UNIT PACING CHART

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**Follow Your Economic System** Divide students in small groups. Assign an economic system to each group. Give each group a specific amount of resources in a bag, which are not identical, just as in the real world. (Bags contain commonly found items: index cards, clips, markers, empty small boxes, papers, rubber bands, tape, pipe cleaners, straws, ties, yarn, and so on.) All groups get “capital” such as hole-punches, scissors, rulers, and staplers. Limit the tools based on the economic system.

Each group should create a functioning object that a society would desire, using all the resources. Groups should name the object and demonstrate or describe its function. Groups should stay in the role of the economic system assigned and answer the basic economic questions. Students have 30 minutes to work and 2 minutes to present. A rubric for this activity could include the following: efficient use of resources, demonstration, name of product, works as system’s society might, describe system and its functioning, identify economy with this pattern.
Dear Economics Teacher:

You may be surprised to learn that there was a time when I wasn’t very interested in economics. Come to think of it, I wasn’t very interested in going to college either, although my dad clearly had other plans for me.

All of that changed in my senior year of college when I visited Hungary during the height of the Cold War. I was on a study-abroad program at the time, and our professor had just taken us over the Austro-Hungarian border to a popular park that overlooked the city of Budapest. It was a cold December evening, with several inches of snow on the ground brightly lit by a full moon. By all accounts, the view should have been beautiful, if not spectacular—but it wasn’t.

Instead, the landscape was cold, alien, and downright dreary. Even now I can remember asking: What is wrong with this scene? Why is it so depressing? Then it dawned on me that there was no color in the landscape. Here was a major European city, but everything was in shades of black and white. Instead of looking out at a sea of bright red, green, blue, and yellow lights, all I saw were dreary white streetlights and faded yellow reflections coming from the windows of buildings and apartments.

Then I remembered what I learned in economics: Hungary had a command economy where consumer goods were so scarce that people had to wait in line to make purchases. They even had to get on a waiting list of many years to buy a car. Advertising as we know it, with brightly colored lights to promote products and attract consumers, was unheard of.

This was truly a seminal event in my life because I realized that a country’s economy actually made a difference. My visit to Budapest was the beginning of a lifelong search to figure out how things work. It’s been fun, and it’s been rewarding. I hope that you share my passion for economics and come to appreciate the many ways in which the economy affects us and we affect it.

Gary Clayton, Ph.D.
Author
INTRODUCING UNIT 1

Unit Objectives
After studying this unit, students will be able to:

- Define economics and its fundamental principles.
- Differentiate between traditional, command, market, and mixed economies.
- Identify the major types of business and nonprofit organizations in the United States.

Unit Overview
Unit 1 provides a basic introduction to and an overview of economics.

Chapter 1 focuses on the fundamental economic problem of scarcity and introduces terms necessary to the study and understanding of economics.

Chapter 2 continues the discussion of decision making and focuses on the different economic systems.

Chapter 3 covers the various kinds of business and nonprofit institutions that operate in our economy.

Activity: Launching the Unit
Wants Have pairs of students interview their partners to obtain the following information: (1) Give an example of a want. (2) What inputs are necessary to produce the want? (factors of production—land, labor, capital, and entrepreneurship) (3) Do you have any part in the process necessary to get your want? (Does the student work?) (4) What can you do to get your want? After the interviews, ask the class what is necessary to obtain their wants. Point out that wants are purchased in the marketplace and cost money that most people must earn by selling their labor, or working. In other words, we trade our productive efforts to satisfy our wants.

UNIT 1
Fundamental Economic Concepts

CHAPTER 1
What Is Economics?

CHAPTER 2
Economic Systems and Decision Making

CHAPTER 3
Business Organizations

Because of scarcity, societies have to make careful choices about how to use resources such as energy and land.
INTRODUCING UNIT 1

Making It Relevant

Ask: How would you feel about owning your own company? Explain. (Answers will vary.)

Tell students that in a phone survey, the Gallup organization questioned a random sample of approximately 1,000 teenagers across the country on their thoughts about entrepreneurship. The sample ranged in age from 14 to 19 years and was evenly divided between males and females. Almost 7 out of every 10 respondents said that they wanted to be entrepreneurs. Asked if they would rather be a manager of a large company or the owner of a small company, most chose the latter. Discuss students’ opinions on the subject.

BL

To find up-to-date news and analysis on the economy, business, technology, markets, entrepreneurs, investments, and finance, have students search feature articles and special reports on the BusinessWeek Web site, www.businessweek.com.

Extra Credit Project

Have students create a television-viewing log chronicling the number and types of economics-related items presented on the nightly news. Suggest that some students watch national newscasts on the networks, that others watch national newscasts on cable (such as CNN or MSNBC), and that still others watch local newscasts. Students should record the date, the subject of the item, and the length of time devoted to the item. When study of the chapter is completed, have students compare and discuss their logs, noting how much news related to economics was presented. OL
# Planning Guide

## Key to Ability Levels

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## Key to Teaching Resources

- **Print Material**
- **DVD**
- **CD-Rom**
- **Transparency**

## Levels

### Resources

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### Section 1

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*Also available in Spanish*
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*Also available in Spanish*
**Student Web Activities**

**Technology Product**
The Glencoe Web site provides Web activities to students that reinforce and enrich chapter content. The Student Web Activities
- introduce topics relevant to chapter content, along with links to Web sites that provide information about the topics;
- prompt students to complete tasks specific to the activity;
- assess student comprehension of the material.

