

UNIT

7

The Free Enterprise System

Why It Matters

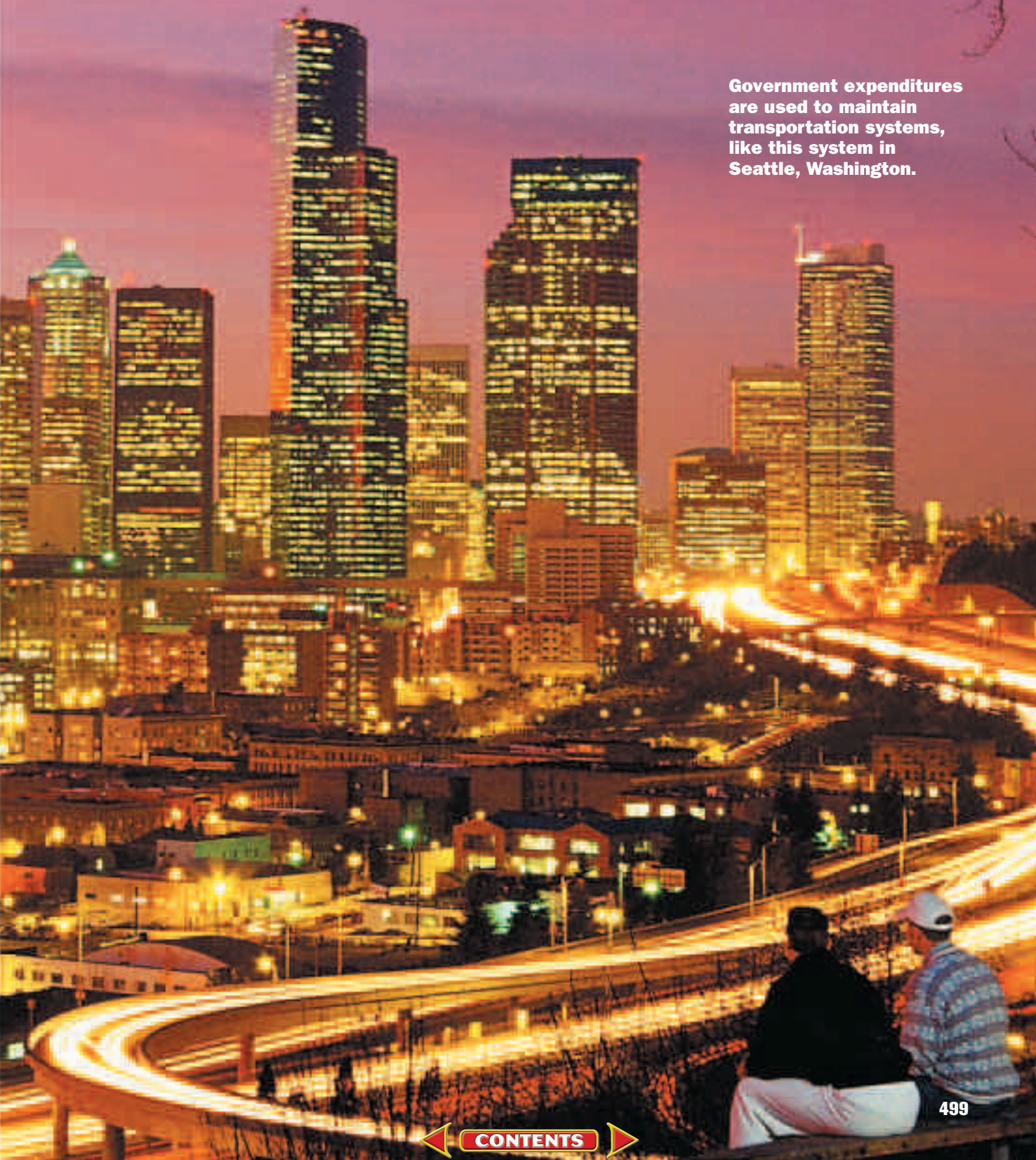
In this unit, you will find out how the major parts of our economy fit together into a system. Economists call this “macroeconomics,” and it means you will be looking at the economy as a whole. What role does government play in the economy? How does our monetary system work? You will learn about the policies and factors that influence our economic stability in Unit 7.



Use the **American History Primary Source Document Library CD-ROM** to find primary sources about the federal government and the economy.

★ BE AN ACTIVE CITIZEN ★

Interview two local entrepreneurs about the health of the free enterprise system. Ask about the current business climate, the state of the economy, and government policies that affect their businesses. Write a summary of your findings for your portfolio.



Government expenditures are used to maintain transportation systems, like this system in Seattle, Washington.



Government and the Economy

★ CITIZENSHIP AND YOU ★

The government's economic policies are aimed at strengthening the economy, solving economic problems, and protecting the economic interests of citizens. Ask a local librarian for help in finding information on recent government economic policies.



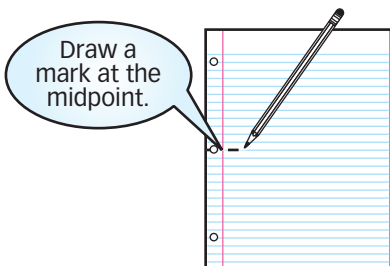
To learn more about how statistical measures are used to monitor the economy's performance, view the **Economics & You** video lesson 20: Measuring the Economy's Performance.



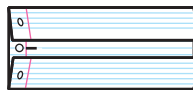
FOLDABLES™ Study Organizer

Analyzing Information Study Foldable Make this foldable to help you understand the role the government plays in maintaining economic stability, ways in which the economy is measured, and the impact these things have on your life.

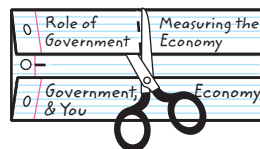
Step 1 Mark the midpoint of the side edge of a sheet of paper.



Step 2 Fold the outside edges in to touch at the midpoint.



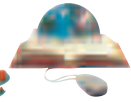
Step 3 Cut one of the large tabs in half to form two smaller tabs and label as shown.



Reading and Writing As you read the chapter, take notes by writing information under each appropriate tab.



CIVICS
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Chapter Overview Visit the *Civics Today* Web site at civ.glencoe.com and click on **Chapter Overviews—Chapter 23** to preview chapter information.



CLICK HERE



CONTENTS

The Role of Government

GUIDE TO READING

Main Idea

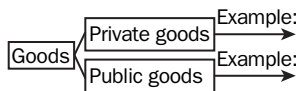
One of our nation's most important goals is to create an economic environment favorable to growth and stability.

