

SS CONTENT TOPICS: I.E.a, I.E.b, II.E.c.2, II.E.c.3, II.E.c.4, II.E.c.5, II.E.c.10, II.E.d.2, II.E.d.3, II.E.d.4, II.E.d.5, II.E.d.7, II.E.d.11  
SS PRACTICES: SSP.1.a, SSP.1.b, SSP.2.a, SSP.2.b, SSP.3.c, SSP.6.a, SSP.6.b, SSP.6.c, SSP.10.a

## 1 Review the Skill

Economics is the social science that studies the creation and flow of goods and services. When you study economics, look for ways in which aspects of society and human behavior are motivated by economic concerns or affected by economic events. Learning to **understand economics** is essential for an understanding of societal motivation and world events.

## 2 Refine the Skill

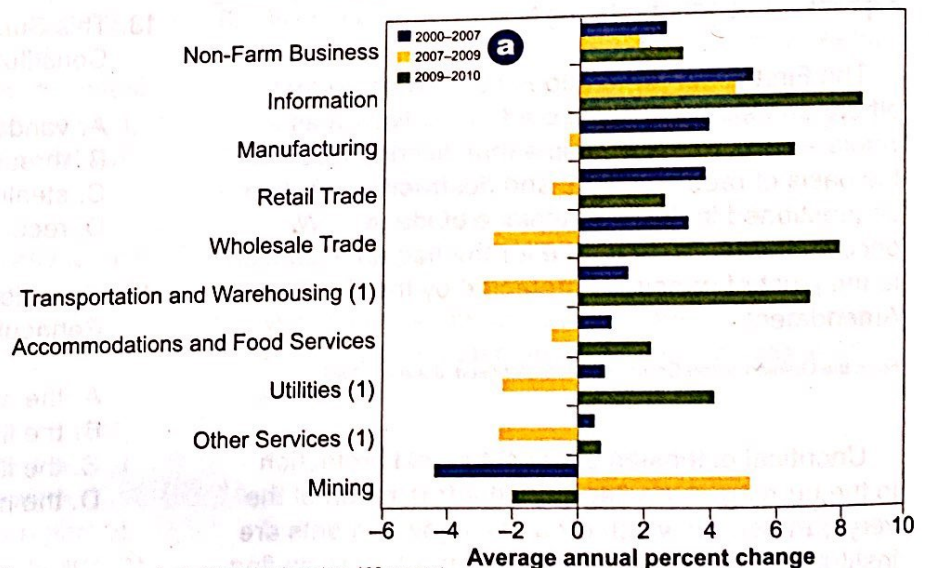
By refining the skill of understanding economics, you will improve your study and test-taking abilities, especially as they relate to the GED® Social Studies Test. Study the information below. Then answer the questions that follow.

Productivity is a measurement relating output to the labor hours used in the production of that output. This graph illustrates changes in output spanning three time periods.

**a** Economists often study how economic data change from year to year. This graph allows them to compare three different time periods on one graph and draw conclusions based on changes.

**b** An economic sector includes businesses related to a specific industry. For example, "utilities" likely includes electricity, gas, and power companies; telephone and internet service companies; and water and sewer services.

**CHANGES IN OUTPUT PER HOUR BY SECTOR, <sup>b</sup> 2000–2007, 2007–2009, and 2009–2010**



(1) Industry coverage is significant but less than 100 percent

- Which of the following sectors had the greatest change in productivity from 2009 to 2010?
  - Information
  - Manufacturing
  - Wholesale Trade
  - Transportation and Warehousing
- Insofar as productivity is concerned, which of the following sectors was the least negatively affected by the recession in 2008–2009?
  - Non-Farm Business
  - Retail Trade
  - Accommodations and Food Services
  - Mining

### MAKING ASSUMPTIONS

You can assume there are economic factors that affect individual industries, but also that there are economic factors that affect most industries.

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

Economics is essentially built on the core concept of individual choice. Individual choice refers to decisions made by an individual—including choices about what to do and choices about what not to do. Given the option, most people would choose to buy what they want; however, several factors may prevent this from happening. These factors influence the individual choices we make every day. For example, very few people have an unlimited supply of money, so they have to live within a set budget. Their budget, therefore, influences the individual choices they make. If someone has \$800 to spend on a sofa, he or she will buy the \$700 sofa, not a \$1,500 sofa, because he or she cannot afford the more expensive sofa.

**The four main principles underlying individual choice:**

1. Scarce Resources	A resource is anything that can be used to produce something else. Money or income is a resource, but time is also a resource.
2. Opportunity Costs	The true cost of something is what you have to give up to get it. For example, taking a second job to generate more income may mean giving up time with your family.
3. Trade-Offs	A trade-off is a comparison of costs and benefits. People usually do not ask themselves "whether" but "how much?" to determine the costs and benefits of doing a bit more.
4. Benefits	When presented with opportunities to make themselves better off, people will generally take them.

- Many consumers budget for weekly and monthly expenses. Some budget for groceries. Suppose you have \$100 to spend at the grocery store each week. Which of the following is an example of opportunity cost determining your individual choice at the grocery store?
  - choosing to shop on a Wednesday when there are more sales
  - choosing to purchase a watermelon that is on sale instead of a more expensive bag of apples that you planned to buy
  - choosing to use coupons when you shop
  - choosing to get a large box of cereal
- A woman receives a 2% pay increase at her yearly performance review. Which principle of individual choice will change the most for her?
  - Scarce Resources
  - Opportunity Costs
  - Trade-Offs
  - Benefits

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

Capitalism, socialism, and Communism are examples of economic systems. They vary by the amount of control the government or central authority has over businesses. A capitalist system has the least amount of government interference. The United States has a capitalist economic system.

Adam Smith and other economists favored a type of capitalism known as *laissez-faire*. This is a French term that means to let people do as they choose. In economics, it means that the government should not interfere. This theory was seen as inadequate by economist John Maynard Keynes. During the Great Depression, Keynes began to support the idea that government should make investments in society and businesses to spur the economy. Keynesian economists called for the same investment during the economic struggles of 2008–2009.

- A person chooses to stay at a hotel that offers free parking rather than at a comparable hotel that charges \$15/day for parking. Of which principle of individual choice is this the best example?
  - Scarce Resources
  - Opportunity Costs
  - Trade-Offs
  - Benefits
- Except during times of economic turmoil, what type of economic system is most often practiced in the United States?
  - Keynesian capitalism
  - laissez-faire* capitalism
  - laissez-faire* socialism
  - socialism