**Objectives**
The Student Web Activities help students
- learn online research and study skills;
- practice reading and comprehension skills.

**Steps**
Provide students with the following steps to complete the activities:
- Locate the Web page for the textbook being studied on the Glencoe Web site glencoe.com.
- Click on **Student Center** under the textbook title.
- In the Student Center, select a unit from the Unit Resources menu and a chapter from the Chapter Activities menu using the drop-down arrows.
- Click on the **Student Web Activities** link.
- Have students complete the activity on the page, clicking on the featured Web link for the chapter selected and answering the activity questions.

Provide students with an e-mail address to submit their answers for grading.
**Additional Chapter Resources**

**Reading Support From**

**JAMESTOWN EDUCATION**

- **Timed Readings Plus in Social Studies** helps students increase their reading rate and fluency while maintaining comprehension. The 400-word passages are similar to those found on state and national assessments.
- **Reading in the Content Area: Social Studies** concentrates on six essential reading skills that help students better comprehend what they read. The book includes 75 high-interest nonfiction passages written at increasing levels of difficulty.
- **Reading Social Studies** includes strategic reading instruction and vocabulary support in Social Studies content for both ELLs and native speakers of English. [www.jamestowneducation.com](http://www.jamestowneducation.com)

**Reading List Generator CD-ROM**

Use this database to search more than 30,000 titles to create a customized reading list for your students.

- Reading lists can be organized by students’ reading level, author, genre, theme, or area of interest.
- The database provides Degrees of Reading Power™ (DRP) and Lexile™ readability scores for all selections.
- A brief summary of each selection is included.

**Leveled reading suggestions for this chapter:**

For students at a Grade 10 reading level:

- **Oprah Winfrey: Rising Above, Reaching Out**, by Henry Billings and Melissa Billings

For students at a Grade 11 reading level:

- **Influential Economists**, by Marie Bussing-Burks

For students at a Grade 12 reading level:

- **How Cool Is Comics Lit**, by Charles McGrath

* Review suggested books before assigning them.

**NCEE**

**National Council on Economic Education**

**Voluntary Standards Emphasized in Chapter 1**

- **Content Standard 1** Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.

- **Content Standard 2** Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something: few choices are “all or nothing” decisions.

- **Content Standard 14** Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

**Resources Available from NCEE**

- Virtual Economics®, An Interactive Center for Economic Education Version 3.0
- Capstone: The Nation’s High School Economics Course
- Focus: High School Economics, Second Edition
- Economics in Action

To order these materials, or to contact your State Council on Economic Education about workshops and programs, call 1-800-338-1192 or visit the NCEE Web site at [store.ncee.net](http://store.ncee.net).
CHAPTER 1

What Is Economics?

Why It Matters
Congratulations on being selected to head up the prom committee! Now you must decide on location, music, and refreshments. What factors do you need to consider when making your choices? In groups of four, determine your budget and identify possible locations, music providers, and food. Read Chapter 1 to learn how your prom selections, like all economic decisions, require you to make choices about how to best use limited resources.

The BIG Idea
Scarcity is the basic economic problem that requires people to make careful choices about how to use limited resources.

Activity: Launching the Chapter

Categorizing
Have students brainstorm a list of common needs and wants such as food items, clothing, or entertainment expenses. Divide students into small groups and assign each group several of the items on the list. Ask them to explain why each item proves important to many people. Essential Question: How do limitations on people’s time and income affect these needs and wants? (Students may suggest that these limitations cause people to first focus on acquiring the things they need, before devoting additional time and income to the things they want.) Have students also use Internet resources and financial magazines to obtain pictures of the items on their list. Students should then create a poster listing needs and wants.
Scarcity and the Science of Economics

GUIDE TO READING

Section Preview
In this section, you will learn why scarcity is the basic economic problem that faces every society and why scarcity requires us to make choices.

Content Vocabulary
- scarcity (p. 6)
- economics (p. 6)
- need (p. 6)
- want (p. 6)
- factors of production (p. 8)
- land (p. 8)
- capital (p. 8)
- capital good (p. 8)
- labor (p. 8)
- entrepreneur (p. 8)
- gross domestic product (GDP) (p. 9)

Academic Vocabulary
- resource (p. 6)
- comprehensive (p. 10)

Reading Strategy
Listing. As you read the section, complete a graphic organizer like the one below by listing and describing the three economic choices every society must make.

Economic Choices

PEOPLE IN THE NEWS —moneycentral.msn.com

Teens in the Red

Like a lot of hard-working women, Andrea Alba has moments of financial despair. Between juggling three jobs, paying her bills and trying to get out of debt, she feels overwhelmed. “I just want to pay everything off,” she says. “I wish I didn’t have to struggle so much.” But Alba is no debt-weary baby boomer. She’s only 19 and a couple of years out of high school.