Key Terms

private goods, public goods, externality, antitrust law, merger, natural monopoly, recall

Reading Strategy

Comparing and Contrasting As you read the section, complete a diagram like the one below by differentiating between public goods and private goods. Provide at least one example of each.



Read to Learn

- What public goods does government provide?
- What actions does government take to regulate economic activity?



Americans in Action

The economic activities of government affect your well-being every day. When you receive a check for your part-time or summer job, you see deductions for income and Social Security taxes. Laws requiring seat belts and motorcycle helmets are government mandates. Another is airport security. In November 2001 *USA Today* reported: “Congress approved an overhaul of the nation’s aviation security system yesterday to put the federal government firmly in control of airport safety operations. . . . The legislation would replace the private baggage-screening system with a 28,000-person federal workforce that will inspect passengers’ luggage. The bill also would strengthen cockpit doors, put federal sky marshals on flights and grant wide authority to a transportation security chief who will implement the new measures.”



Airport security

Providing Public Goods

Government plays several important roles in the economy. One role is providing goods and services—such as safer air travel—that private businesses do not provide.

Most goods and services that businesses produce are **private goods**, or goods that, when consumed by one individual, cannot be consumed by another. Consumption of private goods and services is subject to the **exclusion principle**. This means that a person is excluded from using that good or service unless he or she pays for it. Private goods are the items we normally buy, for example, clothes, shoes, food, and so on. Private services include such things as insurance, haircuts, medical services, auto care, and telephone services.

This is in contrast to **public goods**, or goods that can be consumed by one person without preventing the consumption of the good by another. Consumption of public goods is subject to the **nonexclusion principle**. This means that no one is excluded from consuming the benefits of a public good whether or not he or she pays. Examples of public goods include public parks, public libraries, museums, highways, and street lighting.

Because of the difficulty of charging for public goods, the government usually provides them. If government did not provide these public goods and services, then the private sector would not provide them in adequate amounts because it is so difficult to get people to pay for them.

As a result, the production of public goods is one of the responsibilities of government. The government still has to pay for them, of course, but it raises the money in the form of taxes and then provides the products to everyone.

Reading Check **Defining** What are public goods?

Dealing With Externalities

The government also plays a role in handling externalities. An **externality** is the unintended side effect of an action that affects someone not involved in the action. Suppose a company pays end-of-year bonuses to its workers. Restaurants and stores in the area will probably see their sales

go up because the workers have more money to spend. These businesses experience externalities. They were not involved in the paying of bonuses, but they were affected by it.

One reason that governments provide public goods is that these goods produce positive externalities. Everyone—not just drivers—benefits from good roads. Good roads make it cheaper to transport goods. As a result, those transported goods can have lower prices, which benefits everybody.

Governments can also take actions that indirectly lead to positive externalities. In the 1960s, the government wanted to put a man on the moon. The space program needed someone to develop smaller computers to achieve this goal. The government provided money to researchers who developed tiny computer chips. Today, those chips are found in cars, household appliances, and pocket calculators, benefiting many people. Many government activities encourage positive externalities.

Some externalities can be negative. That happens when an action harms an uninvolved third party. Suppose a chemical

Private and Public Goods

A ticket to the theater is an example of a private good. Highways are one of the public goods the government provides.

How do private goods differ from public goods?



Federal Regulatory Agencies

AGENCY	RESPONSIBILITY
Consumer Product Safety Commission (CPSC)	Makes sure that products are safe
Environmental Protection Agency (EPA)	Prevents air and water pollution
Equal Employment Opportunity Commission (EEOC)	Makes sure that employers do not discriminate in hiring and treating workers on the job
Federal Aviation Administration (FAA)	Oversees the air travel industry
Federal Communications Commission (FCC)	Gives licenses to radio and television stations and oversees prices for interstate telephone and telegraph services
Federal Energy Regulatory Commission (FERC)	Oversees the transmission of energy
Federal Trade Commission (FTC)	Makes sure that businesses do not engage in unfair competition
Food and Drug Administration (FDA)	Makes sure that food, drugs, and cosmetics are pure, effective, and truthfully labeled
National Labor Relations Board (NLRB)	Oversees issues related to labor unions and labor-management relations
Occupational Health and Safety Administration (OSHA)	Makes sure that workplaces are safe and healthful
Securities and Exchange Commission (SEC)	Oversees the sale of stocks and bonds and the work of people who trade in them



Evaluating Charts

The federal government has created many agencies that regulate business. Some oversee businesses in a particular industry. Others oversee certain kinds of business activities. Which agency oversees buying and selling of stock?

company tried to cut costs by dumping poisonous waste into a river. People who relied on the river water would suffer a negative externality from this pollution. One of the roles of government is to prevent these and other kinds of negative externalities.

Reading Check **Explaining** Do externalities always have negative effects?

Maintaining Competition

Markets work best when there are large numbers of buyers and sellers. Sometimes, however, a market becomes controlled by a **monopoly**, a sole provider of a good or service. With no competition, a monopoly can charge any price it wants, and consumers may suffer.



Antitrust Laws

Historically, one of the goals of government in the United States has been to encourage competition in the economy. The government tries to meet this objective through its **antitrust laws**, or laws to control monopoly power and to preserve and promote competition. In 1890, the federal government passed the Sherman Antitrust Act. This law banned monopolies and other business combinations that prevented competition. In 1911, the government used this law to break up the Standard Oil Company, which had a monopoly on oil. More than 70 years later, the government used the act to break up American Telephone and Telegraph (AT&T). This action created more competition in telephone service.

Mergers

Whenever a **merger**, a combination of two or more companies to form a single business, threatens competition, government may step in to prevent it. For example, when the two leading office-supply stores, Staples and OfficeMax, wanted to merge, the federal government was able to prevent the merger. The government felt that a merger of these two giant firms would result in less competition and higher prices for consumers.

On the other hand, the 2001 proposed merger of Hewlett-Packard and Compaq Computer, two leading personal computer makers, attracted little resistance from the federal government. If the merger had presented a potential problem, either the Justice Department or the Federal Trade Commission would have been involved.

Regulating Market Activities

Recall that governments want to reduce negative externalities. To carry out this work, they regulate some activities by businesses. That is, government agencies make sure that businesses act fairly and follow the laws. Some of the federal agencies that regulate businesses are shown on the chart on page 504. Government regulation is needed in three important areas.

