LESSON 1

Understand Economics

SS CONTENT TOPICS: II.E.c.1, II.E.c.3, II.E.d.1, II.E.d.6, II.E.d.9, II.E.d.10
SS PRACTICES: SSP.1.a, SSP.1.b, SSP.2.a, SSP.2.b, SSP.4.a, SSP.6.b

1 Learn the Skill

Economics is the study of the way in which goods and services are exchanged. It includes exchanges between people, groups, businesses, and governments. The study of economics borrows from human psychology, ethics, and history in its attempts to explain and predict behaviors related to buying and selling. Learning to **understand economics** is essential for making sense of societal behaviors and world events.

As with other areas of the GED® test, understanding economics and how economics can relate to your everyday life will test your ability to interpret information at various Depth of Knowledge levels through the use of complex reading skills and thinking skills.

2 Practice the Skill

By practicing the skill of understanding economics, you will improve your study and test-taking abilities, especially as they relate to the GED® Social Studies Test. Study the information below. Then answer the question that follows.

Economics is divided into two main categories—microeconomics and macroeconomics. Microeconomics involves economic decision making at an individual level or company level. This includes individuals, households, businesses, and industries. Macroeconomics studies the behavior of the entire economy.

The table illustrates some of the differences between microeconomics and macroeconomics.

a The table highlights some of the main economic indicators and how they apply to microeconomics versus macroeconomics.

b To help you remember the difference between micro- and macroeconomics, remember that *micro* means "small" and *macro* means "large."

	a Production	Prices	Income	Employment
Microeconomics	How many bottles of juice does Company A produce?	What is the price of a bottle of juice from Company A?	What are the wages of the employees at Company A?	How many people are employed at Company A?
b Macroeconomics	How many goods and services does the United States produce?	What is the Gross Domestic Product (GDP) of the United States?	What are the total wages and salaries of employees in the United States?	What is the unemployment rate in the United States?

TEST-TAKING TIPS

Try to think of an example that illustrates any unfamiliar term or concept. To differentiate between micro- and macroeconomics, think about your own spending habits versus U.S. economic policies.

1. Which of the following is an example of microeconomics?

   A. The United States produced more oranges this year than last year.
   B. A can of frozen orange juice costs $2.09 at the supermarket.
   C. Oranges are one of the primary crops in Florida.
   D. Millions of gallons of orange juice are exported each year.

DIRECTIONS: Study the information, read the questions, then choose the **best** answer.

A market is a place or infrastructure in which the exchange of goods and services takes place. In the most literal sense, a market is a physical place in which things are bought and sold, like a farmer's market, for example. To economists, a market is not necessarily a specific place, but a structure in which buyers and sellers are free to trade with one another. This freedom for buyers and sellers leads to similar prices for the same goods.

Sellers that sell cucumbers at a farmer's market, for example, will tend to have their cucumbers priced similarly. Competition between sellers keeps the price of cucumbers from going too high. Sellers know that if they raise their price too high, their buyers will move to other sellers that have lower prices. Some sellers may add incentives to persuade buyers to purchase their produce or product. In this case, a seller with a higher-priced cucumber might incentivize customers by giving them a free tomato with each cucumber purchase.

Some markets are not competitive, but have monopolies. If there were only one seller of cucumbers at the farmer's market and no other sellers of cucumbers could get a spot at the market, this seller could form a monopoly. Without any government regulation, this seller could set the price of the cucumbers wherever he or she wanted.

2. Which of the following holds prices for the same goods at about the same level in a market?

A. competition between sellers
B. high demand for the goods
C. incentives for consumers
D. quantity of goods available

3. Which of the following describes when a monopoly can occur?

A. A small number of companies control the market for a good or product.
B. Each company in a market produces goods that are slightly different and appeal to different customers.
C. One company sells a good or product that has no good substitutes and other companies are blocked from entering the market.
D. There are many companies producing the same product, leading to low prices that cannot sustain companies.

DIRECTIONS: Study the information, read the questions, then choose the **best** answer.

Businesses rely on economic indicators to guide their decision making. An economic indicator is an economic statistic. The unemployment rate, or percentage of people unemployed, is an economic indicator. The purpose of an economic indicator is to indicate how well an economy is currently doing and will do in the future.

Some indicators are leading, meaning they change before the economy changes, so they are helpful in making predictions. The stock market, for example, often begins to decline or improve before the larger economy. Leading economic indicators are helpful to investors as they make decisions about where to invest their money.

Other indicators are lagging, meaning they change after the economy changes. The unemployment rate, for example, may continue to increase for several months after the economy has started to improve.

4. Gross domestic product, or GDP, represents the total value of a country's production. Which of the following is an investor most likely to do if the GDP of the United States is consistently increasing?

A. invest in foreign-manufactured goods
B. sell investments in foreign companies
C. sell investments in U.S. businesses
D. invest in U.S.-based companies

5. Leading indicators are used to predict economic trends, while lagging indicators confirm long-term trends. Which of the following is a lagging indicator?

A. the stock market
B. unemployment
C. money supply
D. building permits