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Exploring Economics  
Quiz and Exam Book  
Answer Key

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Exploring Government Quiz and Exam Book Answer Key

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Published in the United States by Notgrass Company.

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**370 S. Lowe Avenue, Suite A**  
**PMB 211**  
**Cookeville, Tennessee 38501**

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## Unit 1

### Lesson 1

1. Alfred Marshall
2. Oikonomos
3. Steward
4. A household
5. Teach in universities, work for investment companies, write books, give speeches, hold positions in government that enable them to influence economic activity
6. A social science concerned chiefly with description and analysis of the production, distribution, and consumption of goods and services
7. A country, area, or period
8. Social
9. Human
10. Answers will vary.

### Lesson 2

1. Specialization: when people become specialized in certain kinds of work which they perform for others and for which they receive payment
2. The real cost of doing or making something involves the cost of not doing or making something else
3. Answers will vary.
4. A market
5. Because of the power of prices
6. Money
7. Commodities such as beads, shells, gold, or silver
8. The work, materials, and technology that are needed to make a pencil are spread among many people all over the world.
9. There is no master mind dictating the countless actions required to make a pencil. Instead, the Invisible Hand is at work.
10. People need to be left free to use their many know-hows to create an economy that will provide what people want and need.

### Lesson 3

1. Labor union
2. Labor is cheaper.
3. Workers have to fight or choose to flee the country, farmland and factories are destroyed.
4. Capitalism is the economic system in which the means of production are owned by individuals.
5. Socialism is the economic system in which the

means of production are owned by the state.

6. Banks, corporations, labor unions, legal system (especially property rights), etc.
7. Amtrak, Tennessee Valley Authority, other answers possible
8. Externalities
9. A measure of all of the finished goods and services produced within a country
10. Macroeconomics looks at the big picture of the national economy as a whole; microeconomics considers the small picture of the economics of individual households and companies.

### Lesson 4

1. Adam Smith
2. Scotland
3. *The Wealth of Nations*
4. The prevailing view was that the economy was best guided by rulers and their advisors. Smith said that the real wealth of nations lay in the labor of citizens that provided goods and services which nations could either consume or trade.
5. Trier, Prussia
6. Working class (proletariat) and ownership class (bourgeoisie)
7. Marx urged the overthrow of the bourgeoisie/capitalist state, followed by the creation of a state established by the working class and run by the proletariat (or central planners), in which workers would own the means of production and share in the profits of the economy.
8. First, the skill, dexterity, and judgment with which a nation's labor is generally applied; and second, the proportion between the number usefully employed and the number not so employed.
9. The division of labor
10. Benevolence, interest

### Lesson 5

1. The publication of *Principles of Economics* by Carl Menger
2. The downfall of the Soviet Union and Eastern European Communist countries
3. U.S. President Ronald Reagan and British Prime Minister Margaret Thatcher
4. John Maynard Keynes
5. Deficit spending and the funding of public works
6. The problem
7. A failure of the Federal Reserve System to

maintain an adequate supply of money to help the economy grow

8. Franklin Roosevelt, John Kennedy, Harry Truman, and Lyndon Johnson
9. *The Affluent Society* by John Kenneth Galbraith
10. Gregory Mankiw

### Unit 1 Quiz

1. c; 2. c; 3. d; 4. b; 5. b; 6. d ; 7. a; 8. b; 9. a; 10. d

### Unit 2

#### Lesson 6

1. Anything
2. One-fifth
3. Wealth
4. Let them rest.
5. The number of crops that could be produced on it
6. No
7. The nearness of the jubilee year
8. The needy and the foreigner
9. At the end of the day
10. Israel's faithfulness

#### Lesson 7

1. Samuel
2. Sons, daughters, fields, vineyards, olive groves, seed, servants, donkeys, flocks
3. Riches and honor
4. Queen of Sheba
5. Northern Kingdom (Israel)
6. A pair of sandals
7. The ideal of security, prosperity, freedom, and property rights
8. God is the rightful owner of all that exists, all human beings have rights inherent in their created nature, God created a moral system, and human sin is an inescapable fact
9. Peaceful means and violent means
10. Capitalism

#### Lesson 8

1. Humility
2. Riches, honor, and life
3. Poverty and shame
4. Great wealth
5. All was vanity and striving after the wind and there was no profit under the sun.

6. He was envious of them.
7. Consideration of wealth
8. The right things
9. Inward, Outward, Upward, Onward
10. The funeral for Danny Thomas

#### Lesson 9

1. A false balance
2. A just weight
3. The lender's slave
4. Co-signing a loan
5. Sleep
6. The poor
7. The Lord will repay him for his good deed.
8. A good name
9. Poverty, riches
10. Silver and gold

#### Lesson 10

1. Pharisees
2. Money
3. He will either hate the one and love the other, or he will be devoted to one and despise the other.
4. A camel going through the eye of a needle
5. Jesus did not require that of Zacchaeus.
6. The poor
7. We will receive a good measure—pressed down, shaken together, and running over.
8. They had worked all day; the others had worked only part of the day.
9. His soul
10. Much will be required.

### Unit 2 Quiz

1. b; 2. c; 3. c; 4. b; 5. c; 6. a; 7. d; 8. a; 9. a; 10. b

### Unit 3

#### Lesson 11

1. As property that they held in common with the other believers
2. The apostles distributed the money to believers in need.
3. Widows
4. Antioch
5. Any circumstances
6. As though they were serving the Lord
7. Work in quiet fashion and eat their own bread
8. Rich in faith and heirs of the kingdom

9. A vapor that appears for a little while and then vanishes away
10. So that through His poverty we might become rich

### Lesson 12

1. One or alone
2. Monasticism
3. Serving the community, teaching the community in an evangelistic way
4. The Roman Catholic Church
5. The pope
6. Martin Luther
7. The idea of personal calling: that any work can be done to God's glory, not just the work done by someone in a church position
8. As a gift from God
9. Hard work, simple lifestyle, and moderation
10. Answers will vary.

### Lesson 13

1. The social gospel
2. Germany
3. Economic activity that expects a profit through peaceful, voluntary, and mutually beneficial exchanges
4. Liberation theology
5. Matthew 10:34: "I did not come to bring peace, but a sword."
6. Theonomy and Christian reconstructionism
7. With respect
8. Religion and certain ethical values or standards, a certain view of government, and a certain practical way of carrying on the world's work
9. Good faith
10. Religion affirms man's spirituality and freedom to choose and posits a God endowed with compassion and purpose.

### Lesson 14

- Questions 1-7 are opinion questions, and answers will vary.
8. Whether it protects or undermines the dignity of the human person
  9. Protecting human rights and securing basic justice for all members of the commonwealth
  10. In order to protect basic justice, government should undertake only those initiatives which exceed the capacities of individuals or private groups acting independently.

### Lesson 15

1. His possessions
2. He chose the better land for himself.
3. Collect only what they were supposed to
4. Ananias and Sapphira
5. Temptation, a snare, many foolish and harmful desires which plunge men into ruin and destruction
6. Answers will vary, but could include: thinking they don't need God, forgetting that what they have comes from God, not storing up treasures in heaven.
7. They were asking with the wrong motives.
8. Child labor
9. The love of money
10. Contentment

### Unit 3 Quiz

1. b; 2. c; 3. d; 4. a; 5. c; 6. d; 7. a; 8. c; 9. d; 10. b

## Unit 4

### Lesson 16

1. They wanted to increase trade with Asia.
2. To extract as much wealth from the land as possible and return it to Spain
3. Mercantilism
4. Agriculture
5. The ownership of land
6. More
7. The British government forbade further settlement of the land west of the Appalachians and imposed taxes to pay for the war and to pay for British security forces stationed in the colonies.
8. The national government was weak and had no currency or economic plan, the country was deep in debt, states had their own economic crises, and there was instability in the West.
9. He objected to an internal tax for the purpose of raising money to give the crown the property of the colonies.
10. External impositions to regulate trade

### Lesson 17

1. Limited (or enumerated)
2. Three of the following: to lay and collect taxes, duties, imposts and excises; to pay the debts of the United States; to borrow money on the credit of the United States; to regulate commerce; to

establish uniform laws regarding bankruptcy; to coin money and regulate its value; to fix the standard of weights and measures; to provide for the punishment of counterfeiting

3. The prohibition against internal tariffs on interstate commerce
4. Slavery
5. For the Federal government to assume the debts of the states, to impose tariffs on imports (and to ban certain imports altogether), and to establish a national bank
6. Whiskey tax
7. Textile
8. Cotton
9. Cotton gin
10. Steamboat, Erie Canal

### Lesson 18

1. Interfering with American trading vessels bound for the other country's ports
2. Embargo Act
3. It hurt American trade.
4. It sold western lands.
5. The Bank of the United States
6. Policies of the Bank of the United States in making fewer loans and demanding redemption in hard money for state bank notes it received; a downturn in agricultural sales to Europe; a slowdown in industrial output; many defaults on loans
7. It gave a broad interpretation of the power of Congress to regulate interstate commerce.
8. He vetoed the renewal and Congress failed to override the veto.
9. In several state banks around the country
10. The Independent Treasury (or the Subtreasury) System

### Lesson 19

1. The northern economy boomed and the southern economy struggled.
2. Authorization of the transcontinental railroad, Morrill Land Grant Act, Homestead Act, National Bank Act
3. Railroads
4. Development of electricity as practical power source, refrigerated rail cars, the automobile, other answers possible
5. Investment capitalism
6. Interstate Commerce Act, Sherman Anti-Trust Act

7. Greenbacks
8. Federal Reserve System
9. William Graham Sumner used the term to describe the person who works and prays and pays his bills but is never thought of. Roosevelt used the phrase to describe a member of particular groups that Roosevelt wanted to benefit from New Deal spending programs.
10. He began targeting constituency groups to receive Federal funds. Those groups became dependent on the Federal government.

