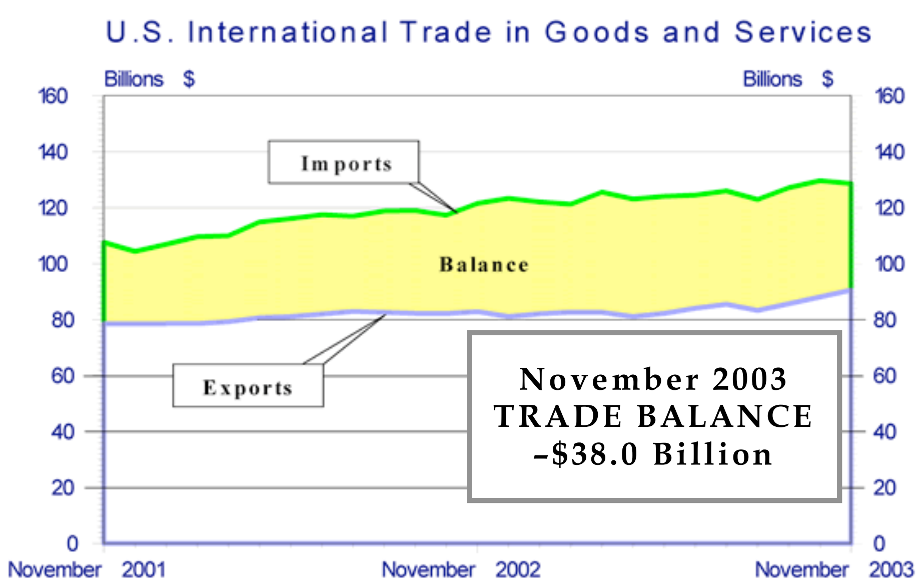
Global Markets

As the Program #19 videotape stressed, even businesses that operate only within the United States have international competitors. Much of the clothing sold in the U.S. is constructed in a foreign country. In the grocery store, produce is likely to be shipped in from Mexico, Chile, or beyond. Automobile manufacturers used to offer clearly defined domestic or foreign models. Now many foreign makes are produced within the United States, while domestic models may consist of more than half foreign-made components. In almost every product area, foreign-made items compete for the U.S. consumer dollar.

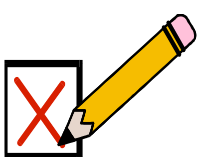
Balance of Trade. At the same time as they are buying foreign products, U.S. businesses offer their goods and services in foreign markets. Goods exported range from agricultural products such as soybeans and oranges to high-tech products, including computer chips, software, and aircraft. We also export ideas and services—computer consulting, engineering and architectural services, and food-service and other franchises.

Importing and exporting about the same dollar value would maintain a neutral balance of trade. Exporting more than we import would create a favorable balance, because we would be earning more than we are spending. For the last several years, though, we have consistently operated with a trade deficit. The graph below shows the trade deficit for two years, highlighting November 2003.

The trade deficit of $38.0 billion represents the difference between November imports ($128.6 billion) and exports ($90.6 billion). Each month that the difference is reduced is considered good news, but the U.S. must either change its buying habits or develop significant new foreign markets to regain a favorable balance of trade.



Source: http://www.census.gov/indicator/www/ustrade.html

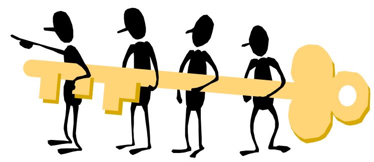


Test Tip: For GED Social Studies test questions based on graphs, take the time to understand what the graph represents. What types of figures are on the legends—time periods, dollars, numbers of units, or percents? Read the title, any extra labels, and the source. Try to complete the statement, "This graph shows that …"

Beyond Books

Besides studying a GED preparation text, you will find help in preparing for the economics questions of the Social Studies test on the Internet. The websites listed below offer insights into economic terms, consumer credit and credit card information, money handling education, tax basics, and more. One approach to checking out these websites would be to divide and conquer—work together with your class or others to find out what they have to offer.

Class project: Each student or group chooses one website, researches what the website offers, and reports their findings to the class. (If you are a class of one, visit as many sites as you can**,** then explore more fully one site of interest to you.) Use these questions as a starting point:



- Is the website organized so that you can research a specific question? Does it provide a glossary of terms?
- Who sponsors it—a government agency, a nonprofit organization, or a commercial enterprise?
- Is the material provided in an interesting, easy-to-understand format? Is it available in more than one language?