Natural Monopolies

Sometimes it makes sense to have a single firm produce all of a particular good or service for a market. For example, it would not make sense to have three or four telephone companies compete in a local community if each company had to put up its own set of telephone poles.

This often leads to a **natural monopoly**, a market situation in which the costs of production are minimized by having a single firm produce the product. In exchange for having the market all to itself, the firm agrees to be regulated by the government.

Natural Monopolies Some local utilities (electric, gas, water) are the sole providers of their services in an area. **What is a natural monopoly?**





Economics and You

Limited Role of Government

In *The Wealth of Nations*, economist Adam Smith, in 1776, argued against government interference in the marketplace. He said that individuals left on their own would work for their own self-interest. In doing so, they would be guided as if by an “invisible hand” to use their resources efficiently and thus achieve the maximum good for society. Smith’s ideas still wield considerable influence among many economists and political leaders today.

This is why so many public services such as gas, electricity, and water are delivered by a single producer.

Advertising and Product Labels

Government is also involved when it comes to truth in advertising and product labeling information. For example, some sellers may be tempted to give misleading information about a product in order to sell it.

Even the content of food labels is important because some people are allergic to certain products like eggs, milk, and

peanuts. Other people, such as diabetics, need to know the contents of food because they have to watch their sugar intake.

The Federal Trade Commission deals with problems of false advertising and product claims. The Food and Drug Administration (FDA) is the agency that deals with the purity, effectiveness, and labeling of food, drugs, and cosmetics.

Product Safety

Product safety is another important area of regulation. From time to time, the Consumer Product Safety Commission recalls products that pose a safety hazard. In a **recall**, a company pulls a product off the market or agrees to change it to make it safe. In August 2000, Firestone recalled more than 14.4 million tires that contained a safety-related defect. In 2001, the federal government recalled a variety of products, including a baby crib that fell apart, a brand of sunglasses with a substance that harmed a person’s skin, and a minivan with dangerous windshield wipers.

Reading Check Defining What is a merger?

SECTION 1 ASSESSMENT

Checking for Understanding

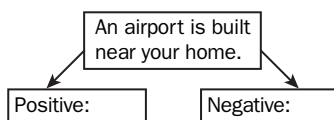
- 1. Key Terms** Write a paragraph related to government’s role in the economy using the following terms: **private goods, public goods, externality, antitrust law, merger, natural monopoly, recall.**

Reviewing Main Ideas

- 2. Explain** What does the Sherman Antitrust Act ban?
- 3. Identify** What government agency deals with problems related to false advertising?

Critical Thinking

- 4. Making Generalizations** Should all monopolies be banned? Why or why not? Explain.
- 5. Comparing** On a diagram like the one below, give an example of a negative externality and a positive externality of having an airport built near your home.



Analyzing Visuals

- 6. Interpret** Study the chart on page 504. Which agency might conduct tests on the safety of a new drug? Which agency might you contact if you have questions about the regulation of cable television?

★ BE AN ACTIVE CITIZEN ★

- 7. Survey** Develop several questions to ask local businesspeople about their experiences with government regulation. Report your findings to the class.



Should Consumers Be Able to Download Internet Music?

Internet music struck a sour note when five major record companies and a group of recording artists charged Napster with hijacking the music industry. How can a whole industry be hijacked? Napster's founder, Shawn Fanning, invented new software that allows users to copy songs from each other's computers. The program creates a directory of songs available on the hard drives of other Napster users, then creates a computer-to-computer link via the Internet to transfer the chosen song or songs.

Napster provided the service, not the music. However, every song traded over the Internet belongs to someone. Court battles led Napster to switch from a "for free" to a "for fee" service so songwriters, musicians, and recording companies get paid when their songs are downloaded. However, file sharing is now widely available, both for fee and for free. Should free song sharing be permitted?

Yes

The truth is that Hollywood secretly wants us to pay every time we listen to a song or watch a movie. . . . Once I buy a CD I should be able to do any noncommercial thing I want with it. . . . What's the real difference between swapping CDs with friends and swapping songs with people who you just met over the Web? Or having the Internet make this material available instead of the library?

Hollywood . . . fights any technology it thinks will dilute its profits. They failed with VCRs and MP3 players and Internet radio, and they deserve to fail here.

—Paul Somerson, staff writer
for ZDNET's Smart Business

No

Each time a Napster user downloads a copy of a song I have composed, I am deprived of the royalty that my work should have earned me. . . .

I fear for the 17-year-old songwriter looking forward to a career in the music business today. Napster and companies like it are threatening not only my retirement, but the future of music itself. In fact, by taking the incentive out of songwriting, Napster may be pushing itself closer to a time when there won't be any songs for its users to swap.

—Mike Stoller,
songwriter



Teens listen to music they've downloaded from Napster.

Debating the Issue

1. What arguments does Somerson use to defend swapping music over the Internet?
2. On what grounds does Stoller object to free file-sharing services?
3. Work with a group of classmates to draw up a fair-use code for downloading music. Be prepared to defend your guidelines.

Measuring the Economy

GUIDE TO READING

Main Idea

The business cycle refers to the ups and downs in economic activity.

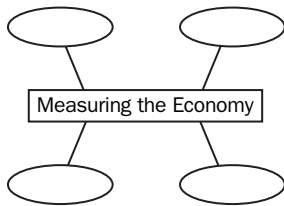
Key Terms

real GDP, business cycle, expansion, peak, recession, civilian labor force, unemployment rate, fiscal policy, inflation, consumer price index (CPI)

Reading Strategy

Organizing Information

As you read the section, identify at least four ways that the economy can be measured by completing a diagram like the one below.



Read to Learn

- What is real GDP?
- What does the business cycle illustrate?



Americans in Action

Much of the work of economists involves predicting how the economy will grow in the future. However, forecasts are often wrong. Why is this so? A *New York Times* columnist contended that “The economy has too many complicated moving parts, and despite all the sophisticated forecasting techniques, too little is known about how the parts interact. . . . Yet the great majority persist in their optimism, magnifying the positive data and minimizing the [negative] And now, optimistic forecasting is swamping a minority view that the current recession . . . could endure, dooming the economy to contraction or very sluggish growth for months or years.”



President Bush meets with congressional leaders about the economy.

Measuring Growth

As the *Americans in Action* feature makes clear, the economy is complex. Another fact becomes clear from this feature. The economy does not perform smoothly at all times. Sometimes it grows, but sometimes it falters. How do economists decide which period the economy is in? How do government leaders decide what to do about these changes in economic performance? In this section, you will learn the answers to these questions.