### Lesson 20

1. The increased production related to World War II
2. Prosperity, growth, expansion
3. Lyndon Johnson
4. Inflation
5. A broad and deep tax cut
6. Increased Federal deficit spending and an increase in the national debt
7. Savings and loan (or thrift) institutions
8. The growth in Internet business and increased trade because of NAFTA
9. 3%
10. Ten

### Unit 4 Quiz

1. c; 2. a; 3. b; 4. d; 5. a; 6. d; 7. c; 8. b; 9. a; 10. d

### Unit 5

#### Lesson 21

1. What to wear, which restaurant to go to, what work you want to go into, which candidate to support in an election; other answers possible
2. Yes
3. Determine what God's will is; determine what will bless others the most; decide what will best accomplish the goals that God has for you; realize what will be best in the long run; get wise counsel; pray about the decision.
4. Bad choices make good choices harder to make later.
5. An adult faces more significant choices than a child does that will impact his or her life and family.
6. Unintended
7. A reassertion of individual rights and freedoms
8. "They will always treat us like children."



9. "Many of them will always be acting like children."
10. Governments never give up power voluntarily.

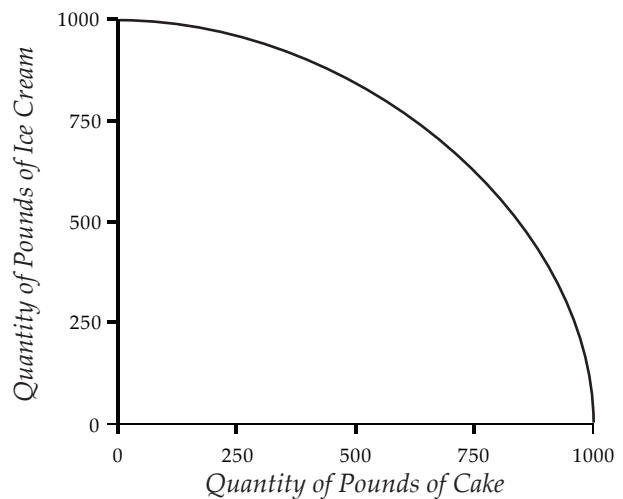
### Lesson 22

1. What goods and services will be produced and in what quantities? How will the goods and services be produced? How will the goods and services be distributed across the population?
2. Because we have limited resources
3. Many believe that everyone should be able to obtain a minimum decent standard of living. Many believe that there is an unlimited pie that many can share in. Producers keep trying to offer new goods and services. Some use debt to try to get more of the pie.
4. The belief that there is enough for everyone can motivate people to produce new goods and services. It can also cause people to go into debt to try to have more.
5. Determining the cost and benefit of a step before taking it to see if the benefit outweighs the cost
6. Individual: Should I make this purchase? Business: Will introducing a new product be profitable? Government: If we create an industrial park, will we be able to attract enough business to make it worthwhile? Other answers possible.
7. A small step that makes a big difference; determining whether it will be worthwhile to take the next step
8. Most decisions are not all or nothing but involve whether to take the next step. Important economic decisions are made at the margins.
9. The change in total benefit that results from an action
10. The change in total cost that results from an action

### Lesson 23

1. Goods are tangible items that are produced for consumption; services are intangible duties that are performed for pay.
2. Factors of production; the elements that producers use to create goods and services; material resources, human resources, and capital
3. The materials used to produce goods, such as machinery and factories
4. The maximum production that an economy can have given its production resources

5.



6. The greatest benefit that is given up when a choice is made
7. In general, the production cost per item decreases as the number of units produced increases.
8. Trust
9. Economic activity and growth occur from the many people who take risks, who venture into new areas, who see potential for growth; this doesn't happen when central planners are in charge of an economy.
10. Health care

### Lesson 24

1. Personal consumption accounts for seventy percent of economic activity in the U.S.
2. A benefit that motivates action
3. Reduction in price, subsidy (such as a rebate)
4. A result of an action that was not anticipated and is usually negative
5. An alternative to the item that the consumer would otherwise buy
6. A study of how consumers decide what to buy
7. Satisfaction
8. As more of an item is consumed, each unit has less value to the consumer, to the point at which one more unit provides no utility.
9. Is the cost of attending college and earning more later worth not working at a job while in college? Will the benefits of a college education outweigh the cost of the challenges one will face in lifestyle and in having one's faith challenged? Other answers possible.

10. Less income now could mean more income later; not attending college now could make it harder to go to college later in life; going to college could mean not being able to start one's own business. Other answers possible.

### Lesson 25

1. In capitalism, the millions of people who participate in buying and selling in the market make economic decisions; in socialism, central planners make decisions about what will be offered and at what price.

2. Economic efficiency: people in the economy being as productive as possible in making goods and services for consumers

3. Economic equity: having goods and services shared as equally as possible among the people in a society

4. Economic freedom: allowing people to buy and sell whatever they want in an economy

5. Economic security: guaranteeing that people have jobs, health care, and other things that are considered necessities of life

6. Economic stability: protection from fluctuation in economic activity ("boom and bust" cycles), or at least protection from serious loss during these fluctuations

7. Not collecting property taxes, building new roads, providing other benefits to attract a business to a place; offering tax breaks for certain activities, such as exempting mortgage interest from taxable income

8. Redistributing wealth by taxing some citizens and using the revenue to give others direct payments or goods and services

9. Political science

10. Self-interest

### Unit 5 Quiz

1. d; 2. a; 3. d; 4. c; 5. d; 6. a; 7. c; 8. c; 9. b; 10. d

### First Exam (Units 1-5)

100 points total. Questions 1-43 are worth two points each. Questions 44, 45, and 46 are worth three points each. Questions 47-51 are worth one point each. The lesson in which each answer is found is in parentheses.

1. c (1); 2. b (2); 3. d (2); 4. a (2); 5. a (2); 6. c (2); 7. b (3); 8. c (3); 9. d (4); 10. c (4); 11. b (4); 12. d (4); 13.

b (4); 14. d (4); 15. b (5); 16. a (5); 17. c (22); 18. a (22); 19. b (24); 20. c (6); 21. b (6); 22. b (7); 23. a (7); 24. a (9); 25. a (10); 26. c (11); 27. d (12); 28. a (13); 29. b (16); 30. a (17); 31. c (17); 32. d (18); 33. b (18); 34. a (19); 35. b (20); 36. c (23); 37. d (23); 38. d (23); 39. a (23); 40. d (2); 41. c (2); 42. a (1); 43. d (22); 44. production, distribution, and consumption (1); 45. traditional (or barter), capitalist (or market or free market); command (or socialist or government-controlled) (2); 46. material resources, human resources, capital (23); 47. d; 48. c; 49. b; 50. e; 51. a (47-51: Lesson 25)

### Unit 6

#### Lesson 26

1. A market is anywhere sellers offer goods and services and buyers purchase them.

2. Increased demand in the oil market can raise prices in the corn market because corn is used for ethanol. A decrease in the price for personal MP3 players might lead to a decrease in the price for compact discs, as the demand for compact discs decreases. Other answers possible.

3. Capital goods—items such as machinery that produce other goods; producer goods—tools and raw materials used in production; consumer goods—goods that are purchased by the end user to meet his wants and needs and are consumed; durable goods—consumer goods that are intended to last a long time

4. Markets define the nature and extent of economic freedom for an economy; markets accomplish the allocation of resources and the distribution of goods and services that most fairly reflect what buyers and sellers value; markets determine the amount of goods and services that are produced and the prices that are charged for those goods and services.