Economics Websites:

- http://www.federalreserveeducation.org/fined/index.cfm (Federal Reserve System's website, *Personal Financial Education*)
- http://www.aboutchecking.com
- http://www.incharge.org/debtQ.html (Debt Quiz)
- http://www.ftc.gov/bcp/menu-credit.htm (Federal Trade Commission, Consumer Information)
- http://www.practicalmoneyskills.com/english/consumers/ (Practical Money Skills for Consumers)
- http://www.jumpstart.org/realitycheck (Jumpstart Coalition for Family Literacy)
- http://www.irs.gov/app/understandingTaxes/jsp/s_student_home.jsp (IRS)
- http://usa.visa.com/personal/practical_money_skills/credit_quiz.html

Exercise

You have already worked through a variety of questions in this review of some economics topics. Now you can apply what you have learned and your comprehension skills to just a few questions in the GED format. Answers and explanations are on page 19.

1. The *Out of Reach* report calculates the amount of money a household must earn in order to afford a rental unit at the area's Fair Market Rent (FMR). The standard of affordability is paying no more than 30% of income for housing costs. The FMR is the U.S. Dept. of Housing and Urban Development's (HUD) best estimate of what a person seeking housing would have to pay in the local market.

Sample of 2003 Housing Wage by State[1]	
Most Expensive	
Massachusetts	$22.40
California	$21.18
New Jersey	$19.74
Least Expensive	
Alabama	$9.33
Mississippi	$9.07
Arkansas	$9.04

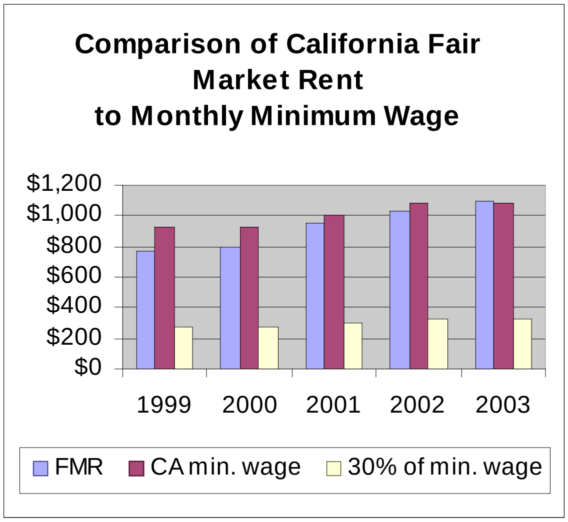
[1] Housing Wage is based on the income necessary to rent a two-bedroom apartment at Fair Market Rent (FMR).

Source: National Low Income Housing Coalition, http://www.nlihc.org/oor2003/.

A good summary of the information provided in the table would be:

1) People in Massachusetts, California, and New Jersey can afford better housing than people in Alabama, Mississippi, and Arkansas.
2) People who are paying more than 30% of their income for housing can get assistance from HUD.
3) The Fair Market Rent of a two-bedroom apartment varies by state.
4) The dollar amounts show how much a household's hourly wage must be in the states listed in order to spend only 30% of income on an average two-bedroom apartment.
5) The number of people able to afford suitable housing decreases every year.

2.



Source: National Low Income Housing Coalition, http://www.nlihc.org/oor2003/.

Data from the last five years of the *Out of Reach* reports shows the relationship between the minimum wage and the cost of housing in California. A unit is considered affordable if it costs no more than 30% of the renter's income. Note that in 2003, the Fair Market Rent actually exceeded 100% of minimum wage.

Based on this information, which of the following statements is *not* true:

1) Many minimum wage earners probably receive some sort of rent assistance.
2) California will probably triple its minimum wage in the near future.
3) The unskilled worker's ability to afford suitable housing has been decreasing yearly.
4) The number of homeless people who are employed is probably increasing.
5) According to the 30% guideline, households supported by one minimum-wage paycheck should only have to pay around $350 for rent.

3. Glass Ceiling is a term used to describe artificial barriers that keep individuals from advancing upward in their organizations. These barriers may be based on society's attitudes or may be a bias built into an organization's structure.

Below are five statements a manager might make when explaining to an employee why he or she has not been promoted and a newer, less experienced employee has been moved ahead. Which of the statements is ***not*** a sign that the employee is being held back by a *glass ceiling*?

1) "We don't think our oldest and best customers would be comfortable with a woman handling their account."
2) "Frankly, we're concerned that with your disability you might not have the stamina for a management position."
3) "We really need someone in that position who isn't likely to retire in a few years."
4) "Your work at this level has been fine, but you don't have the technical training you need to deal with the assembly line problems you would face as a manager."
5) "We're a close-knit company, and we like all of management to be able to enjoy the Friday afternoon get-togethers without worrying about getting home for the Sabbath."

4. With steady employment uncertain d "downsizing," the best way for workers to increase their employment value is by being flexibly skilled. Some states encourage firms to offer training by giving tax credits to private firms that train or retrain their workers. These credits allow firms to recapture some of the costs of training that would otherwise be lost if a trained employee left to work for a competitor.