Her financial burdens may be heavier than other teens: She pays her own college tuition and also helps pay the rent and utilities at home. But the sinker was signing that first credit card application before she had even graduated from high school. “It was fine at first,” she says. “I used it mainly for gas. Then it just got deeper and deeper.” Within a year and a half of her 18th birthday, Alba was $2,500 in the hole.

You may wonder if the study of economics is worth your time and effort. As you learned in the news story, though, many young people find out about economic issues the hard way. They discover, however, that a basic understanding of economics can help them make sense of the world they live in.

The study of economics helps us in many ways, especially in our roles as individuals, as members of our communities, and as global citizens. The good news is that economics is not just useful. It can be interesting as well, so don’t be surprised to find that the time you spend on this topic will be well spent.

CHAPTER 1 What Is Economics? 5
**The Fundamental Economic Problem**

**MAIN Idea** Societies do not have enough productive resources to satisfy everyone's wants and needs.

**Economics & You** Can you remember a time when you saved money to buy something expensive? Was the item a necessity or something that you simply wanted to own? Read on to find out how this relates to the core concepts of economics.

Have you ever noticed that very few people are satisfied with the things they have? For example, someone without a home may want a small one; someone else with a small home may want a larger one; someone with a large home may want a mansion. Whether they are rich or poor, most people seem to want more than they already have. In fact, if each of us were to make a list of all the things we want, it would most likely include more things than we could ever hope to obtain.

**Scarcity**

The fundamental economic problem facing all societies is that of scarcity. **Scarcity** is the condition that results from society not having enough resources to produce all the things people would like to have. As Figure 1.1 shows, scarcity affects almost every decision we make. This is where economics comes in. **Economics** is the study of how people try to satisfy seemingly unlimited and competing wants through the careful use of relatively scarce resources.

**Needs and Wants**

Economists often talk about people's needs and wants. A **need** is a basic requirement for survival, such as food, clothing, and shelter. A **want** is simply something we would like to have but is not necessary for survival. Food, for example, is needed for survival. The need for nourishment, the range of things represented by the term want is much broader than that represented by the term need.

**TINSTAAFL**

Because resources are limited, everything we do has a cost—even when it seems as if we are getting something “for free.” For example, do you really get a free meal when you use a “buy one, get one free” coupon? The business that gives it away still has to pay for the resources that went into the meal, so it actually tries to recover these costs by charging more for its other products. In the end, you may actually be the one who pays for the “free” lunch!

Realistically, most things in life are not free, because someone has to pay for producing them in the first place. Economists use the term TINSTAAFL to describe this concept. In short, it means There Is No Such Thing As A Free Lunch.

**Differentiated Instruction Strategies**

**BL** Ask students to identify two factors of production used to make several common products.

**AL** Have students describe how a change in the amount of Play-Doh might change their product's price.

**ELL** Help students list products that they might create with the Play-Doh.
Three Basic Questions

**MAIN Idea** Scarcity forces every society to answer the basic questions of WHAT, HOW, and FOR WHOM to produce.

**Economics & You** When you write a report, you usually answer the who, what, when, where, and why questions. Read on to learn about the three basic questions in economics.

Because we live in a world of relatively scarce resources, we have to make careful economic choices about the way we use these resources. Figure 1.1 presents three basic questions we need to answer as we make these choices.

**WHAT to Produce**
The first question is WHAT to produce. For example, should a society direct most of its resources to the production of military equipment or to other items such as food, clothing, or housing? Suppose the decision is to produce housing. Should the limited resources be used to build low-income, middle-income, or upper-income housing? A society cannot have everything its people want, so it must decide WHAT to produce.

**HOW to Produce**
A second question is HOW to produce. Should factory owners use automated production methods that require more machines and fewer workers, or should they use fewer machines and more workers? If a community has many unemployed workers, using more workers might be better. On the other hand, in countries where machinery is widely available, automation can often lower production costs. Lower costs make manufactured items less expensive and, therefore, available to more people.

**FOR WHOM to Produce**
The third question is FOR WHOM to produce. After a society decides WHAT and HOW to produce, it must decide who will receive the things produced. If a society decides to produce housing, for example, should it be the kind of housing that is wanted by low-income workers, middle-income professional people, or the very rich? If there are not enough houses for everyone, a society has to make a choice about who will receive the existing supply.

These questions concerning WHAT, HOW, and FOR WHOM to produce are never easy for any society to answer. Nevertheless, they must be answered as long as there are not enough resources to satisfy people’s seemingly unlimited wants and needs.

**Leveled Activities**

**BL** Reteaching Activities, p. 1

**OL** Hands-On Economics, p. 1

**AL** Free Enterprise Activities, p. 1

**Critical Thinking**

**Theorizing** Ask: What problems do you think society might face in trying to decide what, how, and for whom to produce? (Answers will vary but may include the problem of meeting many needs with limited resources.)