One measure of an economy’s performance is whether or not it is growing. When the economy grows, businesses are producing more goods and services, and they hire more workers. As a result, people have more money and buy more.

The gross domestic product (GDP) is a measure of the economy’s output. Remember that GDP is the dollar value of all final goods and services produced in a country in a year. All the dollars spent on cars, apples, CDs, haircuts, movies, and everything else bought and sold in the country go into the GDP.

Even if the country produces the same amount of goods and services from one year to the next, the gross domestic product could go up simply because prices increase. That

would make it *seem* that the economy was growing even though it really did not. To avoid being misled in this way, another measure, real GDP, is used. **Real GDP** shows an economy's production after the distortions of price increases have been removed. This eliminates the false impression that output has gone up when prices go up.

Reading Check Explaining Why do economists use real GDP to chart an economy's production?

Business Fluctuations

The economy tends to grow over time, but it does not grow at a constant rate. Instead, it goes through alternating periods of growth and decline that we call the **business cycle**. The graph on this page tracks the typical ups and downs in business activity. The line on the graph tracks real

GDP. When the line moves upward, real GDP is growing. A downward slope shows a decline in real GDP.

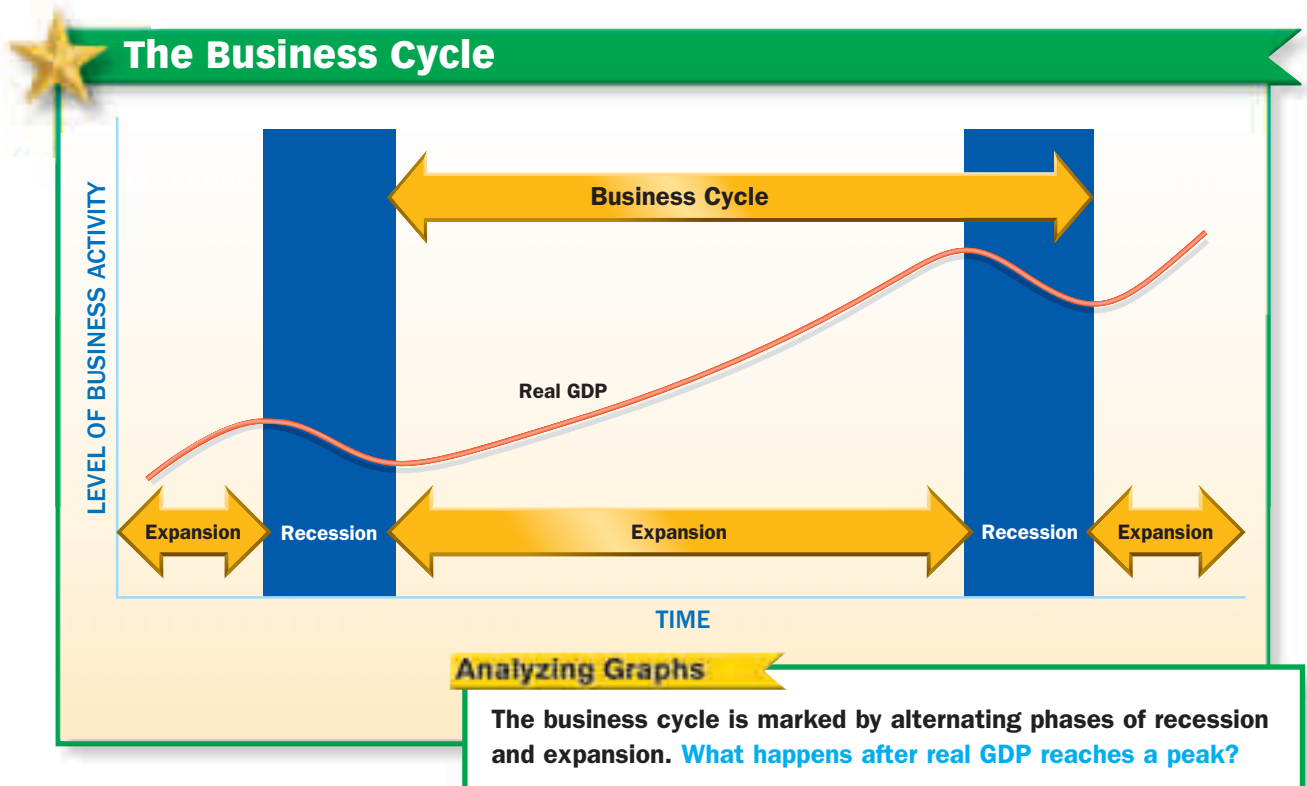
Expansions

An economic **expansion** takes place when real GDP goes up. It doesn't matter whether the economy is growing by a little or by a lot. As long as the real GDP is higher from one period to the next, the economy is expanding. At some point, real GDP reaches a **peak**, or the highest point in an expansion. Then it starts to decline.

Expansions are normally longer than recessions. The longest recent expansion lasted from March of 1991 until March of 2001, exactly 10 years.

Recessions

A **recession** takes place when real GDP goes down for six straight months, although most last longer than that. On the business cycle graph, the recessions



American Biographies



Hector V. Barreto, Jr. (1961–)

“He’s a natural,” said friends when the Senate unanimously approved Hector V. Barreto, Jr., as head of the Small Business Association (SBA) in 2001. The son of a Mexican-born father and Mexican American mother, Barreto watched his parents turn a family-run restaurant into a string of businesses. They

then helped other Latino business owners by founding the U.S. Hispanic Chamber of Commerce.

Barreto—a native of Kansas City, Missouri—followed in his parents’ footsteps. Starting as a 9-year-old waiter in the family restaurant, he went on to launch his own California-based businesses. He also served on numerous small-business committees, including the U.S. Hispanic Chamber of Commerce. In 1999, *Hispanic Business Magazine* added Barreto to its list of “100 Most Influential U.S. Hispanics.”

Today Barreto oversees an agency that promotes the growth of small businesses through loans, disaster insurance, and government contracts. “Small businesses create good jobs,” explains the SBA chief, “jobs that enable people to invest for the future, to buy homes, to build up communities—and to achieve the American dream.”



are shown by a colored background. Fortunately, recessions tend to be shorter than expansions, with the average recession lasting about one year. Even so, recessions are painful times. When the economy declines, many people lose their jobs.

