**Reading Guide CHAPTER 23 – Gov’t and the Economy**

*Complete on your own paper – typed answers will not be accepted*

*4 Acceptable Submission Options (10% deduction if not followed):*

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**Section 1: The Role of Government**

1. What are ***private goods*** and ***public goods***?
2. What are five examples of public goods?
3. Define: ***externality***.
4. How do government-built roads provide ***positive externalities***?
5. Define: ***monopoly***.
6. Why may consumers suffer from the actions of a **monopoly**?
7. How does government in the United States encourage competition?
8. Define: ***merger***.
9. Why does the government sometimes act to prevent a merger?
10. Define: ***natural monopoly***.
11. In what three important areas is government regulation needed?
12. Why are many public services, such as water and electricity, delivered by a single producer?

**Section 2: Measuring the Economy**

1. What does real **Gross Domestic Product (GDP)** show?
2. How is ***Real GDP*** different from GDP?
3. What is the **business cycle**?
4. When is the economy considered to be in a ***recession***?
5. According to the chart on page 640, is the US in a recession or expansion period?
6. Who makes up the ***civilian labor force***?
7. How does a drop in the ***unemployment rate*** affect the economy?
8. Define: ***fiscal policy***.
9. Define: ***inflation***. Why does it hurt the economy?
10. What is the ***consumer price index* (CPI)**, and what does it determine?
11. How does **inflation** affect purchasing power?
12. What is a ***stock index***? List the two most popular stock indexes.
13. What happens in a **bull** and a **bear market**?
14. What are some factors that can cause stock prices to rise and fall?

**Section 3: Government, the Economy, and You**

1. What are three common reasons for income differences in the United States?
2. What are three major laws that the government has passed to reduce discrimination?
3. For what does the government use poverty guidelines?
4. As of 2006, when was a single person considered to be in poverty in the United States?
5. What is the goal of the Food Stamp program?
6. Define: ***WIC***
7. At what level are most ***workfare*** programs administered?
8. How is the ***progressive income tax*** designed to help people with lower incomes?
9. What is the ***EITC***?

**Reading Guide CHAPTER 24 – Money & Banking**

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**Section 1: What is Money?**

1. Explain the three functions of money.
2. How do economists define ***money***?
3. What is the difference between ***coin*** and ***currency***?
4. What gives money value?
5. What are two differences between ***commercial banks*** and ***credit unions***?
6. What is the main function of the three main types of banking institutions?
7. What two factors make the US banking system the safest in the world?
8. Why was the **Federal Deposit Insurance Corporation (FDIC)** created?
9. What do banks do with the deposits they receive?

**Section 2: The Federal Reserve System**

1. What is the ***Federal Reserve System***? Why is it known as the bankers bank?
2. How many Federal Reserve districts are in the US? When was the ***Fed*** established?
3. Who runs the Fed?
4. What is the main function of the ***Federal Open Market Committee (FOMC)****?*
5. What are four functions of the Fed as regulator?
6. What are three functions of the Fed as the government’s bank?
7. What is ***monetary policy***?
8. How can the Fed change interest rates?
9. List AND explain the Fed’s three tools of monetary policy.
10. What does the Fed do to encourage business investment?
11. Use the graph on page 664 to answer: What happens to interest rates when the money supply contracts? Why does the price of credit (ie. interest rates banks charge people to borrow money) fall when the money supply increases?

**Section 3: How Banks Operate**

1. Who starts a bank?
2. List AND explain the three main types of deposit accounts that banks accept.
3. How do loans increase the money supply?
4. What was the role of the ***Bank of the United States***? (note – this is not *Bank of America*, which is a commercial bank!) When did the charter for the 2nd Bank of the United States expire?
5. What did the ***National Banking Act*** establish?
6. What did President Franklin Roosevelt do to help fix the banking collapse of the Great Depression?
7. What is a ***Savings & Loan (****see p.658* ***)***? What happened during the ***S&L crisis*** of the late 1980’s?
8. What did the ***Gramm-Leach-Bliley Act*** permit?
9. Use the flow chart on page 670 to answer: What does it mean when you check “clears?”

**Reading Guide CHAPTER 25 – Government Finances**

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**Section 1: The Federal Government**

1. What is the period of the federal government’s ***fiscal year***?
2. How are ***mandatory spending*** and ***discretionary spending*** different?
3. What is an ***appropriations bill***? What is the process by which appropriations bills are passed?
4. What are the two main parts of the ***federal budget***?
5. What are the top two sources of Federal ***revenue***?
6. For what do ***payroll taxes*** pay?
7. Aside from income and payroll taxes, what are four other sources of **federal revenue**?