**Reading Strategy**

**Making Connections** Ask: What resources have you noticed are less abundant than in previous years? How has this change affected your family’s use of the resource? (Answers will vary but may include water, electricity, and gasoline. Students’ families may use these resources carefully, such as by carpooling or conserving water.)

**Caption Answer:** The three questions focus on using scarce resources to meet people’s needs.

**Answer:** because the world has scarce resources and societies need to make careful choices about the way they use these resources.
The Factors of Production

MAIN Idea Four factors of production—land, capital, labor, and entrepreneurs—must be present to produce goods and services.

Economics & You When you were younger, did you ever sell something or have a paper route to make money? Read on to find out how this relates to the factors of production.

People cannot satisfy all their wants and needs because productive resources are scarce. The factors of production, or resources required to produce the things we would like to have, are land, capital, labor, and entrepreneurs. As shown in Figure 1.2, all four are required to produce goods and services.

Land

In economics, land refers to the “gifts of nature,” or natural resources not created by people. “Land” includes deserts, fertile fields, forests, mineral deposits, livestock, sunshine, and the climate necessary to grow crops. Because a finite amount of natural resources are available at any given time, economists tend to think of land as being fixed, or in limited supply.

Capital

Another factor of production is capital, sometimes called capital goods—the tools, equipment, machinery, and factories used in the production of goods and services. Capital is unique because it is the result of production. A bulldozer, for example, is a capital good used in construction. When it was built in a factory, it was the result of production involving other capital goods. The computers in your school that are used to produce the service of education also are capital goods.

Labor

A third factor of production is labor—people with all their efforts, abilities, and skills. This category includes all people except a unique group of individuals called entrepreneurs, whom we single out because of their special role in the economy. Historically, factors such as birthrates, immigration, famine, war, and disease have had a dramatic impact on the quantity and quality of labor.

Entrepreneurs

A fourth factor of production is entrepreneurs, whom we single out because of their special role in the economy. Historically, factors such as birthrates, immigration, famine, war, and disease have had a dramatic impact on the quantity and quality of labor.

Figure 1.2 The Factors of Production

- Land includes the “gifts of nature,” or natural resources not created by human effort.
- Capital includes the tools, equipment, and factories used in production.
- Labor includes people with all their efforts and abilities.
- Entrepreneurs are individuals who start a new business or bring a product to market.

Activity: Hands-On Economics

Scarcity and the Factors of Production Tell students that just as consumers are faced with scarcity of goods and services, entrepreneurs must deal with scarcity of the other three factors of production—land, capital, and labor. Have students imagine that they are entrepreneurs in the business of producing and selling CDs. Inform them that the price of the raw material used for making CDs has doubled. Encourage students to make economic predictions about what will happen in the CD business. (Possible answers: Fewer CDs will be produced. The price of CDs will go up. Consumers will purchase fewer CDs.)
Interpreting

Every time you get paid for baby-sitting, mowing the lawn, or being the deejay at an event, you have joined the “force”—the global entrepreneurial force, that is. A vast majority of the more than 20 million businesses in the United States are owned by entrepreneurs. Most either work alone or have a few employees.

Until recently, the United States led in the percentage of adult entrepreneurs, with an estimated 11.3 percent of Americans starting a new business each year. Today, the small country of Jordan has just over half a million of adult entrepreneurs, with an estimated 11.3 percent of the population starting a new business each year. That's nearly one in every five adults. The bar graph here illustrates the percentage of the adult population in select countries who are starting new businesses.

Entrepreneurs

Some people are singled out because they are the innovators responsible for much of the change in our economy. Such an individual is an entrepreneur, a risk-taker in search of profits who does something new with existing resources. Entrepreneurs are often thought of as being the driving force in an economy because they are the people who start new businesses or bring new products to market.

Production

Everything we make requires the four factors of production. The desks and lab equipment used in schools are capital goods. Teachers and other employees provide the labor. Land includes the property where the school is located as well as the iron ore used to make the desks. Finally, entrepreneurs are needed to organize the other three factors and make sure that everything gets done.

What would happen if one of the factors of production was missing?

The Scope of Economics

Economics analyzes how societies satisfy wants through careful use of relatively scarce resources.

Economics & You So far, you have learned about the basics of economics. Read on to learn how economists help us make sense of this information.

Economics is the study of human efforts to satisfy seemingly unlimited and competing wants through the careful use of relatively scarce resources. Economics is also a social science because it deals with the behavior of people as they deal with this basic issue. The four key elements to this study are description, analysis, explanation, and prediction.

Description

One part of economics describes economic activity. For example, we often hear about gross domestic product (GDP)—the dollar value of all final goods, services, and structures produced within a country’s borders in a one-year period. GDP is the entrepreneur risk-taking individual in search of profits

gross domestic product (GDP) dollar value of all final goods, services, and structures produced within a country’s borders during a one-year period

Modeling an Economic Decision

In this project, students will make a booklet describing the economic decisions of a business that designs and sells T-shirts. Encourage students to be as thorough as possible when brainstorming their lists. Students may suggest items such as the following:

- Land: any natural resources used to produce the T-shirts, such as soil and water
- Labor: managers to make decisions and workers to gather materials and produce and sell the T-shirts

Step 1: Identifying the Factors of Production. Students will determine the factors of production used to produce a good.