Reading Check **Describing** How long do recessions usually last?

Unemployment

Another way of measuring the economy is to look at employment. Economists start by identifying the **civilian labor force**, which includes all civilians 16 years old or older who are either working or are looking for work. In the United States, about half of all people belong to the civilian labor force.

The **unemployment rate** is the percentage of people in the civilian labor force who are not working but are looking for jobs. As the graph on page 511 shows, the unemployment rate tends to rise sharply during recessions and then comes down slowly afterward.

Changes in the unemployment rate are important in terms of the economy as a whole. A 1 percent rise in the unemployment rate results in a 2 percent drop in total income in the economy. In 2001, total income in the American economy was about \$10.2 trillion. As a result, a 1 percent rise in unemployment cuts total income by about \$204 *billion*.

Of course, the personal impact of this lost income can be tremendous. Some people cut back on luxuries such as vacations and new cars. Others must cut back on basic needs such as insurance and health care. Some families go deeper into debt by buying more goods on credit.

Fiscal Policy

Times of high unemployment create stress for many people. High unemployment becomes a problem that requires some government action. When the government does step in, it uses **fiscal policy**, which is changes in government spending or tax policies. The government might cut taxes, for instance. It takes this action hoping that with more money in their pockets people will buy more goods and services. This increased



demand will convince businesses to hire more workers, reducing unemployment. Sometimes the government increases spending. By buying more goods and services itself, it tries to convince businesses to hire more workers to boost production.

Unfortunately, political differences often prevent the effective use of fiscal policy. Specifically, it is usually difficult to implement effective fiscal policies when recessions are short and political leaders have different ideas about whether to cut taxes or increase spending.

Reading Check Cause and Effect How might a decrease in taxes raise employment?

Price Stability

Another important indicator of an economy's performance is **inflation**. This is a sustained increase in the general level of

prices. Inflation hurts the economy because it reduces the purchasing power of money and may alter the decisions people make.

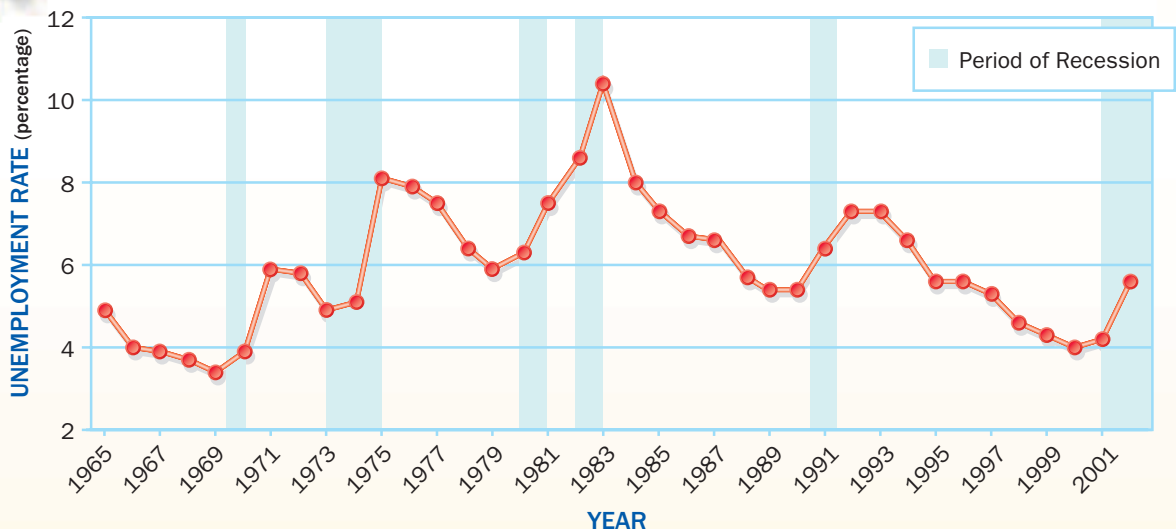
To keep track of inflation, the government samples prices every month for about 400 products commonly used by consumers. The prices of these 400 items make up the **consumer price index (CPI)**, which is a popular measure of the price level.

Typically, the prices of some items in the CPI go up every month, and the prices of others go down. However, the change in the average level of prices as measured by the CPI determines the rate of inflation.

Inflation and the Value of Money

Suppose that an ice cream cone that costs you a dollar doubles in price. This price increase causes the purchasing power of your dollar to fall because you have to use twice as many dollars to buy the same

Unemployment and the Business Cycle



Analyzing Graphs

The unemployment rate is calculated by dividing the number of unemployed persons by the number of workers in the civilian labor force. **How would you characterize the unemployment rate during the period from 1990 to 2000?**

Political Cartoons



and it seems to be diverted toward money and
Making the world a more convenient

Schneider, two men with little hope, of regain-
ing the country's confidence. While the wage was

to be divert-
ing

Analyzing Visuals The history of the stock market demonstrates that periods of upward movement are often followed by sharp drops. How would you answer the question posed in the caption of this cartoon?

item. Inflation is particularly hard on people who have fixed incomes—people who get a pension or other fixed amount of money. Inflation also reduces the value of money in a savings account because it will buy less after inflation than before.

Prices provide the signals that help individuals and businesses make the economic decisions that allocate the factors of production. High rates of inflation distort this process because people begin to speculate, or buy things like land, works of art, or other things they think will go up in value.

When speculation takes the place of investment in capital goods or services such as education, the economy begins to suffer. Unfortunately, the government itself can do very little to prevent inflation because inflation results from monetary policy decisions. You will read about monetary policy and how the Federal Reserve System implements monetary policy in the next chapter.

Reading Check Identifying What is a prolonged rise in the general price level of goods and services called?

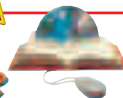
Stocks and Stock Markets

You hear news about the stock market every day: “The Dow Jones Industrial Average rose 2 percent today,” or “Standard & Poor’s announced that the stock market fell following a rise in interest rates.” What do these statements mean and what do they tell us about the state of the economy?

Why Stock Prices Change

Investors normally want to buy stock if they think they will make money on it. Profits from stock come in two ways—from dividends or from capital gains. **Dividends** are a share of the corporation’s profits that are distributed to shareholders. A **capital gain** occurs when stock can be sold for more than it originally cost to buy.

The price of a company’s stock, like most other things, is determined by supply and demand. Factors such as changes in sales or profits, rumors of a possible takeover, or news of a technological breakthrough can change the demand for a company’s stock and, therefore, its price.