5. Perfect competition—the situation in which there are many sellers and buyers and where each individual seller and buyer has a negligible effect on the price that is charged; monopoly—where there is one seller of a good or service without a close substitute, and that seller can determine the price for and availability of what it offers; monopolistic competition—when several producers offer different unique goods and services that still compete with each other; natural monopoly—a situation in which economies of scale are such that production and distribution of a particular good or service is most efficiently accomplished

by a single provider

6. Oligopoly—where there are only a few large providers, and one provider can have an impact on the market; monopsony—a market in which there is only one buyer or only one significant buyer; oligopsony—a market in which there are only a few major buyers, any of which can exert a significant influence on the market

7. Collusion—when sellers get together behind the scenes to influence the market; cartel—a group of providers that engage in collusion to increase profits; boycott—an organized action by buyers that attempts to bring attention to what they see as a wrong policy in an attempt to change that policy

8. Through pleasing and serving one's fellow man

9. Whether the producer offers a good that consumers value and are willing to pay for, and whether he is using the scarce resources of a society in the most efficient manner to produce the good

10. Whenever the profit incentive is missing, the probability that people's wants can be safely ignored is the greatest.

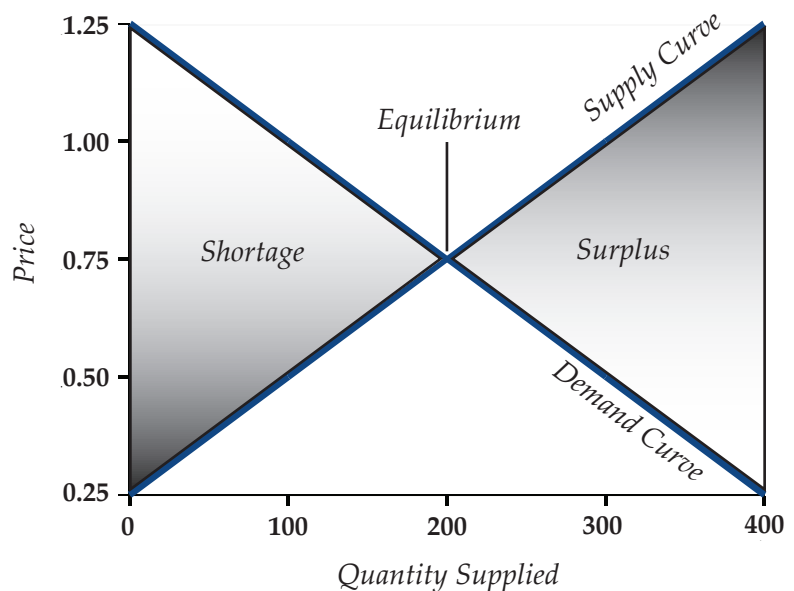
## Lesson 27

*Supply Schedule for  
Spiral-Bound Notebooks*

Retail Price Per Notebook	Quantity Supplied
0.25	0
0.50	100
0.75	200
1.00	300
1.25	400

*Demand Schedule for  
Spiral-Bound Notebooks*

Retail Price Per Notebook	Quantity Demanded
0.25	400
0.50	300
0.75	200
1.00	100
1.25	0



1. Equilibrium price: \$ .75
2. Equilibrium quantity: 200

**Lesson 28**

1. Price influences supply and demand. Price determines who does what work, and even what work is done at all. Price determines who is able to have the goods and services that are produced, according to consumers' ability to pay. Price affects consumers' buying habits. Price is an efficient way to allocate scarce resources. Price is the determining factor in creating market equilibrium, creating the point at which supply matches demand.

2. A price maker is a producer who has enough influence in the market to have an impact on what price is charged for its good or service. A price taker is a producer who has little influence on the market by itself and is forced to charge the prevailing price for its good or service.

3. The price of one good or service expressed as the price for another good or service

4. They have come about largely because American businesses have lowered prices for goods and services, which has brought more buyers into the market.

5. Selling the same good to different consumers at different prices

6. A price ceiling is a maximum-allowable price set by the government that is below the market-clearing price. An example is rent control.

7. A price floor is a minimum-allowable price set by law that is above the market-clearing price. An example is government price supports for agricultural products.

8. A framework of law, order, and ethical consensus that involves fundamentally an affirmation of certain human values

9. Government planning or the market economy

10. Anarchy or worse

**Lesson 29**

1. As the price of a good or service increases, supply increases.

2. Demand is affected by changes in price, consumers' income, consumer preferences, the number of consumers in the market, and the price of related goods and services.

3. The demand curve doesn't change. When price changes, demand simply moves up or down along the existing demand curve.

4. When a factor other than price changes, the demand curve shifts left (inward) or right (outward).

5. A measure of how much demand changes in response to changes in price

6. A measure of how much demand for one product changes because of a price change for another good

7. It shows how much demand changes with regard to consumers' income.

8. It shows how much the quantity supplied changes because of price.

9. Slow to change

10. Prices that are slow to change because of long-term commitments.

**Lesson 30**

1. When the market fails to allocate resources efficiently

2. A company with a monopoly does not have to set its price as a result of competition. As a result, goods and services will not be distributed efficiently to the widest possible number of people at the market-clearing price.

3. Taxes affect supply and demand equilibrium by increasing the cost of goods and services.

4. Artificial price floors and ceilings set by government cause inefficiencies in supply and demand.

5. Externalities affect people who are not the actual buyers and sellers in a transaction. Externalities are not considered part of the cost of production and are not paid for by the buyers of the products.

6. A lack of protection of property rights discourages people from buying goods or services.

7. Public goods are goods and services that can be used by more than one person at a time.

8. Public goods are funded by taxes that are paid by all taxpayers, but some people who pay taxes do not use all of these goods and some people who use them do not pay taxes.

9. Resources and raw materials were distributed according to what planners wanted or what they thought party leaders wanted, not what potential consumers wanted. As a result, some industries had a surplus of materials that sat unused while other industries lacked materials and sat idle.

10. We always have an uncertain economy, and all markets will eventually fail.

**Unit 6 Quiz**

1. D; 2. G; 3. B; 4. H; 5. J; 6. A; 7. E; 8. C; 9. F; 10. I



**Unit 7****Lesson 31**

1. What a person can obtain with it
2. Money is a commonly agreed-upon object of value to both parties in an exchange.
3. It is a way to show value to those with whom you are doing business.
4. It is a way to maintain the value of your labor over a long period of time.
5. It is a way to demonstrate success or failure in a business or other endeavor.
6. Money in the form of a commodity that has value in itself
7. Money that has value not based on its relation to a commodity but by the declaration of a nation's government that the money is legal tender
8. Information-based
9. The practice of technology, using knowledge and intelligence to convert seemingly useless matter into useful products, to generate wealth where none existed before
10. The nations of the West will no longer be able to lead.

**Lesson 32**

1. Banks provide a safe place to keep money, they enable people to earn money by paying interest on savings, they encourage the buying of goods and services by enabling people to use checks and debit cards instead of having to use cash, and they provide a central place for borrowers to obtain loans.
2. Saving enables people to be less reliant on debt, it enables investments that help the economy to grow, and it gives people an opportunity to have a higher standard of living.
3. Multiple-deposit expansion
4. The practice of loaning out the majority of money that a bank has on deposit and keeping only a relatively small fraction of depositors' money on hand
5. The ability to carry debt
6. The FDIC is an independent agency established by Congress. It insures the deposits of individuals in financial institutions.
7. Interest
8. Nominal interest rates are the stated rates of interest that are paid or charged. Real interest rates are the difference between the nominal rate and the rate of inflation.

9.

Assets	Liabilities
Reserves \$500	Deposits \$2,500
Loans \$2,000	

The bank can lend \$250 more and still meet the fractional reserve requirement.

10. Answers will vary. The Old Testament Law only forbade Israelites from charging interest to their fellow countrymen. The parable of the talents referred to banks paying interest (which they could not do without charging interest) without comment (see Matthew 25:27).

**Lesson 33**

1. A loan
2. A certificate of indebtedness
3. Corporate and government
4. A small part of the ownership of the company that is issuing the stock
5. Bondholders
6. Mutual funds are investment companies that offer shares to the public. The mutual fund invests the money in a range of other companies.
7. A hedge fund buys and sells securities in anticipation of what the fund manager thinks the securities are going to be worth in the future.
8. Buying securities on credit by paying a small amount of money
9. The gain or increase in value of capital assets
10. Answers will vary. An investment is a form of borrowing in that the recipient is using money that another person has put in his trust. The investor has the greater risk in such a situation because he could lose his investment, but the recipient should feel a moral obligation to repay the investment if the business is profitable.