Excise taxes, estate taxes, gift taxes, and entry fees to national parks

1. What are **proportional taxes**, **progressive taxes and regressive taxes**? Give examples of each.
2. What is the single largest ***expenditure*** category in the federal budget? What is the number 2 expense for the federal government?

**Section 2: State and Local Governments**

1. What are ***intergovernmental revenues***?
2. In addition to money from the federal government, what are the next three largest sources of ***state* *revenue***?
3. What is the second-largest source of revenue for ***local*** governments?
4. What is a ***special assessment***?
5. What is the largest expenditure for the state?
6. What three types of ***entitlement programs*** do *state* governments provide?
7. What does ***subsidy*** / ***subsidize*** mean? Why do states ***subsidize*** the cost of state colleges and universities?
8. What are four services for which local governments must pay?

**Section 3: Managing the Economy**

1. What is the difference between a ***surplus*** and a ***deficit***? Which one does the Federal government currently have?
2. How does the federal government borrow money?
3. What is a ***bond***?
4. What is a ***balanced budget***? Does the Federal government have to balance the budget? Does the NC state government have to balance the budget?
5. How do bad economic times affect the budgets of state and local governments?
6. What do state and local governments do to try to prevent the need to borrow money?
7. Why does the federal government sometimes spend large sums of money even when the economy is strong?
8. Does ***fiscal policy*** (spending during a recession and increasing taxes during an expansion) actually work??
9. Define AND explain two ***automatic stabilizers*** in the U.S. economy.

**Reading Guide CHAPTER 26 – Comparing Economic Systems**

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**Section 1: International Trade**

1. Define: ***import*** and ***export***.
2. What economic problem does trade help solve?
3. What is a ***comparative advantage***? What is one example of a ***comparative advantage*** based on natural resources?
4. How does ***international trade*** create jobs?
5. Explain the two ***trade barriers*** that governments can apply.
6. How do ***tariffs*** promote the sale of domestic goods?
7. What is one example of a ***quota*** used by the United States?
8. What is the goal of Free Trade? List 3 major free trade zones/agreements.
9. What is the purpose of the **North American Free Trade Agreement (NAFTA)**?
10. Define: ***exchange rate***.
11. Define: ***balance of trade***. How does the value of a nation’s currency affect the balance of trade?

**Section 2: Economic Systems**

1. What are four characteristics of a ***market economy***?
2. Define: ***per capita GDP***.
3. What actions does the U.S. government take to ensure competition?
4. Define: ***command economy***. What is the role of government in a command economy?
5. How did ***Karl Marx*** think socialism would develop?
6. In a command economy, what government groups make the important economic decisions?
7. What is a ***mixed economy***?

**Section 3: Economies in Transition**

1. By the 1980s, why did it appear that the major command economies had failed?
2. What are three changes that had to occur as the Russian economy began to change to a market economy?
3. What are two serious problems with the Chinese economy that must still be solved?
4. Define: ***developing country***.
5. List and explain the type of economy used by most developing countries.
6. Why is high population growth a major obstacle to economic growth?
7. What is one recommendation the ***World Bank*** gives to developing countries?

**Reading Guide CHAPTER 27 – An Interdependent World**

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**Section 1: Global Developments**

1. What are two positive aspects of global trade?
2. What is ***protectionism***?
3. How much of its oil does the United States need to import?
4. What is the difference between ***developed nations*** and ***developing nations***?
5. Why do poor nations believe that antipollution laws are unfair?
6. Along with environmental destruction, what are five other global challenges today?

**Section 2: The United Nations**

1. What is ***internationalism***?
2. When was the ***United Nations* (UN)** founded? By whom??
3. What are the four main purposes of the UN?
4. What is the main problem keeping the UN from being completely effective?
5. What is ***globalization***?
6. What has the UN called on leaders of ***multinationals*** to do to help poor countries in which they operate?

**Section 3: Human Rights**

1. What are ***human rights***?
2. What is the focus of the ***Universal Declaration of Human Rights***?
3. What is ***genocide***?
4. What is the purpose of the publication *Freedom in the World*?
5. Why did the United States and ***European Economic Community*** order sanctions against South Africa?
6. How was the world generally divided during the ***Cold War***?