Directions: Organize the class into small groups. Instruct group members to discuss the land, labor, capital, and entrepreneurship that would be required to establish a business that designs and sells T-shirts. Encourage students to be as thorough as possible when brainstorming their lists. Students may suggest items such as the following:

- Capital: a building in which the business can be located; machines and tools for making, printing, and packaging the products
- Entrepreneurship: the ability, initiative, and willingness to start such a business

Summarizing Direct each group to use their completed lists to write a brief report summarizing the factors of production needed to start this business.

(Chapter Project continued in Section 2.)
Explaining How can studying economics help us

Answer: It helps us make choices about using scarce resources in responsible, logical, productive ways.

4. Possible answer: It helps us make choices about using scarce resources in responsible, logical, productive ways.

5. There is no charge to drink from water fountains at school, but the water is paid for by the school district with tax money from citizens.

6. Answers will vary but should identify the factors of production for a particular business. Students should recognize that if one of the factors was unavailable, there would be no production.

7. Answers will vary but should include examples of items students did without because of limited resources, and explain how they adjusted to the situation.
Entrepreneurs are willing to take risks because they hope to reap great rewards. These rewards may come more quickly for some than for others. Kevin Plank, founder and CEO of Under Armour Inc., proves that it takes sweat to be a successful entrepreneur.

Under Armour—No Sweat

Eleven years ago, Kevin A. Plank was a walk-on football player at the University of Maryland who relished throwing his body at hulking opponents. But he hated how the cotton T-shirts under his uniform got soaking wet with sweat or rain. By then, cycling outfits and football undershorts were made with moisture-wicking synthetic fabrics. Plank, a starter during kickoffs and punts, wondered why not gridiron T-shirts, too? He tore the content label off a pair of his wick-away shorts, bought the same material from a fabric store, and gave a tailor $460 to sew seven shirts. “I set out to build a better football undershirt,” he says.

Plank’s teammates loved the tees. So he drove to New York’s garment district, had hundreds more samples made, and dubbed his invention “Under Armour.” Now, at 33, Plank is the multimillionaire head of an athletic apparel powerhouse. . . . Yet it didn’t happen as fast as Plank originally expected. “At 23, I was probably the smartest guy in the world,” he jokes. . . . “But I learned early on [that] this is not about one blast of exposure or one person wearing the product.”

Operating at first out of his grandmother’s Georgetown house, Plank spent four years tirelessly pitching his product to college and NFL teams. “We convinced these big tough football players to start wearing tight-fitting synthetic shirts, which was completely new and different,” he says. . . . The pros’ acceptance brings Under Armour an authenticity that advertising alone can’t create. . . . That cachet also gives Plank license to charge $40 for a short-sleeve T-shirt.

—Reprinted from BusinessWeek

Examining the Newsclip

1. Identifying How did Kevin Plank get his idea for a new product?
2. Analyzing How does Plank exemplify the characteristics of an entrepreneur?

Answers:
1. He hated how cotton T-shirts under his football uniform got wet with sweat or rain.
2. He had an idea, created something new with existing resources, and started a successful, new business.
Focus

Section Preview
In this section, you will learn about some key economic terms and concepts.

Content Vocabulary
- good (p. 13)
- consumer good (p. 13)
- durable good (p. 13)
- nondurable good (p. 13)
- service (p. 13)
- value (p. 14)
- paradox of value (p. 14)
- utility (p. 14)
- wealth (p. 14)
- market (p. 15)
- factor market (p. 15)
- product market (p. 15)
- economic growth (p. 16)
- productivity (p. 16)
- human capital (p. 16)
- division of labor (p. 17)
- specialization (p. 17)
- economic interdependence (p. 17)

Academic Vocabulary
- transferable (p. 13)
- mechanism (p. 13)
- accumulation (p. 14)

Reading Strategy
Describing: As you read the section, describe the factors that lead to economic growth.

GUIDE TO READING

Answers to Graphic:
productivity; investing in human capital; division of labor and specialization; economic interdependence

Resource Manager

CHAPTER 1, SECTION 2

Basic Economic Concepts

PRODUCTS IN THE NEWS

Comic Books a Big Business

America may have started the worldwide comics craze when U.S. soldiers scattered them around in foreign countries during World War II. Today, they are a global phenomenon—the most widely read literature in the world. According to one published report, 40 percent of all printed material in Japan consists of comics. In the United States, 375 new comic books are sold every month.

The comic-book industry as a whole has had a healthy year. Industry analysts from theComic Buyer’s Guide reported new comics sales of more than $149 million for the first half of 2005, up 6 percent from the period a year earlier. Marvel Entertainment, a publicly traded company that filed for bankruptcy protection in December 1996 and reorganized in July 1998, has recovered strongly in recent years, largely on the strength of its success with movies based on X-Men and Spider-Man.

When you hear the word economics, you probably think of “big business”—large corporations that run banks and petroleum refineries, or companies that make automobiles, computers and, yes, even comic books. Economics does include big business, but it also includes much more.