**Lesson 34**

1. A general increase in prices for goods and services
2. Friedman said that it is "a printing press phenomenon" and "a monetary phenomenon," meaning that it is caused by the government printing too much money, specifically, when the quantity of money rises more rapidly than the output of goods and services.
3. Borrowing and printing more money
4. Increases in inflation and in unemployment

5. Inflation caused by an increase in aggregate demand that is not accompanied by an increase in aggregate supply. Increased demand without an increase in supply tends to pull prices higher.
6. Inflation caused by a decrease in aggregate supply as a result of higher production costs. The higher costs lead to a decrease in productivity, a decrease in supply, and a resulting increase in prices. Higher production costs push prices higher.
7. The ability of individual consumers to buy goods and services, at least in the short run
8. As a socialist-communist system of distributing medical care that is paid for by a third-party, which means there is no direct relation between the patient and the physician
9. A government failure to manage the money supply well
10. He favors them as a means of funding children instead of schools, and letting parents choose the schools their children attend.

### Lesson 35

1. 1914
2. The Panic of 1907
3. By a seven-member board of governors whose offices are in Washington
4. The Federal Open Market Committee
5. Twelve
6. To implement Federal monetary policy; to supervise and regulate the banking industry; to maintain stability in financial markets; and to provide financial services to banks, the United States government, and foreign entities
7. Bankers', government's
8. Adjust the reserve requirements for banks, adjust the discount rate that it charges banks for loans of its funds, and open market operations to inject money into or to withdraw money from the economy
9. The interest that banks charge each other for overnight loans
10. The Fed buys U.S. Treasury bonds and other Federally-issued securities to inject money into the economy, or it sells those securities to withdraw money from the economy.

### Unit 7 Quiz

1. F; 2. I; 3. H; 4. E; 5. A; 6. J; 7. B; 8. C; 9. D; 10. G

## Unit 8

### Lesson 36

1. Trade refers to any exchange or purchase of goods and services, but the term is most often used for exchanges or purchases between countries.
2. By its trade balance or balance of trade
3. When a country imports more than it exports
4. When a country exports more than it imports
5. Trade makes more goods and services available to the people of a nation at prices that they can afford. Increased foreign markets for goods and services produced within a country means more jobs and a higher standard of living for that country. New industries develop to meet ever greater needs within the country and in other countries. Trading nations become interdependent and thus are less likely to be at odds with each other to the point of going to war.
6. Exporting helps domestic producers but hurts consumers. Importing helps consumers but hurts domestic producers.
7. When countries specialize in certain kinds of work and trade for the products of workers in other countries who have specialized in other kinds of work, all countries are better off.
8. The greatest alternative good that one gives up to engage in a particular activity
9. When one producer has a smaller opportunity cost of producing a good or service compared to another producer
10. When one person or country can produce goods with a smaller input of resources than another

### Lesson 37

1. Government policies that hinder, complicate, or eliminate trade between nations
2. A policy of protecting domestic industries from competition with foreign industries
3. A tax placed on goods imported into a country
4. For: protect domestic industries. Against: lead to higher prices, which hurt lower income families and lead to less consumption and fewer jobs; hurt exports, which also means fewer jobs; result in an inefficient use of resources
5. Only allowing a certain amount of goods to be brought into the country for sale
6. Government decrees forbidding citizens from

trading with another country

7. Government payments to industries
8. Money earned by foreign companies is reinvested in the U.S.
9. They are whimsical and inconsistent.
10. It is a form of extortion.

### Lesson 38

1. Larger markets for a nation's output of goods and services, which in turn means more jobs, greater economic opportunity, and a higher standard of living; more goods and services available to people at prices they can afford; and the opportunity for interdependence and mutual understanding among trading nations
2. Reciprocal trade agreements
3. General Agreement on Tariffs and Trade
4. The World Trade Organization
5. Most Favored Nation (Permanent Normal Trade Relations) status: a nation is given all of the advantages that other nations receive in trade with the U.S.
6. An economic movement intended to help families and small companies in less-developed countries compete in the world economy
7. Kinds and quantities of goods and services offered, better communication, better transportation, lower transaction costs
8. To increase imports
9. An internal transfer of income and wealth to that industry from U.S. consumers
10. Domestic policies that expand production and incomes while holding down inflation; greater stability and balance in macroeconomic policies; limit any governmental trade adjustment assistance to temporary aid; acknowledge the positive role of multinational corporations in the world economy

### Lesson 39

1. Building a factory in another country, investing in a company (or in government bonds) in another country
2. American investments in other countries provide the financial capital to help those nations grow economically. American-built factories provide jobs for people in that country.
3. China and Japan
4. A large part of the Federal government's deficits were paid for by foreign banks and private foreign investors purchasing bonds issued by

the U.S. government, and America developed an increasing dependence on foreign products, such as oil and consumer goods.

5. Exports, borrowing
6. Price
7. If we want to export to other countries, we have to import from those countries.
8. Both countries that engage in trade are better off in the big picture.
9. Some people lose their jobs and have trouble finding other work.
10. Unemployment assistance, help in finding another job, and retraining to learn new skills

### Lesson 40

1. The price of one country's currency expressed in terms of another country's currency
2. By the forces of supply and demand in currency exchange markets
3. Cheaper dollars encourage foreigners to buy more American goods, while more expensive dollars mean that foreigners are less likely to buy American goods because they cost more in terms of their own currency.
4. By obtaining the appropriate currency in a currency exchange market to pay the company in the foreign country
5. Higher interest rates in the U.S. encourage more foreign investment, which means foreign investors buy more U.S. dollars, which increases their value in exchange markets.
6. Political instability or an economic recession will likely reduce the value of the currency in exchange markets. The wealthy in that country might want to buy currencies of other countries in order to maintain their wealth, which would lower the value of the currency ever further. If a country is enjoying economic growth, the currency will be in greater demand and worth more.
7. The exchange rate at which currency demand equals currency supply
8. The rate of exchange for goods and services between one country and another
9. The Chinese government pegged the value of the yuan artificially low, then it maintained this rate by buying huge amounts of American currency, which put large amounts of the yuan into exchange markets.
10. The effect of this policy was to encourage other countries to buy Chinese goods because those other countries could buy the yuan cheaply to pay for Chinese products. It also made imports

into China relatively expensive.

### Unit 8 Quiz

1. b; 2. a; 3. b; 4. c; 5. d; 6. d; 7. d; 8. a; 9. b; 10. c

### Unit 9

#### Lesson 41

1. To make a profit, to fulfill a dream, to train others, to help others achieve a higher standard of living
2. Sole proprietorship
3. Partners share in the profits on whatever basis the partnership is set up, but each partner is responsible for all of the obligations of the business.
4. Corporation
5. Shares of stock
6. Limited liability company, professional corporation
7. Non-profit, charitable, tax-exempt corporation
8. Strained baby food
9. Elijah McCoy
10. They built their empires locally, they were highly inventive and creative, they wanted to build empires more than they wanted to make money, they followed Biblical principles, they were fiercely independent and were averse to monopolies and government solutions to problems.

#### Lesson 42

1. 100
2. A person can be his own boss, make his own decisions, start with relatively little money, and know his customers personally. Small businesses can fill specialized niches and adapt to changes in the market. They give women and minorities their best opportunity to own and operate a business.
3. Owners are personally responsible for all aspects of the business, they often have to work long hours, and they answer to many people—namely, their customers. Controlling costs is a major issue.
4. A large company sells the right to use its name and business model to a local person.
5. Small businesses create 60-80% of new jobs in the American economy each year.
6. If it lasts at least four years
7. Entrepreneur

8. Big breakthroughs
9. Chrysler
10. Decision-making

#### Lesson 43

1. Prayer
2. Sales
3. The idea that just because a person is good at one aspect of a business, he or she will be good in all areas of business
4. What is the demand? What niche might need to be filled? What is the current supply? Can you meet the demand? What is the current and future level of competition?
5. Facility, capital goods, equipment, labor, materials, technology
6. Advertising, informing people about the benefits of a product, recommendations from satisfied customers
7. Unique Selling Position: What your product or service offers that people cannot find elsewhere
8. Do I have the time to succeed? Do I have the money to begin? Can I adapt to changes in the market? Can I handle financial loss?
9. Failure, change, learning from others, not having the business revolve around him, letting others do some of the work
10. Management, planning, money, location, overexpansion

#### Lesson 44

1. The money a business makes by selling goods and services. It is the difference between total revenue and total cost.
2. Profit motivates efficiency, taking risks, product quality, lower prices, proper maintenance, and offering good wages and rewards to workers.
3. Multiplying the unit price of goods sold by the quantity sold
4. Quantity sold
5. Accounting profit is what can be shown in the accounting books: revenue minus ledger costs. Economic profit also considers the opportunity cost as a real cost of the business.
6. Fixed costs have to be paid regardless of the rate of production. Variable costs change depending on the amount of production.
7. Productivity of an input decreases as the quantity of the input increases.
8. Average marginal cost is determined by dividing the change in total cost by the change in



quantity produced. It helps to determine if additional production is more or less profitable.