   Why is it to the state government's advantage to reduce its tax revenue in this way?

   1) The business owners will vote for the politicians in power.
   2) They can increase another tax instead.
   3) The state will save money on retraining unemployed workers.
   4) No one remembers to take the credit when tax time rolls around.
   5) The business will get rid of untrained employees.

> "Do not call for black power or green power. Call for brain power."
> —Barbara Jordan, the first black woman from the South to serve in Congress

Answers and Explanations

Page 1, Words You Need to Know 1. c 2. a 3. e 4. b 5. d

Page 2, Did You Catch That? 2. T 4. T 6. T 9. T

1. F—Economics has no hard and fast rules; it is the study of choices people make when faced with scarcity.
3. F—In a command economy, the government makes most economic decisions, but in the market system, individuals make the choices that determine what gets produced and by whom.
5. F—In the job market, education and skills can give one applicant an edge over others competing for a job.
7. F—If no one chose to save money, banks would have no funds to lend to others who want to invest in a business.
8. F—Interest on credit cards is the price people pay for the convenience of buying without saving first.
10. F—Unemployment statistics only include people actively seeking jobs and reporting that they are not working in order to receive unemployment benefits.

Page 3, Scarcity and Opportunity Cost

1. a. She will have less money for clothes.
   b. She won't be able to watch her VHS videos on it.
2. a. He won't be able to tour Europe that summer.
   b. He won't make as much money in his lifetime with only a high school education.
3. a. She won't be able to work overtime.
   b. She won't have time to get her clothes washed.
4. a. He will have less money for entertainment.
   b. He can't use the time spent at appointments earning money.

Page 5, Modern Economic Systems

Com.	Soc.	Cap.	
×	×		1. Airlines, railroads, and power plants are owned by the government.
×	×		2. Banks are owned and operated by the government.
		×	3. Banks are operated as private businesses.
		×	4. Consumer demand decides what will be produced.
×	×		5. Schools and colleges are owned and operated by the government.
	×	×	6. The method of production is decided by business owners.
×			7. The government tells government-owned businesses what to produce.
×			8. The government decides to which markets goods will be distributed.

Page 5, Mixed Economy

1. Utility companies – ownership may be private, but government regulates rates and entry into the market.
2. Schools – Most schools and many colleges and universities are owned and operated by the government, but individuals may choose which school to attend and, after a certain age, whether to attend.
3. Hospitals may be owned publicly or privately, but who they serve and the rate of payment for services is often dictated by government agencies such as Medicare.

4. The Federal Reserve Bank responds to government policy, not to individual consumers' choices; the Securities and Exchange Commission (SEC) regulates the activities of individual investors in the stock market.

Page 8, Supply, Demand, and Elasticity

1. demand, elastic
2. inelastic
3. demand, inelastic
4. inelastic, elastic
5. inelastic
6. supply
7. supply
8. demand, elastic
9. inelastic

Page 9, Financial Institutions

1. The bank can make money loaning out the deposited funds while they remain in the account.
2. One of the highest costs for a bank is hiring tellers to provide personal in-bank services.

Page 10, Consumer Credit Test

1. 2) $10,000
2. 1) 10
3. 3) $800 million
4. 5) 1,400,000
5. 2) 18-24

Page 11, Interest Rates

1. 4) $2,500
2. 5) Undisclosed
3. 3) Profit margin is lower.

Page 12, Government and the Economy

1. d
2. c
3. e
4. b
5. a

Page 13, Labor and the Economy

Hourly Wage	Education	
$17.47	GED/HSD to apprentice	Construction worker
$37.92	2-6 years college & experience	Manager
$19.31	5-6 years college	Teacher/librarian
$ 8.26	no formal education required	Food preparer/server
$ 9.72	no formal education required	Farm worker

Page 13, Minimum Wage

1. decreased – Inflation has caused the price of most goods and services to increase, meaning that the same wage can buy less each year.
2. discourages – Employers who depend on unskilled labor will prefer to do business in a state with a minimum wage closer to the national rate, the lowest rate allowed.

Page 16, Exercises

1. 4) Answers 1) and 2) are erroneous; 3) is true but does not explain the purpose of the table; 5) cannot be inferred from the table, because it shows only one time period—2003.
2. 2) Although 100 percent of the minimum wage does not cover affordable housing, California would price its workers out of the market by tripling the minimum wage. Such an increase would cause widespread unemployment.
3. 4) Lack of training is not a glass-ceiling barrier because the employee can change that. The other answers show bias related to sex (answer 1), disability (answer 2), age (answer 3), and religion (answer 5).
4. 3) If private businesses don't do the needed training, when employees lose their jobs for lack of current technical skills, they will end up in state-funded programs that provide the training they need to find work.