Like other social sciences, economics has its own vocabulary and uses terms such as recession, commodity, or utility. To understand economics, a review of key terms is necessary. Fortunately, most economic terms are widely used, and you will already be familiar with many of them.
GOODS, SERVICES, AND CONSUMERS

ECONOMICS & YOU Every time you buy something in a store, you act as a consumer. Read on to learn more about this and other basic economic vocabulary.

Economics is concerned with economic products—goods and services that are useful, relatively scarce, and transferable to others. Economic products help us satisfy our wants and needs. Because they are both scarce and useful, they command a price.

GOODS
There are different types of economic products. The first one is a good—a useful, tangible item, such as a book, car, or compact disc player, that satisfies a want. When manufactured goods are used to produce other goods and services, they are called capital goods. An example of a capital good would be a robot welder in a factory, an oven in a bakery, or a computer in a high school. Goods intended for final use by individuals are consumer goods.

Any good that lasts three years or more when used on a regular basis is called a durable good. Durable goods include both capital goods, such as robot welders, and consumer goods, such as automobiles. A nondurable good is an item that lasts for fewer than three years when used on a regular basis. Food, writing paper, and most clothing items are examples of nondurable goods.

SERVICES
The other type of economic product is a service, or work that is performed for someone. Services include haircuts, home repairs, and forms of entertainment such as concerts. They also include the work that doctors, lawyers, and teachers perform. The difference between a good and a service is that a good is tangible, or something that can be touched, while a service is not.

CONSUMERS
Consumers are the people who use goods and services to satisfy their wants and needs. As consumers, people indulge in consumption, the process of using up goods and services in order to satisfy wants and needs.

TEACH

READING STRATEGY
Questioning Ask: When purchasing a particular good, what question could you ask yourself to help identify the best product? (Possible answers: How much will I use a particular product? How long do I want a particular product to last?)

SKILL PRACTICE
Visual Literacy In addition to the computer, have students identify another consumer good shown in the image. Ask: Is the good durable or nondurable? (Students may identify clothing and eyeglasses as nondurable goods.)

Additional Support

Teacher Tip
Adjusting for Students’ Learning Styles Suggest that visual, kinesthetic, and English language learners illustrate their tables with images of each good and service. Students might draw pictures or cut out images from magazine advertisements.
Economists aren’t the only ones obsessed with value. Do you think that some goods are more valuable than others? (To have monetary value, a good must be scarce and have utility for the person purchasing it. Some goods that have utility are more scarce than others, which makes them more valuable.)

Value, Utility, and Wealth

**MAIN Idea** The value of a good or service depends on its scarcity and utility.

**Economics & You** Has anyone ever thought you paid too much for something? Read on to learn how the value of an item is determined.

In economics, value refers to a worth that can be expressed in dollars and cents. Why, then, does something have value, and why are some things more valuable than others? To answer these questions, it helps to review a problem Adam Smith, a Scottish social philosopher, faced back in 1776.

The Paradox of Value

Adam Smith was one of the first people to describe how markets work. He observed that some necessities, such as water, had a very low monetary value. On the other hand, some nonnecessities, such as diamonds, had a very high value. Smith called this contradiction the paradox of value.

Economists knew that scarcity was necessary for something to have value. Still, scarcity by itself could not fully explain how value is determined.

Utility

It turned out that for something to have value, it must also have utility, or the capacity to be useful and provide satisfaction. Utility is not something that is fixed or even measurable, like weight or height. Instead, the utility of a good or service may vary from one person to the next. One person may get a great deal of satisfaction from a home computer; another may get very little. One person may enjoy a rock concert; another may not.

Value

For something to have monetary value, economists decided, it must be scarce and have utility. This is the solution to the paradox of value. Diamonds are scarce and have utility, thus they possess a value that can be stated in monetary terms. Water has utility but is not scarce enough in most places to give it much value. Therefore, water is less expensive, or has less monetary value, than diamonds.

The emphasis on monetary value is important to economists. Unlike moral or social value, which is the topic of other social sciences, the value of something in terms of dollars and cents is a concept that everyone can easily understand.

Wealth

In an economic sense, the accumulation of products that are tangible, scarce, useful, and transferable from one person to another is wealth. A nation’s wealth is comprised of all tangible items—including natural resources, factories, stores, houses, motels, theaters, furniture, clothing, books, highways, video games, and even basketballs—that can be exchanged.

While goods are counted as wealth, services are not, because they are intangible. However, this does not mean that services are not useful or valuable. Indeed, when Adam Smith published his famous book *The Wealth of Nations* in 1776, he was referring specifically to the abilities and skills of a nation’s people as the source of its wealth.

For Smith, if a country’s material possessions were taken away, its people, through their efforts and skills, could restore these possessions. On the other hand, if a country’s people were taken away, its wealth would deteriorate.
The Circular Flow of Economic Activity

**Main Idea** The economic activity in markets connects individuals and businesses.

**Economics & You** When you receive a paycheck, do you understand how you fit in the larger economy? Read on to learn about the flow of economic activity.

