HISTORY AND SOCIAL SCIENCE STANDARDS OF LEARNING
CURRICULUM FRAMEWORK 2008 (NEW)
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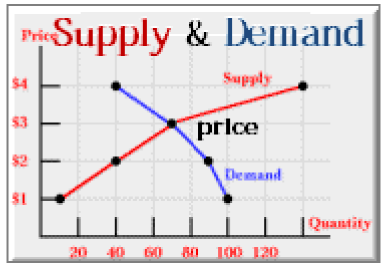
Civics and Economics
CE.11 Study Guide



Supply and demand: Interaction of supply and demand **determines price**.

Demand is the amount of a good or service that consumers are **willing and able to buy at a certain price.**

Supply is the amount of a good or service that producers are willing and able to **sell at a certain price**.

Production is the combining of human, natural, capital, and entrepreneurship **resources** to **make goods or provide services**. **Resources available** and **consumer preferences determine what is produced.**

Consumption is the **using** of goods and services. **Consumer preferences** and **price** determine **what is purchased** and consumed.

Standard CE.11a -- Market Terms

Scarcity, resources, choice, opportunity cost, price, incentives, supply and demand, production, and consumption

People **make choices** about how to use **limited resources,** decide the ownership of resources, and structure markets for the distribution of goods and services.

*How do people **deal with scarcity,** resources, choice, opportunity cost, price, incentives, supply and demand, production, and consumption?*

Scarcity is the inability to satisfy all wants at the same time. All resources and goods are **limited**. This requires that **choices** be made.

Resources are factors of production that are used in the production of goods and services. Types of resources are **natural, human, capital,** and **entrepreneurship**.

Choice is **selection** of an item or action from a set of possible alternatives. Individuals must choose or make decisions about desired goods and services because these **goods and services** are **limited**.

Opportunity cost is **what is given up** when a choice is made—i.e., the highest valued alternative is forgone. Individuals must consider the value of what is given up when making a choice.

Price is the **amount of money exchanged** for a good or service. **Interaction of supply and demand determines price.** Price determines who acquires goods and services.

Incentives are things that **incite** or **motivate.** Incentives are used to **change economic behavior.**

Standard CE.11b -- Economic Systems

Traditional, free market, command, and mixed economies

Every country must develop an economic system to determine how to use its limited productive resources.

The key factor in determining the type of economy a country has is the extent of government involvement.

What are the basic economic questions all societies must answer?

How does each type of economy answer the three basic questions?

The three **basic questions** of economics
- **What** will be produced?
- **Who** will produce it?
- **For whom** will it be produced?

Each type of economy answers the three basic questions differently.

What are the basic characteristics of traditional, free market, command, and mixed economies?

Characteristics of **major economic systems**
- No country relies exclusively on markets to deal with the economic problem of scarcity.

Traditional economy
- Economic decisions are based on custom and historical precedent.

- People often perform the same type of work as their parents and grandparents, regardless of ability or potential.

Free market economy

- **Private ownership** of property/resources
- **Profit** motive
- **Competition**
- **Consumer sovereignty**
- **Individual** choice
- **Minimal government involvement** in the economy

Command economy

- **Central ownership** (usually by government) of property/resources
- **Centrally-planned** economy
- **Lack of consumer choice**

Mixed economy

- Individuals and businesses are owners and decision makers for the **private sector.**
- Government is owner and decision maker for the **public sector**.
- **Government's role** is greater than in a free market economy and less than in a command economy.
- **Most economies today**, including the United States, are mixed economies.

STANDARD CE.11C -- 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.**

*What are the essential characteristics of the **United States economy?***

Characteristics of the United States economy

- **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.
- **Profit:** Profit consists of earnings after all expenses have been paid.
- **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.**