Student Web Activity Visit civ.glencoe.com and click on **Student Web Activities—Chapter 23** to learn more about measuring our economy.

Stock Market Indexes

Because most investors are concerned about the performance of their stocks, they often consult stock indexes—statistical measures that track stock prices over time. The Dow-Jones Industrial Average (DJIA) and Standard and Poor’s (S&P) are the two most popular indexes. The DJIA tracks prices of 30 representative stocks, and the S&P 500 index tracks the prices of 500 stocks. Both measures give us an idea of the well-being of the stock market as a whole.

Stock Exchanges

Stocks in publicly traded companies are bought and sold at a stock market, or a **stock exchange**, a specific location where shares of stock are bought and sold. The exchange makes buying and selling easy, but you don't have to actually travel to a stock exchange in order to buy or sell stock. Instead, you can call a stockbroker, who can buy or sell the stocks for you.

The first stock exchanges started in parts of Western Europe, then spread to other parts of the world. Most stocks in the United States are traded on the New York Stock Exchange (NYSE), the American Stock Exchange, or an electronic

stock market like the NASDAQ. The NYSE, located on Wall Street in New York City, is the oldest, largest, and most prestigious. Stock exchanges can also be found in Sydney, Tokyo, Singapore, Moscow, and most other major cities. Computer technology and electronic trading make it possible for investors to trade major stocks around the clock, anywhere in the world.

The Stock Market and the Economy

Indexes like the DJIA and the S&P 500 do more than tell us about the general level of stock prices—they reveal investors’ expectations about the future. If investors expect economic growth to be rapid, profits high, and unemployment relatively low, then stock prices tend to rise in what is referred to as a “bull market.” If investors are pessimistic, stock prices could fall drastically in what is called a “bear market.”

Reading Check Explaining What are dividends?

SECTION 2 ASSESSMENT

Checking for Understanding

- 1. Key Terms** Use each of these terms in a complete sentence that will help explain its meaning: **real GDP, business cycle, civilian labor force, unemployment rate, fiscal policy, inflation, consumer price index (CPI).**

Reviewing Main Ideas

- 2. Identify** What are the two main phases of a business cycle?
- 3. Describe** What does the consumer price index track?

Critical Thinking

- 4. Analyzing Information** How is the unemployment rate computed?
- 5. Drawing Conclusions** On a chart like the one below, evaluate how a sharp increase in inflation might affect these individuals.

Inflation Rises	Effect
A doctor on staff at a large hospital	
Retired autoworker on a fixed pension	

Analyzing Visuals

- 6. Describe** Study the graph showing the phases of the business cycle on page 509. How are the recessionary periods in this graph illustrated?

★ BE AN ACTIVE CITIZEN ★

- 7. Analyze** Try to analyze what you think occurs throughout the economy during a recession. Make a list of some of the things that business owners may do in reaction to a recession.

Technology SKILLBUILDER

Developing Multimedia Presentations

Why Learn This Skill?

When you communicate with someone, you use a certain medium. The most common medium you use is your voice, an audio medium. When you make a formal presentation before the class, however, you may want a more vivid approach. You could use more than one medium. In other words, you could develop a multimedia presentation.

Learning the Skill

To develop a multimedia presentation, follow these steps:

- Select one or more partners to work with you. You may need help in preparing and assembling different components.
- Prepare still visuals such as posters. Your posters may show charts, time lines, tables, drawings, or photographs.
- Make sound recordings. Use an audio recorder to present speeches, interviews, and such. You might record background music and noises such as traffic, machinery, or crowds.



Making a presentation

- Use a still camera to make slides. Project the slides and use them as talking points in your presentation.
- Create a video with a camcorder. Your videotape may combine actions, scenes, and sounds related to your report. You might also record your whole report on video and play it as a taped presentation rather than a live one.

Practicing the Skill

Read the items numbered 1–4 below. They represent four events in the experience of Cameron and Celia as they open a new taco restaurant. Read the multimedia components lettered a–d. Copy the four events on a separate sheet of paper. Beside each event, write the letter of the component you would choose to illustrate it in a multimedia presentation of Cameron and Celia’s business experience.

- 1 Planning stage
 - 2 Influence of supply and demand
 - 3 Opening of shop
 - 4 Advertising for new business
- a. Video of small number of customers entering shop and enjoying the tacos
 - b. Photo of crowded taco shop with menu showing increase in prices
 - c. Poster chart of expected expenditures, receipts, and profits
 - d. Audiotape of a radio commercial

Applying the Skill

With a partner, plan a multimedia presentation illustrating how the business cycle works and its effects on businesses and consumers. Then produce one of the media components in your plan.

Government, the Economy, and You

GUIDE TO READING

Main Idea

The number of years you are educated has a direct effect on your income.

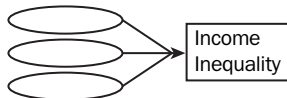
Key Terms

food stamps; Women, Infants, and Children (WIC) program; workfare; progressive income tax; Earned Income Tax Credit (EITC)

Reading Strategy

Organizing Information

As you read the section, complete a diagram like the one below by identifying three major causes of income inequality.



Read to Learn

- What are the reasons for income inequality?
- How do antipoverty programs work?



Americans in Action

The purposes of government in the United States are to protect individual rights, to promote a stable environment for economic activity, and to promote policies that support the general well-being of all citizens. To measure its progress, government agencies such as the Census Bureau compile statistics such as these: “Median household income in 2000 held steady at the all-time high level reached in 1999, at \$42,100 (that is, half of all households had incomes above \$42,100 and half below). The poverty rate fell for the fourth consecutive year, from 11.8 percent in 1999 to 11.3 percent in 2000, the lowest since 1979.”



Median household income held steady in 2000.

Income Inequality

Though the United States is a wealthy country, not all Americans are personally wealthy. Income levels vary for many reasons. Some people—such as Tiger Woods, Jennifer Lopez, and Stephen King—have special talents that enable them to earn huge amounts of money. These people are rare, though. Education, family wealth, and discrimination are more common reasons for income differences.

Education

Level of education has a major impact on a person’s income. As the chart on page 516 shows, the average income of a college graduate—someone with a bachelor’s degree—is nearly twice the average income of a high school graduate. More advanced degrees increase income even more.

Because education contributes so much to income, the federal government tries to encourage people to improve their education. This is why there are many programs that encourage education, from free or subsidized lunches to college grants and low-interest loans. As you will see in Chapter 25, governments offer financial help to students at both state and private colleges and universities.

