HISTORY AND SOCIAL SCIENCE STANDARDS OF LEARNING
CURRICULUM FRAMEWORK 2008 (NEW)
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Civics and Economics CE.12 Study Guide

STANDARD CE.12A -- U.S. ECONOMY

Characteristics of the United States economy, including limited government, private property, profit, and competition.

*The United States economy is **primarily a free market** economy; but because there is some government involvement it is characterized as a **mixed economy.***

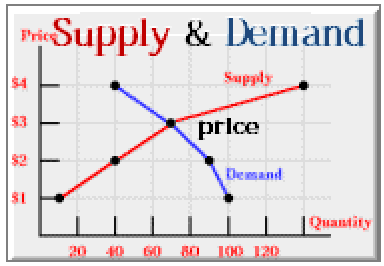
Government intervenes in a market economy when the perceived **benefits** of a government policy **outweigh** the anticipated **costs.**

Characteristics of the United States economy

- A **market** exists whenever buyers and sellers exchange goods and services.
- **Free enterprise: Markets** are generally allowed to operate **without undue interference** from the government.
  - Prices are determined by **supply and demand** as buyers and sellers interact in the marketplace.
- **Private property:** Individuals and businesses have the **right to own** real and personal property as well as the means of production **without undue interference** from the government.
  - The government provides a structure to define and enforce such **property rights.**
- **Profit motive:** Profit consists of earnings after all expenses have been paid. Individuals have the opportunity to **create a business** and **earn profits**.
- **Competition:** Rivalry between producers and/or between sellers of a good or service usually results in **better quality goods** and services at lower prices.
- **Consumer sovereignty**: Consumers determine through purchases what goods and services will be produced.
  - Government involvement in the economy is limited. Most decisions regarding the production of goods and services are made in the **private sector.**

STANDARD CE.12B -- SUPPLY & DEMAND

In a market economy supply and demand determine prices



Both buyers and sellers respond to price changes. When prices change, buyers change the quantity they are willing and able to buy and sellers change the quantity they are willing and able to bring to market.

Neither supply nor demand alone can set the price.

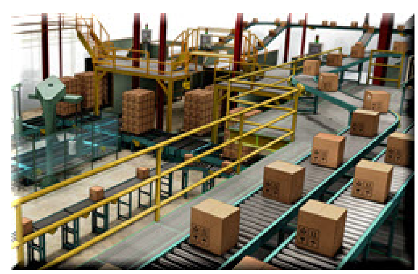
Price

- Price is determined by the **interaction** of **supply** and **demand**
- Price is the **amount of money** exchanged for a good or service

Demand

- Demand is the amount of a good or service that consumers are **willing and able to buy at different prices** during a given time period.
- **Law of demand**-
Consumers will **buy more** of a good or service at **lower prices** and less at higher prices.
- **Higher prices** for a good or service provide **incentives** for buyers to purchase **less** of that good or service.
- **Lower prices** for a good or service provide **incentives** for buyers to purchase **more** of that good or service.

Supply



- Supply is the amount of a good or service that **producers are willing and able to offer for sale at each possible price** during a given period of time.
- **Law of Supply**- Producers will **produce more** when they can sell at **a high price** and will produce less when they can sell at a low price.
- **Higher prices** for a good or service provide incentives for producers to make or **sell more** of a good or service.
- **Lower prices** for a good or service provide incentives for producers to make or **sell less** of a good or service.

Equilibrium price:

- Equilibrium price is the point where **supply and demand meet.**
- Everyone who wants to sell at that price **can sell.**
- Everyone who wants to buy at that price **can buy**.

STANDARD CE.12C -- BUSINESS ORGANIZATIONS; ROLE OF ENTREPRENEURSHIP

*There are **three basic ways** that businesses organize to **earn profits.***

***Entrepreneurs** play an important role in all three types of business organizations.*

Basic types of business ownership

- **Proprietorship:** A form of business organization with one **owner** who takes **all the risks** and **all the profits.**
- **Partnership:** A form of business organization with **two or more owners** who share the risks and the profits.
- **Corporation:** A form of business organization that is authorized by law to act as **a legal entity** regardless of the number of owners. Owners **share the profits**. **Owner liability** is **limited to** the amount of their investment.

Entrepreneur

- A person who **takes a risk** to produce and sell goods and services in search of **profit**
- May establish a business according to any of the three types of organizational structures
- Entrepreneurs **increase competition** by bringing new goods and services to market or by delivering products in innovative ways. They often foster **technological progress** and **economic growth.**

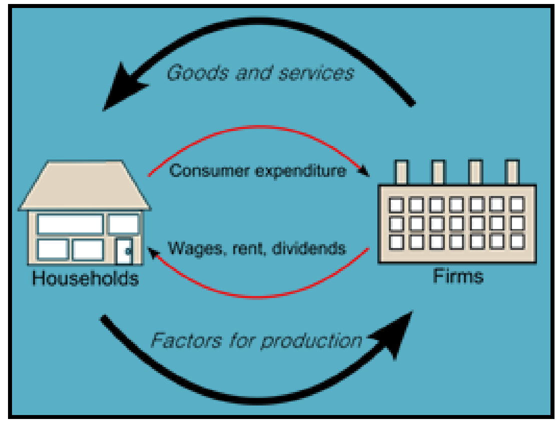
STANDARD CE.12D -- CIRCULAR FLOW

Circular flow shows how consumers (households), businesses (producers), and markets interact.

***Resources, goods and services,** and **money flow** continuously among households, businesses, and markets in the United States economy.*

The **circular flow diagram** is a way of visualizing and categorizing activity within an economy**. Goods, services, and resources** flow in one direction. **Money** flows in the opposite direction.

Economic flow (circular flow)



- **Households** own the resources used in production, sell the resources, and use the income to purchase products.
- **Businesses buy resources**; **make products** that are sold to individuals, other businesses, and the government; and use the profits to buy more resources.
- When households and businesses **spend** money, the income is used by households to **purchase goods** and services and by businesses to **purchase resources**.
- **Governments** use **tax revenue** from households and businesses to provide **public goods and services.**

STANDARD CE.12E -- FINANCIAL INSTITUTIONS

How financial institutions channel funds from savers to borrowers

***Private financial institutions** help facilitate an **exchange of money** between savers and borrowers.*

Private financial institutions

- Include **banks** and **credit unions**
- Receive **deposits** and make **loans**
- **Encourage saving and investing** by paying **interest on deposits**
- Help provide **financial capital** (money) to people/businesses to start or grow businesses

STANDARD CE.12F -- GLOBAL ECONOMY

The relationship of Virginia and the United States to the global economy, with emphasis on the impact of technological innovations

Virginia and the United States pursue **international trade** in order to **increase wealth.**

Terms to know

- **global economy:** Worldwide markets in which the buying and selling of goods and services by all nations takes place

Reasons that states and nations trade

- To obtain goods and services they cannot produce or **cannot produce efficiently** themselves
- To buy goods and services at a **lower cost** or a **lower opportunity cost**
- To **sell goods** and services to other countries
- To **create jobs**

Virginia and the United States **specialize** in the production of certain goods and services, which **promotes efficiency** and growth.

Impact of **technological innovations**

Innovations in technology (e.g., the Internet) contribute to the **global flow of information**, **capital, goods, and services.**

The use of such **technology** also **lowers the cost** of production.