The wealth that an economy generates is made possible by the circular flow of economic activity. The key feature of this circular flow is the market, a location or other mechanism that allows buyers and sellers to exchange a specific product. Markets may be local, national, or global—and they can exist in cyberspace.

**Factor Markets**
As shown in Figure 1.3, individuals earn their incomes in factor markets, where the factors of production are bought and sold.

![Figure 1.3 The Circular Flow of Economic Activity](image)

This is where entrepreneurs hire labor for wages and salaries, acquire land in return for rent, and borrow money. The concept of a factor market is a simplified but realistic version of the real world. For example, you participate in the factor market when you work and sell your labor to an employer.

**Product Markets**
After individuals receive their income from the resources they sell in a factor market, they spend it in product markets. These are markets where producers sell their goods and services. Thus, the wages and salaries that individuals receive from businesses in the factor markets returns to businesses in the product markets. Businesses then use this money to produce more goods and services, and the cycle of economic activity repeats itself.

**Critical Thinking**
Contrasting **Ask:** What are the major differences between factor markets and product markets? (In factor markets, factors of production are bought and sold, and individuals earn incomes. In product markets, producers sell goods and services to individuals using income they receive from businesses.)

**Skill Practice**
Visual Literacy **Discuss** the diagram with the class. Then have students construct a similar diagram that represents their own economic activity if they have a job or the activity of a family member if they do not.

**Economic Analysis**
**Answer:** Consumers spend income from factor markets on goods and services sold in product markets.
Differentiated Instruction

Kinesthetic Write “human capital” on the board, and have students illustrate the concept. Encourage them to think of their personal skills and abilities, their health, how they learn, and what motivates them. Invite students to label their illustrations and present them to the class.

Critical Thinking

Predicting Consequences

Ask: What might happen if individuals don’t invest in their own education? (Possible answer: They will have trouble getting a job and making a living.)

Skill Practice

Analyzing Charts Ask students to draw a conclusion based on the information in the chart. (Possible answer: Achieving higher education increases an individual’s income.)

Hands-On Chapter Project

Step 2

Modeling an Economic Decision

Step 2: Identifying Basic Economic Concepts. Students will answer basic economic questions about their T-shirt business.

Directions: Ask student groups to work together to answer the following questions about their T-shirt business:

- Are you producing a good or a service? If it is a good, is it durable or nondurable? Explain.
- What consumers will you target with your product?
- Describe the value of your product.
- Describe three ways in which you can increase your business’s productivity and achieve growth.
- What other kinds of businesses will you need to depend on to make and sell your product?

Comparing Have groups compare their answers with one another. Allow them time to revise or change their answers, if necessary.

(Chapter Project continued in Section 3.)

Productivity and Economic Growth

MAIN Idea A nation’s economic growth is due to several factors.

Economics & You Have you decided yet what you will do after graduating from high school? Read on to learn how investing in more education now can give you a higher lifetime income.

Investing in Human Capital

A major contribution to productivity comes from investments in human capital, the sum of people’s skills, abilities, health, knowledge, and motivation. Government can invest in human capital by providing education and health care. Businesses can invest in training and other programs that improve the skills of their workers. Individuals can invest in their own education by completing high school, going to a technical school, or attending college.

Figure 1.4 shows that investments in education can have substantial payoffs. According to the table, high school graduates earn substantially more than nongraduates, and college graduates make even more than...
high school graduates. Educational investments require that we make a sacrifice today so we can have a better life in the future, and few investments generate higher returns.

**Division of Labor and Specialization**

Division of labor and specialization can improve productivity. **Division of labor** is a way of organizing work so that each individual worker completes a separate part of the work. In most cases, a worker performs a few tasks many times a day is likely to be more proficient than a worker who performs hundreds of different tasks in the same period.

**Specialization** takes place when factors of production perform only tasks they can do better or more efficiently than others. The division of labor makes specialization possible. For example, the assembly of a product may be broken down into a number of separate tasks (the division of labor). Then each worker can perform the specific task he or she does best (specialization).

One example of the advantages offered by the division of labor and specialization is Henry Ford’s use of the assembly line in automobile manufacturing. Having each worker add one part to the car, rather than a few workers assembling the entire vehicle, cut the assembly time of a car from a day and a half to just over 90 minutes—and reduced the price of a new car by more than 50 percent.

**Economic Interdependence**

The U.S. economy has a remarkable degree of economic interdependence. This means that we rely on others, and others rely on us, to provide most of the goods and services we consume. As a result, events in one part of the world often have a dramatic impact elsewhere.

This does not mean that interdependence is necessarily bad. The gains in productivity and income that result from specialization almost always offset the costs associated with the loss of self-sufficiency.

**Critical Thinking**

1. **The BIG Idea** How is value related to scarcity and utility?
2. **Drawing Conclusions** Why is investing in human capital beneficial?
3. **Analyzing Visuals** Look at Figure 1.3. How can individuals increase the flow of circular activity? What effect would this increase have on the other parts of the economy?
4. **Inferring** How might major events such as labor strikes affect you and your community? Select a possible event and write a brief paragraph about the potential effects.