9. Deadweight loss is a reduction in efficiency that leads to a loss in profit or a loss to society. Examples: taxes, monopoly pricing

10. Answers will vary.

### Lesson 45

1. Expansion, peak, recession, trough
2. It is defined by the calendar time between two peaks or two troughs.
3. Economic fluctuation
4. Fluctuations do not occur regularly or on a cyclical basis. They occur erratically and last for varying lengths of time.
5. Demand shock (such as a cutback in consumption), supply shock (such as a reduction in the availability of oil)
6. Demand shock (such as increased government spending), supply shock (development of new sources of supply, such as Internet businesses)
7. The money supply not keeping pace with output
8. Central government intervention in money and credit markets
9. Markets allow the freedom for individuals, businesses, and governments to make decisions that affect the economy for good or ill.
10. They can provide an incentive for businesses to reorganize, cut costs, and develop greater efficiency, which can lead to more job opportunities; they can give someone the motivation to get additional training or to start his own business.

### Unit 9 Quiz

1. H; 2. D; 3. F; 4. I; 5. A; 6. J; 7. B; 8. G; 9. E; 10. C

### Unit 10

#### Lesson 46

1. Labor is a human resource used to produce goods and services. People earn income by exchanging work for wages or a salary. Employers pay workers to produce goods and services that can be sold to cover expenses and make a profit.
2. Business depends on labor to produce goods and services that can be sold, and labor depends on business to provide jobs so that workers can earn income.
3. All people sixteen or older who are employed

or actively seeking work

4. Men

5. Pay, or wages and salary

6. Equilibrium wage and equilibrium quantity of workers hired

7. Firms generally hire fewer workers at higher wages.

8. Population growth, the age of the work force, changes in training possibilities, changes in benefits, changes in the nature of the work force

9. Desire for income, personal fulfillment; affected by determining what a person can earn, whether he has a greater need to work in a non-paying setting, the need for additional schooling or training, the desire for leisure time, whether a person has any non-labor income

10. Investment in training and education

#### Lesson 47

1. White collar: salaried, professional, office, administrative jobs; blue collar: hourly wage, manual labor, in factory or outdoors

2. White collar

3. 25%

4. More women have gone to college and received training, American women are older when they begin having children, the number of working mothers has increased, social attitudes about women working have become more accepting. The change has perhaps been influenced by the greater availability of daycare for children and of conveniences such as fast food, processed food, and sophisticated home appliances.

5. Immigrants have provided much of the labor force that helped the growth of American industry, and they became consumers for what was produced. Many became economically successful, a few extremely so.

6. Substitute labor involves workers who are competing for the same job, and one is chosen over another. Complementary labor involves workers who are not competing for the same job, and one complements or supports the work of the other.

7. Discrimination is based on erroneous assumptions, which lead to erroneous conclusions. Assuming women do not deserve the same pay that men do for the same job introduces inequity into the labor market. Discrimination denies the right and freedom of individuals to achieve all they can on the basis of their talent and leads to the misallocation of resources. Discrimination

reinforces the economic position of the group in power.

8. The assumption that the conditions of the working classes would grow worse under capitalism.

9. They have continued to cling to the socialist ideal.

10. It has been accomplished by capitalism, the very system that socialists oppose, while socialism has made millions suffer economic degradation.

#### Lesson 48

1. Negotiations between labor union representatives and business representatives on behalf of the union's members over pay and working conditions, instead of each individual employee negotiating with the business owner by himself

2. Closed shop states have laws that require workers in certain industries to be members of unions. States that do not have such laws are open shop or right to work states.

3. Many businesses moved production to open shops states; non-union workers began receiving salary comparable to that received by union workers; white collar workers have tended to want to be dealt with individually instead of as members of a union; and workers' rights and safety are protected by government instead of by union demands.

4. Unions for government workers

5. Unions are cartels that limit the supply of labor and thus artificially raise wages above equilibrium. This causes fewer workers to be hired.

6. Since unions have caused an increase in the labor supply for non-union jobs, pay for those jobs has tended to be lower.

7. Unions tended to discriminate against blacks, though some blacks were members of industrial unions.

8. Higher productivity, higher prices, or government action

9. By restricting union membership while compelling employers to hire only union workers, and by threatening to strike if employers do not hire only union members or if employers do not pay union members higher than market wages

10. He believes that they should not be allowed to strike without facing penalties severe enough to hurt unions.

#### Lesson 49

1. A wage is an hourly rate paid for labor rendered, while a salary is pay for a job performed regardless of how long the job takes.

2. Wages—Advantages: A worker can earn overtime, and he can know that he is through at the end of the work day; Disadvantage: A worker usually earns less than a person receiving a salary. Salary—Advantage: A worker is usually paid more than someone receiving a wage; Disadvantage: A worker is often expected to work more than the regular work week, until a job is done.

3. The ability to produce goods or services in a specific period of time

4. Functional: measures income among different businesses or occupations; personal or household: measures income among groups of households in various income ranges

5. By quintiles or groups of 1/5 (20%) of the total

6. Just over half of all national income

7. 86.3%

8. A legally mandated hourly wage

9. It is a way to insure a decent income for working Americans. It keeps people from being at the mercy of business owners who want to pay workers as little as possible. It is an incentive to encourage low-wage workers. It can provide workers with more purchasing power, which can increase demand and production. It can reduce poverty and lessen the need for government welfare programs. It helps wages be higher than they would be without it.

10. It is an artificial price floor that tends to cost jobs. It leads to higher prices, which also lowers demands and causes job loss. It is hard on small businesses and is especially hard on young workers, especially black male teens. It depresses wages for jobs not covered by the minimum wage. Few people actually earn the minimum wage. It doesn't accomplish its purpose.

#### Lesson 50

1. How well the productive resources of an economy are being used

2. Unemployment that involves people who have not had time to find a job

3. Unemployment that occurs because of a mismatch between skills that people have and the needs that employers have

4. Unemployment that occurs when temporary workers are let go after especially busy seasons

5. Unemployment as a result of downturns in the business cycle
6. Unemployment as a result of wages being above the equilibrium rate and some people not being able to find work as a result
7. Dividing the number of people who want to work but can't find a job by the total work force
8. 1-5%
9. People who are working at jobs below their skill level because those jobs are the only work they can find or who only have part-time work when they want to work full-time
10. People who have not been able to find work and as a result have stopped actively looking
28. price (29)
29. inflation (34)
30. deadweight loss (44)
31. fractional reserve banking (32)
32. derived demand (27)
33. fiat currency (31)
34. economic profit (44)
35. open market operations (35)
36. complementary goods (27)
37. root cause of inflation (34)
38. price elasticity of demand (29)
39. small business (42)
40. trade restrictions (37)
41. public goods (30)
42. comparative advantage (36)
43. currency exchange rate (40)
44. supply or demand curve shifts (29)
45. liquidity (31)
46. capital gains (33)
47. law of supply and demand (27)
48. minimum wage (49)
49. law of diminishing marginal returns (44)
50. ridiculously difficult

### Unit 10 Quiz

1. c; 2. a; 3. a; 4. d; 5. b; 6. c; 7. b; 8. b; 9. d; 10. b

### Second Exam (Units 6-10)

100 points total. Questions are worth two points each. Lesson in which answer is found is in parentheses.

1. law of demand (27)
2. price ceiling (28)
3. sole proprietorship (41)
4. business cycle (45)
5. real exchange rate (40)
6. markets (26)
7. closed shop laws (48)
8. reasons businesses succeed or fail (43)
9. price of labor (49)
10. Say's Law (27)
11. absolute advantage (36)
12. marginal analysis (44)
13. interest (32)
14. determinants of supply (27)
15. money (31)
16. cause market failures (30)
17. unemployment (50)
18. variable costs (44)
19. securities (33)
20. price floor (28)
21. multiple-deposit expansion (32)
22. corporation (41)
23. factors that increase trade (38)
24. mutual funds (33)
25. law of supply (27)
26. functional distribution of income (49)
27. discount rate (35)

### Extra Credit (10 points)

Each option that each suspect faces bears a risk and a benefit. If a suspect stays silent, he might get one year or he might get twenty years in prison. If he confesses, he might go free or he might get ten years. Staying silent bears the greatest possible cost, while confessing will enable him to avoid his worst-case prison term. Considering only the practical and not the moral implications, the dominant strategy (the best course regardless of what the other person does) for each suspect is to confess. Confessing bears a cost, but the worse cost for confessing is less than the worse cost for remaining silent.