Education and Income

EDUCATION	AVERAGE INCOME FOR:	
	MALES	FEMALES
Less than 9th Grade	\$25,555	\$17,299
9th to 12th Grade (No diploma)	30,966	19,827
High School Graduate (or Equivalency)	38,225	25,796
Some College, No Degree	47,405	30,675
Associate Degree	47,418	32,357
Bachelor's Degree	70,329	43,831
Master's Degree	85,375	55,249
Professional Degree	120,632	72,452
Doctoral Degree	96,471	61,453

Source: U.S. Bureau of the Census.



Evaluating Charts

There is a strong relationship between income and level of education. What are the average incomes for men and for women who have a bachelor's degree?

Wealth

Some people are born into wealth. Having wealthy parents often gives them access to excellent colleges. In addition, wealthy parents can set up their children in a business or pass on their own business.

Discrimination

Discrimination is one of the reasons some people do not receive higher incomes. Women and members of minority groups may not be hired into jobs that pay well, or they may not receive promotions for which they are eligible. The chart on education and income illustrates that salaries for men are normally higher than those for women. This difference is partly a result of discrimination against women.

The government has passed several laws to reduce discrimination. The Equal Pay Act of 1963 requires equal pay for jobs that require equivalent skills and responsibilities. The Civil Rights Act of 1964 bans

discrimination on the basis of gender, race, color, religion, and national origin. The Americans with Disabilities Act of 1990 extended this protection to people with physical and mental disabilities. People who suffer discrimination can use the courts to enforce these laws.

Reading Check

Explaining What was the goal of the Civil Rights Act of 1964?

Poverty

People living in poverty, those who are at the very bottom of the income scale, receive special attention from government. Poverty is a major problem in America, and it is extremely difficult to solve.

Because of this, a number of different programs have been devised to help those in need. The most effective ones are those that have built-in incentives that encourage people to go back to work or to improve their employment situation.

The government uses the poverty guidelines shown on page 518 to determine whether someone is eligible for certain programs. These guidelines are revised annually and are based on conservative estimates of how much it costs to buy enough food, clothing, and shelter to survive.

For example, the \$8,860 annual income for a single person works out to a little more than \$24 a day. Today, there are more than 31 million Americans who fall *below* these income guidelines.

Welfare Programs

Most welfare programs are federal programs. The federal food stamp program serves millions of Americans. **Food stamps** are government coupons that can be used to purchase food. Low-income Americans can obtain a small number of stamps at little or no cost. They can then use them like money to buy food at authorized stores. Some states use electronic debit systems in place of coupons. These systems track a person's purchases and account electronically.

Another federal welfare program is the **Women, Infants, and Children (WIC) program**. It provides help with nutrition and health care to low-income women, infants, and children up to age 5.

Income Assistance

Other programs pay cash to certain people. Supplemental Security Income (SSI), for instance, gives payments to blind or disabled people and to persons age 65 and older. Temporary Assistance to Needy Families (TANF) is another direct cash program. TANF makes payments to families who need help because a parent is dead, disabled, or absent. TANF has incentives that encourage families to plan for a better life and even save while they receive benefits. The number of months that a recipient can receive benefits is limited. The intent of this

limit is to make sure that people do not rely on the program but look for paying work.

Workfare Programs


Workfare is a term used to describe programs that require welfare recipients to exchange some of their labor in exchange for benefits. Most of the programs are run at the state level, and most are designed to

STREETLAW™

The Law and You

Minor's Contract

Dean, 16, a drummer in a popular local band, goes to a music store which advertises "easy credit" to purchase a set of drums. The drums cost \$750. He offers to put down \$150 and make monthly payments on the remaining amount. Because Dean is only 16, the salesclerk refuses to let him make payments on credit. Dean is upset and leaves the store.



If Dean buys an item on credit, he is entering into a contract. A contract is a promise between two or more people to exchange something of value. The right to enter into a contract is accompanied by the responsibility to live up to the promise.

Dean is considered a minor because he is under 18, which is the age of legal majority (in most states). Although he can make a contract, unless he is buying a "necessity" he usually cannot be forced to carry out his promises, and he may refuse to honor the contract. Dean could ask one of his parents to be a cosigner for the agreement. A cosigner agrees to be responsible for the debt if the minor cannot. Dean believes he can pay for the drums, as he earns about \$75 per band engagement.

★ **BE AN ACTIVE CITIZEN** ★

Role-play a negotiation between Dean and the manager of the music store. Brainstorm the key points for Dean in negotiating with the manager.

Poverty Guidelines, 2002

FAMILY SIZE	POVERTY GUIDELINES
1	\$8,860
2	11,940
3	15,020
4	18,100
5	21,180
6	24,260
7	27,340
8	30,420
for each additional person add	3,080

Source: Federal Register, 2002.

Evaluating Charts

Poverty guidelines help the government determine financial eligibility for certain federal programs. What was the measure of poverty in 2002 for a family of four?

teach people the skills they need to succeed in a job. Many states also require some form of workfare if families want to receive TANF benefits. People who are part of workfare often assist law enforcement officials or sanitation and highway crews, or they may perform other types of community service work.

Tax Policies

Another way the government helps poor people is with a **progressive income tax**. That means that the tax rate is lower at lower incomes and higher for higher incomes. This helps lower-income people by taking a smaller proportion of their income in taxes. The federal government provides additional help for low-income families and individuals. Many workers use the federal **Earned Income Tax Credit (EITC)**, which gives tax credits and even cash payments to qualified workers. This program benefits about 20 million working families every year.

Reading Check Describing How do workfare programs operate?

SECTION 3 ASSESSMENT

Checking for Understanding

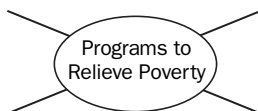
1. Key Terms Use each of these terms in a sentence that will help explain its meaning: **food stamps, workfare, progressive income tax, Earned Income Tax Credit (EITC)**.

Reviewing Main Ideas

- 2. Identify** What law requires equal pay for jobs that require equivalent skills and responsibilities?
- 3. Describe** What does Supplemental Security Income provide?

Critical Thinking

- 4. Evaluating** Which of the antipoverty programs do you think is the most effective? Explain your answer.
- 5. Organizing Information** On a diagram like the one below, identify four major programs or policies designed to alleviate the problem of poverty.