In economics, cartel agreements are difficult to maintain. In a competitive market, it is risky for a business to try to determine its strategy on the basis of what its competitors might do or not do. The best option is for a business to determine its course and make any adjustments that are necessary on the basis of what actually happens, not on what might happen.

If the student makes any attempt to work through the prisoner's dilemma game, give him or her ten points. A grade higher than 100 is permissible.

## Unit 11

### Lesson 51

1. One person might say that the goal should be economic freedom, while another person might say that the goal should be economic security.
2. Economic freedom
3. Food and Drug Administration, Securities and Exchange Commission, Social Security, Occupational Safety and Health Administration; other answers possible
4. When the benefit of intervention outweighs the cost
5. Monetary policy and fiscal policy
6. By passing laws and by the activities of House and Senate committees
7. It provides "objective, nonpartisan, and timely analyses to aid in economic and budgetary decisions on the wide array of programs covered by the Federal budget."
8. It is a three-member group of economists that advises the president on domestic and international economic policy.
9. Treasury Department
10. T-bills, T-notes, T-bonds, Treasury Inflation Protected Securities

### Lesson 52

1. Promote economic growth and stabilization, reduce inflation and unemployment, preserve the fairness of and equal access to the free market, and encourage international trade with the ultimate goal of free trade
2. Because they have political benefits for elected officials
3. Policies that distribute costs widely and that benefit politically important groups directly
4. Environmental policies, ethanol subsidies, antitrust policies
5. A subsidy is a payment to a manufacturer that is intended to correct for insufficient output or for low prices in the market and thus to make production worthwhile. A tax is often intended to correct for excess output by lessening production through raising the cost.
6. Security, infrastructure, education, health care
7. They are paid for by tax revenues and are distributed to people who qualify for assistance. They redistribute wealth from those who have more to those who have less.
8. Transfer payments, entitlements
9. Temporary Assistance for Needy Families

### 10. Supplemental Nutrition Assistance Program

### Lesson 53

1. The Federal Register
2. The free market, the public welfare
3. They tend to increase prices.
4. Trucking, passenger airlines
5. Competition increased and prices fell.
6. It sought to make life fairer for the disadvantaged.
7. Answers will vary.
8. Answers will vary.
9. Answers will vary.
10. Determining the tradeoff involved with having a regulation and the tradeoff involved with not having a regulation

### Lesson 54

1. To generate revenue for the government, to influence or regulate economic activity, to redistribute wealth
2. Personal income taxes
3. With a progressive tax, the percentage of taxes to be paid increases as income rises.
4. With a regressive tax, a higher percentage of income is paid in taxes at lower income levels.
5. Answers will vary.
6. Answers will vary.
7. A tax that attempts to correct for negative externalities in market activity
8. He planted trees on his property in the hope that doing so will increase its value, but he also enabled future generations to have a nice house.
9. He says that taxes represent government claims on private property.
10. An amendment limiting peacetime Federal spending to a specific, lower percentage of the gross domestic product

### Lesson 55

1. Mandatory and discretionary
2. The effect of increased spending by the government on aggregate demand as those who receive Federal dollars then use those dollars to buy other goods and services
3. The amount that the government spends each year which exceeds revenue received
4. The accumulated annual deficits, or the total indebtedness of the Federal government
5. The effect of deficit spending that tends to drive



- up interest rates and reduce the supply of money available for loans to private entities
6. Political courage to raise taxes, cut spending, or enact some combination of both
  7. Keeping the deficit to a low ratio of the gross domestic product
  8. The person who borrows money is obligated to repay it.
  9. Those who approve the borrowing do not face the obligation to repay the creditors, but instead that obligation is passed on to future generations.
  10. When the funds are devoted to capital investment projects or when there are extraordinary demands on revenues such as in war emergencies

### Unit 11 Quiz

1. a; 2. d; 3. c; 4. c; 5. b; 6. b; 7. b; 8. d; 9. a; 10. b

### Unit 12

#### Lesson 56

1. The market value of a nation's total domestic output of all final goods and services over a period of time
2. The production of a nation's permanent residents, whether that production occurs within the country or elsewhere
3. By totaling all expenditures or by totaling all income
4. 3%
5. The nominal GDP is the actual total figure, while the real GDP expresses output in terms of a previous year's dollar value (called the base year) to account for the impact of inflation.
6. A way to compare the per capita GDP of various countries by taking into account the differences in the cost of living in various countries. PPP considers the long-term exchange rate between currencies to arrive at a common currency of expression.
7. The health of individual industries, how wealth is distributed among the population, the value of many things that are important to people, a direct indication of some quality of life issues
8. The previous 25 years have been the greatest period of prosperity in human history.
9. A dramatic reduction in marginal tax rates, a series of major deregulations, and a broad expansion of trade
10. Democrats wanted to reverse the trend of

economic freedom, while Republicans were timid about defending the ideas that had brought about increased prosperity.

#### Lesson 57

1. Gross domestic product, inflation, and unemployment
2. An estimation of what a typical urban consumer has to pay for goods and services
3. A sampling of the prices in several cities for a market basket of goods and services
4. The index does not reflect consumer prices in rural areas. It also does not reflect changes in buying habits, and it does not immediately reflect new products that come onto the market or how consumers respond to changes in existing goods and services.
5. A monthly telephone survey of 60,000 homes
6. For every two percentage point change in the real GDP above or below 3%, the unemployment rate will change by about 1%.
7. A figure that is an estimation of future economic activity based on information gathered by the Conference Board on ten areas of the economy
8. Lagging and coincident
9. Layoffs generally occur after sales have started to decline, while hiring increases after the level of sales has begun to rise.
10. Levels of personal income and disposable personal income, consumer spending, producer prices, orders for durable goods, sales of new and existing homes, productivity

#### Lesson 58

1. A market—real or virtual—where shares of stock are bought and sold
2. The New York Stock Exchange
3. Fear and greed
4. By investing in a mutual fund managed by professional investors with a plan to keep investments in the fund for several years
5. The DJIA takes the stock values of a few key companies traded on the NYSE and uses a formula to determine a cumulative value for those stocks.
6. The National Association of Securities Dealers Automated Quotations, an electronic stock market
7. An index of the stock values of 500 companies traded on either the NYSE or the NASDAQ
8. A market where commodities such as farm

products, energy sources, and metals are bought and sold

9. An agreement for a speculator to buy a commodity from a producer at a specified time in the future for a price set today

10. The stock market is a fairly good indicator of the perceived success of large companies that employ millions of people and that have a major impact on the economy. However, longer term trends that are published less frequently are more complete indicators of economic activity. Also, the stock market does not directly reflect what is happening with small businesses and the self-employed.

### Lesson 59

1. Economists differ over the precise definition of a recession and the precise determination of when one starts and when it is over, and the media often hype coverage of economic activity.

2. When the gross domestic product declines for at least two consecutive quarters or six months

3. This definition does not consider any other variables such as unemployment or consumer confidence, and most economists prefer to identify a more precise starting point for a recession.

4. The National Bureau of Economic Research Business Cycle Dating Committee

5. "A significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales"

6. Just over ten months

7. The periods between low points have generally gotten longer.

8. Seven members of the Business Cycle Dating Committee met by conference call on November 28, 2008 and determined that overall economic activity peaked and began a decline in December of 2007.

9. The NBER does not have a set definition of a depression.

10. A depression is generally understood to be a period of economic downturn that is more severe than a recession. One common rule of thumb is that a depression involves a decline in the GDP of more than 10%.

### Lesson 60

1. \$53 trillion

2. Average personal worth: \$100,000; average personal income: \$49,000

3. Three times the amount of money needed for an economical food budget, adjusted for the number of persons in a household

4. 13.2%

5. The percentage of total income earned by the wealthiest 1% of Americans increased, while the percentage of total income earned by the rest of Americans declined.

6. In many poor households, people in the household do not work many hours; and the father is absent.

7. Answers will vary. The text explains that the wealthy provide jobs for many people, make investments that help businesses grow, and pay a large share of the taxes that fund government income redistribution programs. To say that the poor are poor because the rich are rich assumes a stagnant, limited economic pie.

8. He was robbed and beaten.

9. He was having trouble with his students, and almost from self-preservation he began talking to his students about business topics. He noticed how the students started paying attention.

10. To recruit the best business and academic minds to help their efforts, and to use high technology in all of NFTE's teaching models.

### Unit 12 Quiz

1. J; 2. F; 3. A; 4. B; 5. G; 6. I; 7. D; 8. E; 9. H; 10. C

### Unit 13

#### Lesson 61

1. One-sixth

2. One-fourth

3. 58%

4. The situation in which a person does not bear the full risk of his decisions and actions and so tends to make different decisions as a result.

5. When bills from health care providers are not paid by the patient but by a third party (usually a health insurance company or the government)

6. Health care availability, health care costs, health insurance, and personal responsibility

7. Answers will vary.

8. The problem is the approaching huge increase in the number of people who will soon be expecting Social Security, Medicare, and private pension benefits, and the lack of resources to pay for

these obligations.

9. Liberate the patients, liberate the doctors, and pre-fund the system.

10. Let patients use at least some of their health care dollars as they see fit, let doctors re-price and re-package their services, have warranties for surgery, let providers develop new ways of offering their services

### Lesson 62

1. Social Security was begun to provide retirement benefits for workers and survivor benefits to families of deceased workers.

2. Retirement benefits are calculated on the basis of a worker's income during his years of work.

3. The Social Security Administration will go to the Treasury Department to redeem bonds to obtain additional funds. Treasury is supposed to pay the bonds off with money from general Federal revenues.

4. There are now more retirees who are living longer, so more money is needed to pay benefits. The pool of workers paying into Social Security is shrinking since birth rates declined after the Baby Boomer generation. The first members of the Baby Boomer generation are becoming eligible for retirement, so the number of retirees will increase significantly.

5. Each generation should be able to understand that it is providing for its own retirement as opposed to paying for the benefits of current recipients.

6. It provides medical coverage for people 65 and over, it provides medical coverage for some disabled people who are under 65, and it offers a prescription drug benefit.

7. \$480 billion

8. Payroll taxes (41%), premiums paid by participants (12%), general Federal tax revenues (39%), and a few other sources

9. Payment is made for each service rendered, so the more medical services a doctor orders, the more the doctor gets paid.

10. It has no viable competition.

### Lesson 63

1. 1859, in Titusville, Pennsylvania

2. The Organization of Petroleum Exporting Countries, a cartel

3. The cost of crude oil (50%); refining (15%); Federal, state, and local taxes (23%); and distribution,

marketing, and dealer costs and profits (12%)

4. 17%

5. To produce electricity

6. (1) The supply that can be feasibly recovered is expected eventually to run out; (2) they must be burned to produce energy, which generates atmospheric pollution.

7. Primarily from domestic and offshore sources

8. (1) The possibility of an accident that could release harmful radiation; (2) dealing with radioactive waste that is generated by nuclear plants

9. As of 2009, they provided only about 1% of America's energy needs; and the cost factor was still a major issue. Other problems need to be solved, such as the development of cars that do not use gasoline as well as improved battery technology.

10. More energy because of the expected growth of the world's population and the world economy

### Lesson 64

1. Henry Ford

2. Over half

3. Higher gasoline prices, which were a result of Arab countries refusing to sell oil to the U.S.

4. Japan

5. General Motors, Ford, and Chrysler

6. 49.7 million

7. Supply and demand, substitute goods and complementary goods, government regulations, foreign trade

8. Detroit underestimated the competition, GM mismanaged its relationship with the UAW, American automakers handled failure better than success, American carmakers relied too heavily on a few gas-hungry truck and SUV lines for their profits, and GM refused to believe that to survive it could not remain what it had been in the 1950s and 1960s

9. Health care and pensions for retirees, and the Job Bank commitment for people whose work was no longer needed

10. Government Motors

### Lesson 65

1. People need a place to live. This demand stimulates the construction of single-family residences, condominiums, and apartments. The home construction industry has a major impact on the demand for lumber, home appliances, furniture, roofing materials, and other goods in

related industries. More homes and larger homes also increase the demand for energy. The number of home sales and the number of new home construction starts in a given month are key statistics in determining the strength of the economy.

2. Buying a home is usually the single largest purchase that a family will make. It is also usually the largest investment that a family will make. This investment affects many areas of their lives, such as how much they can save or spend on other things and how well a couple is prepared for retirement. Homeownership is an indication of how well a family is doing financially overall. Homeownership is an important part of the American Dream.

3. The mortgage is paid off with monthly payments of a level amount that are made over a period of years. These monthly payments include the principal and the interest. The amount of the payment applied to the principal gradually increases over time while the amount applied to the interest gradually decreases over time because less and less is owed on the mortgage.

4. A mortgage taken out for fewer years has less interest charged than a mortgage that takes longer to pay off.

5. A family should only buy a home if its price is less than three times the family's annual income. Lenders have usually wanted the total paid out for principal, interest, property taxes, and home insurance to be no more than 28% of a family's gross income. Banks have also wanted a buyer's total debt payments (for the mortgage, car loans, student loans, and other debt) to be no more than 36% of gross income.

6. Private mortgage insurance that will pay off the loan if the borrower defaults on the mortgage

7. Two-thirds

8. Federal Housing Authority (FHA), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac)

9. Mortgage interest payments and property taxes are deductible from taxable income if a taxpayer itemizes deductions.

10. A family might pay too much for a home and thus have to cut back on other purchases. This can lower the demand for other goods and services in the economy. A family might take on too much risk and therefore default on the loan. If risky mortgages are bundled and sold as investments, those investments might lose their worth if too many homeowners default on their mortgages.

### Unit 13 Quiz

1. b; 2. a; 3. d; 4. c; 5. b; 6. a; 7. d; 8. b; 9. c; 10. d

### Unit 14

#### Lesson 66

1. Most colonists and most citizens in the new nation were farmers. Family farms were the norm in the North and in the South, but in the South economic and political life were dominated by the owners of large plantations.

2. Price supports and crop restrictions

3. Fewer farms, larger and more productive farms, and fewer workers

4. One million

5. A significant increase in farm worker productivity caused by developments in technology

6. Corn and soybeans

7. Exports: \$62.5 billion; imports: \$57.7 billion

8. Advantages: it makes the U.S. less dependent on foreign oil and reduces some harmful emissions. Disadvantages: it is relatively expensive to make, it tends to make motor fuel more expensive, it drives grain prices up as more grain is used for ethanol instead of for food, and its overall effect on pollution is widely debated.

9. It is a response to the widespread use of potentially harmful chemicals in farming.

10. We might fail to realize that God provides for us, and we might forget our role as stewards of the world God has given us.

#### Lesson 67

1. Environmentalists and conservationists on one side and business interests on the other

2. Can we have a healthy economy and a healthy environment?

3. (1) Most choices involve marginal decisions, not all-or-nothing decisions. (2) People make choices, and no choice is without cost. (3) The environment is a public good. (4) Economic activity and growth require energy and result in waste.

4. Imposing regulations and imposing taxes

5. Government puts a cap on overall carbon emissions and issues permits that companies buy at auction which allow the companies to produce certain amounts of carbon above their initial allotments. When a company reduces its carbon emissions, it can sell or trade its permits to other companies. As government lowers the overall



cap over time, the permits become less numerous and thus more valuable and should increase in price.

6. The United States competes in the world economy on an unlevel playing field. The U.S. has some of the world's most stringent environmental regulations; but other countries, such as China, have fewer regulations and as a result have lower production costs.
7. Christians should see the environment as God's handiwork and its protection as a stewardship from God.
8. To develop more effective techniques for bringing man's economic activities into equilibrium with the natural world
9. A strategy of economic incentives to achieve those goals
10. Our biological knowledge is so small that we do not have the basis to decide whether a species should be preserved.

#### Lesson 68

1. Output divided by hours worked
2. GDP divided by aggregate hours worked
3. The technology used in production makes the inputs more productive.
4. A higher level of training and skill leads to greater productivity by helping workers gain from improved technology and adapt to new work situations.
5. All else being equal, the larger the workforce, the greater will be the productivity.
6. Immigration
7. Generally speaking, the more hours worked, the greater the productivity.
8. Investment in training, new equipment, and new technology enables a business to be more productive.
9. Business owners have to invest in new technology and capital goods in order for their workers to be more productive. Owners have to make sure that their workers are trained well. Managers have to use good people skills to motivate workers. Owners have to provide or to seek out investment so that their companies can grow.
10. By keeping tax, debt, and inflation rates low; by maintaining stable financial markets; by providing economic and political stability and eliminating corruption; by encouraging education and job training programs as well as research and development; by seeking to expand international trade; by staying out of the way of the operation

of the market as much as possible.