Analyzing Visuals

6. Compare Study the chart that shows education and income on page 516. How much can you expect to make per year if you do not graduate from high school? If you graduate from college with a bachelor's degree?

★ BE AN ACTIVE CITIZEN ★

7. Research Scan a local newspaper for a short editorial or article about income. Take notes by writing down the main idea and supporting facts. Summarize the article using only your notes.

Landmark Supreme Court Case Studies

McCulloch v. Maryland



The First Bank of the United States in Philadelphia

Background of the Case

Alexander Hamilton, the nation's first secretary of the Treasury, urged Congress to pass a law establishing a national bank. With the backing of President George Washington, Congress did so in 1791. The bank's funds were used to build roads, canals, and other projects that would help the nation grow. The first bank lasted until 1811; a second bank was chartered in 1816.

Many citizens withdrew deposits from state banks and reinvested them in the new national bank. Angry over the competition from the national bank, states worked to weaken it. Some states, including Maryland, taxed national bank branches operating inside their boundaries. James McCulloch of the Baltimore branch bank refused to pay the state's \$15,000 tax. Maryland sued him and won in a state court. McCulloch appealed to the Supreme Court.

The Decision

The Court had to decide if the national bank was constitutional, even though it was not mentioned in the Constitution. Chief Justice John Marshall

How did the national government expand its financial powers to meet the needs of a growing nation?

delivered the unanimous decision on March 6, 1819:

There is no phrase . . . [that] excludes incidental or implied powers; and which requires that everything granted shall be expressly and minutely described . . . the states have no power, by taxation or otherwise . . . to impede the operation of constitutional laws enacted by Congress.

Marshall based the ruling on Article I, Section 8, which gives Congress powers to "make all laws . . . necessary and proper" for carrying out its duties.

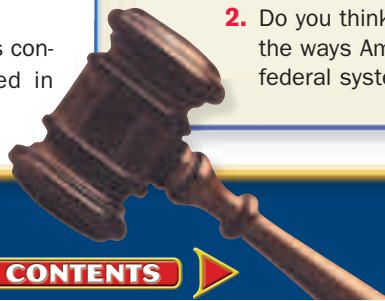
Why It Matters

The Court's unpopular decision upheld the national bank and denied states the power to tax it. The modern Federal Reserve System eventually grew out of the national bank concept.

The case established the implied powers doctrine, which meant Congress had, under the "necessary and proper" clause, a wide range of powers to carry out the powers that the Constitution expressly gave it. *McCulloch v. Maryland* also established the principle of national supremacy, which forbids the states from intruding into the constitutional operations of the national government.

Analyzing the Court Decision

1. How did Marshall justify the *McCulloch* decision?
2. Do you think the decision affected the ways Americans viewed our federal system?



Assessment & Activities

Review to Learn

Section 1

- One role of government is to provide economic stability.
- Government is able to influence economic conditions in many areas.



Section 2

- A business cycle is the repeated rise and fall of economic activity over time.
- Inflation erodes the purchasing power of the dollar.

Section 3

- Education, wealth, and discrimination may affect income level.



- It is important that we assure a minimum standard of living for all Americans, even if they are unable to work.

FOLDABLES™
Study Organizer

Using Your Foldables Study Organizer

Form a group with two other students. Each one of you should take two to three minutes to answer one of the following questions. What is the role of the government in the economy? How does the government measure the economy? How does the government's involvement in the economy affect me?

Reviewing Key Terms

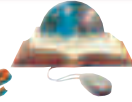
Write the key term that matches each definition below.

1. the joining of two corporations
2. a tax rate that is lower for lower incomes and higher for higher incomes
3. provides federal tax credits to low-income workers
4. a law passed to prevent monopolies and promote competition
5. goods and services whose use by one person does not reduce use by another
6. a prolonged increase in the general level of prices
7. the total number of people 16 years old or older who are either employed or actively seeking work
8. the federal government's use of taxation and spending policies that affects overall business activity
9. GDP that has been adjusted for the distortions of price changes

Reviewing Main Ideas

10. Why do private producers fail to produce public goods?
11. What is an externality?
12. What antitrust act was used to break up American Telephone and Telegraph?
13. What is a product recall?
14. What is the business cycle?
15. How does inflation affect consumers?
16. What is the relationship between level of education and income?
17. What does the Americans with Disabilities Act provide?
18. How are food stamps used?
19. What program provides help for nutrition and health care to low-income families?

CLICK HERE



Self-Check Quiz Visit the *Civics Today* Web site at civ.glencoe.com and click on **Self-Check Quizzes—Chapter 23** to prepare for the chapter test.

Critical Thinking

- 20. Organizing Information** Use a chart like the one below to describe the purpose of three federal regulatory agencies.

Agency	Purpose

- 21. Making Generalizations** Study the table showing the per capita GDP of eight nations below. What generalizations can you draw from this information?

Luxembourg	\$36,400	Denmark	\$25,500
United States	\$36,200	Iceland	\$24,800
Norway	\$27,700	Japan	\$24,900
Switzerland	\$28,600	Canada	\$24,800

- 22. Making Comparisons** What are the fundamental differences between the goals of antitrust legislation and the goals of federal government regulatory agencies?

Practicing Skills

- 23. Developing Multimedia Presentations** Plan and create a multimedia presentation on a topic found in the chapter. List three or four major ideas you would like to cover. Then think about how multimedia resources could enhance your presentation.



Economics Activity

- 24.** Examine the food ads in your local newspaper for one week. List those food items that are common to each ad. Compare the prices from the different food stores for the common items. What is the largest percentage difference between the highest and lowest prices?

★ CITIZENSHIP COOPERATIVE ACTIVITY ★

- 25.** Working with a partner, identify five public goods or services that you frequently use. For each, explain how you would be affected if the government did not provide these things. Summarize your ideas.



Technology Activity

- 26.** The consumer price index (CPI) is the measure of the change in price over time of a specific group of goods and services used by the average household. To find data on the CPI, go to the Bureau of Labor Statistics Web site at www.bls.gov/data/top20.html and find “Most Requested Statistics.” Click on “CPI—Average Price Data.” Select two products from the list and analyze the data. Write a paragraph describing the changes in prices for these products.



Standardized Test Practice

Directions: Choose the *best* answer to complete the following statement.

A period of business recovery when economic activity increases is called

- A a recession.
- B real GDP.
- C the business cycle.
- D an expansion.

Test-Taking Tip

This question requires you to understand what it means when economic activity increases. Which answer fits best with this information?