#### Lesson 69

1. Overall, it was a period of significant growth.
2. Putting down 10-25% of the stock values and borrowing the rest from the broker, hoping to make a profit as stock prices rise
3. 40%
4. An inadequate money supply and depositors demanding their money in cash
5. It hurt U.S. trade and as a result hurt the economy.
6. During World War II
7. It probably helped some, but it also hurt some.
8. He says they were not nearly so desperate as some textbooks would have us believe.
9. He believes that a revolution was not likely at all.
10. UAW members and college students

#### Lesson 70

1. Debt, government encouragement of homeownership, and greed
2. Home buying increased, but many of those who were granted mortgages were not prime candidates for mortgages.
3. Investment instruments made up of bundles of mortgages
4. Many people defaulted on their mortgages, and those properties became less valuable.
5. Short term loans granted to businesses
6. The government rescued investment companies, sent stimulus checks to Americans, and bought up toxic assets from lenders.
7. They declared bankruptcy.
8. A large influx of investments from abroad
9. Bad decisions about granting mortgages, many mortgage holders defaulting on their loans, and a housing construction boom that led to a decline in house prices
10. To purchase troubled assets so that banks could resume making loans to families and businesses

#### Unit 14 Quiz

1. fewer, larger
2. foreign oil, harmful emissions
3. carbon
4. stewards

5. Technology
6. investments
7. money supply
8. marginal income
9. Mortgage-backed
10. bankruptcy

## Unit 15

### Lesson 71

1. Individuals make all of the difference. Individuals make economic decisions. If something happens in the United States economy, it happens because of individuals. A large economic activity is engaged in by many individuals. Individuals make decisions, consider opportunity costs, face tradeoffs, and deal with unintended consequences. Supply and demand in the market are created by individuals. The largest companies, the most powerful labor unions, and the actions of government all involve individuals.
2. On one hand, we believe that the spiritual realm is all that ultimately matters. On the other hand, we live in the physical world.
3. God places us in this physical world and tells us to live well in it. We are to be wise in how we handle our resources. We are to be compassionate toward the poor and the victims of injustice. We are to work to provide for ourselves and to teach others to do the same. We are to live responsibly in this world before the Judge of the universe.
4. We give God the glory, and we can work with Him instead of against Him.
5. Since we have been given abilities, we have a responsibility to use our abilities to support ourselves and to bless others.
6. How you spend your time and how you spend your money
7. God does not expect the impossible, but He expects us to live up to our potential, with no excuses.
8. UPS has been able to offer an alternative to the Postal Service for nationwide small package delivery. UPS has transformed itself because of competition and has become the world leader in package distribution. The company is an innovator in transportation logistics and information technology.
9. Teamwork
10. He checked on a customer whose screen had come off a window, and he replaced the screen.

### Lesson 72

1. The moral economy is a concept that is used to describe economic activity based on moral principles such as goodness, fairness, honesty, and justice.
2. Trust
3. When market activity was concentrated in local communities
4. As economic activity expanded and as producers and consumers became connected over long distances and involved people they never met who had different moral standards, the application of moral principles in economic activity became less assured. Consumers increasingly did not know the suppliers with whom they engaged in transactions. Addressing issues of product quality and honesty became more difficult.
5. Saving
6. Be honest in everything you do. Do not pressure people. Always pay your bills on time.
7. Treat well those who work with you or for you. Be aware of your impact on the environment. Look for ways that you can give to other people or to good causes.
8. The capacity a person has to determine right and wrong
9. Making purchases in a way that helps other people and that is in keeping with your beliefs and standards
10. You can help people you know, you can develop relationships with the people with whom you do business, you can talk to a real person if you have a problem, and you can make a difference for others in the community.

### Lesson 73

1. A married couple needs to be together in their thinking. They have to come together to develop a plan that is better than either one of them could have devised individually.
2. Give ten percent, save ten percent, and live on the rest with thanksgiving and praise.
3. Planning, prayer, and action
4. Making it and keeping it
5. Spending no more than what you earn
6. You will always be able to find someone who has more than you do and risk being depressed; and you will always be able to find someone who has less than you do and risk being prideful. You do not know what is going on in the other person's life.

7. It is a way to manage risk.
8. Debt creates an obligation for your money when you do not know what tomorrow might bring. Debt also costs you more money than you would spend by just paying the purchase price for things because of interest charges. Going into debt to start a business is unwise because you put yourself under great financial obligation from the very beginning.
9. The inability to pay one's debts
10. Eternal life

### Lesson 74

1. The place where your deep gladness and the world's deep hunger meet
2. You should listen to your parents and to wise counsel from respected friends because they might be giving voice to God's will for you.
3. Your life in later years is not likely to look exactly like you now think that it will.
4. Someone who influences others
5. You can be a leader for your children, you can be a leader where you work, you can be a leader in your community, you can be a good example of homeschooling. Other answers possible.
6. You will have fewer expenses without a storefront to maintain and commute to. You can mentor your children in the ways of the business world and teach them responsibility and the heart of a servant.
7. The Greek word from which we get economy described someone who was the manager of a household. The English word economics used to mean the management of a home.
8. The charges he had to pay at a motel in Washington, D.C.
9. Getting investors to buy the company's stock
10. Worrying too much about making mistakes

### Lesson 75

1. To hear Jesus' Sermon on the Mount
2. A greater righteousness, one that surpasses the righteousness of the religious leaders, a righteousness of the heart and not just outward actions
3. Not to make a show of it
4. Heavenly riches
5. It shows where your heart is.
6. Putting God first
7. The birds of the air and the flowers of the field
8. To make sure that God is your king and that

- His way of righteousness is your standard of living
9. He means for us to live them out.
  10. By seeing themselves as stewards of the resources that God places in their care

### Unit 15 Quiz

1. b; 2. d; 3. a; 4. b; 5. a; 6. d; 7. c; 8. b; 9. c; 10. d

### Third Exam (primarily Units 11-15)

The suggestions below are intended to give you some ideas about what to look for in the student's answers. Look for sentences that have specific ideas and are not just filled with generalities. At the same time, you will probably want to give the student some grace in grading his or her answers to these questions. 100 points total, five points for each answer.

1. The goals are economic efficiency, equity, freedom, security, growth, and stability. Answers will vary. See Lesson 25.
2. Look for comments about correcting for market failure, imposing regulations, enacting taxes, general oversight, or the government having no involvement whatsoever in the economy. See primarily Lessons 52-54.
3. Lesson 52 emphasizes these goals: to promote economic growth and stabilization, to reduce inflation and unemployment, to preserve the fairness of and equal access to the free market, and to encourage international trade. Answers will vary.
4. Possible answers: regulation of pollution, consumer safety, taxation to influence behavior, or other topics. See Lessons 52-54.
5. Possible answers: government oversight of health care, income redistribution, burdensome regulations, or taxes that are too high. See Lessons 52-54.
6. Possible answers: wasteful spending, setting a poor example for individual Americans, creating a burden for future generations, or other ideas. See Lesson 55.
7. Wealthier Americans provide jobs and the investments that create jobs. Wealthy Americans might need to be more charitable toward poor Americans or help the poor develop new habits. See Lesson 60.
8. Possible answers: American investment in poorer countries, encouraging free trade with

those countries, and encouraging greater productivity and political freedom in those countries. See Lessons 36, 38, and 39.

9. These measurements tell us about productivity, inflation, where the economy appears to be headed, and the health of the largest corporations. See Lessons 56-58.

10. Possible answers: allowing market forces to work through competition and personal responsibility for medical costs, allowing insurance companies to compete across state lines, allowing Medicare recipients to control at least some of their health care dollars. See Lessons 61-62.

11. Possible answers: domestic oil production, concentration on alternative energy sources, developing cars that run on electricity, and government encouragement of these developments. Other ideas possible. See Lesson 63.

12. Answers will vary. The government bailouts kept many people working, but they also interfered with market forces. See Lesson 64.

13. Some government regulation is probably essential, but finding market-based solutions will offer the best answers. See Lesson 67.

14. Training, knowing how to use technology, working enough hours, and making wise decisions early in life are possible answers. See Lesson 68.

15. Possible answers: the danger of greed, debt, or the problems associated with the government bailing out failing businesses. See Lesson 70.

16. Being responsible, doing what is right regardless, trusting God and not material things, and setting a good example are possible answers; but other answers are possible. See Lesson 71.

17. Setting goals, making a budget, deciding not to go into debt, giving faithfully; other answers possible. See Lesson 73.

18. Possible answers: not getting caught up in materialism, trying to support justice, helping those in need, seeing greed and shady business tactics as just as wrong as government waste. See Lessons 73 and 75.

19. Answers will vary. Look for specific ideas and reasons.

20. Answers will vary. Again, look for specifics.

## Also by Ray Notgrass

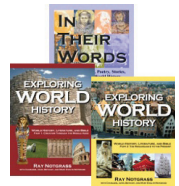


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