**Applied Economics**

1. **Specialization** Provide at least three examples each of specialized workers and specialized capital that are used in your school to provide the service of education. How would productivity change if they were not available to your school?
Adam Smith (1723–1790)

- introduced the idea that the division of labor led to the great prosperity of Britain
- defined the wealth of a nation as the sum of the goods produced by its people

Division of Labor

Adam Smith did not set out to become an economist. In fact, he focused on philosophy when, at age 14, he earned a scholarship to attend Glasgow University. Travels throughout Europe and talks with notable thinkers helped Smith turn his attention to economics. In 1776 he published his most influential book, An Inquiry into the Nature and Causes of the Wealth of Nations, in which he observed that labor becomes more productive as each worker becomes more skilled at a single job. This made him the first to introduce and recognize the importance of the “division of labor.”

Invisible Hand

Smith’s most important contribution was the notion that competition and individual self-interest would somehow act as an “invisible hand” to guide resources to their most productive uses. He suggested that the role of government should be limited to enforcing contracts, granting patents and copyrights to encourage inventions and new ideas, and providing public works, such as roads and bridges.

Wealth of Nations

Smith also put forth the new idea that the “wealth of nations” should be defined as the sum of goods produced by labor, not the personal financial wealth of those who owned them. Competition in markets, along with the division of labor and the invisible hand, would lead to increased productivity and output. Smith’s doctrine of laissez-faire (French for “let it be”) marked the beginning of modern economic thought, and it still serves as the basis of our free market economy.

Examining the Profile

Answers: 1. the importance of the division of labor, the idea of the “invisible hand” guiding resources, and the definition of the wealth of nations 2. Answers will vary but may include that factories use division of labor.

Activity: Collaborative Learning

Division of Labor Have students work together in small groups to form a fictitious business that manufactures a product such as computers, shoes, automobiles, or microwaves. Using the division of labor idea, have each group write an organizational plan for their business, where each group member is assigned a single job to perform. Groups should ensure that every position has a job description that contributes to the success of the company. When groups have completed their plans, have volunteers present them to the class and predict how division of labor will influence their company’s productivity. After each presentation, have a class discussion on how division of labor benefits each fictitious company.
What will you do after graduating from high school? Get a job? Go to college? If you choose to work, you will benefit by receiving a paycheck right away. If you decide to earn a college degree—like the NASCAR-focused degree at Belmont Abbey College—you may give up four years of earning potential. The benefit, however, is that your income after college will be greater than the income you will earn with just a high school diploma.

Because resources are scarce, everyone has to make choices. To become a good decision maker, you need to know how to identify the problem and then analyze your alternatives. Finally, you have to make your choice in a way that carefully considers the costs and benefits of each possibility.

People in the News

The Grease Pits of Academia

Students at Belmont Abbey College may have a head start in the race for post-graduation jobs—at least jobs that go VROOM! Starting this fall, the 1,000-student school outside Charlotte, N.C., will offer the national’s first four-year bachelor’s degree in Motorsports Management. Students will study such topics as sports marketing and racing management.

“The program will be NASCAR-focused but will have a broad application to all portions of the motor sports industry,” says Philip Bayster, head of the school’s business department. Charlotte, the NASCAR epicenter, is home to about 250 racing teams and 25 specialized media and marketing firms.

Pay is anything but the pits. Annual salaries for the region’s 14,000 motor sports jobs, not including drivers, average $72,000.

Academic Vocabulary

- alternative (p. 20)
- assumption (p. 23)

Reading Strategy

Identifying As you read this section, complete a graphic organizer similar to the one below by identifying the ways in which you can make economic choices and what these strategies allow you to learn.

<table>
<thead>
<tr>
<th>Problems</th>
<th>Strategy</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade-offs</td>
<td>Decision-making</td>
<td>grid</td>
</tr>
</tbody>
</table>

Possible Answers to Graphic:

Trade-offs: decision-making grid; helps evaluate choices
Opportunity cost: decision-making grid; helps in deciding the next best alternative
Comparing choices: cost-benefit analysis; helps make choices with the highest return for the dollar spent

Resource Manager
Trade-Offs and Opportunity Cost

**MAIN Idea** Economic choices involve trade-offs and the careful evaluation of opportunity costs.

**Economics & You** When you go shopping, you usually have to make choices, because you cannot afford to buy everything you want. Read on to learn about the terms economists apply to these decisions.

There are alternatives and costs to everything we do. In a world where “there is no such thing as a free lunch,” it pays to examine these concepts closely.

**Trade-Offs**

Every decision we make has its trade-offs, or alternative choices. One way to help us make decisions is to construct models such as the grid in Figure 1.5. This grid shows how Jesse decides to spend a $100 gift.

Jesse likes several alternatives: a video game, concert tickets, an MP3 player, and a replica NFL jersey. At the same time, he realizes that each item has advantages and disadvantages. Some of the items can be used more than once, and some might require his parents’ consent. Some even have additional costs such as batteries.

To help with his decision, Jesse can draw a grid that lists his alternatives and several criteria by which to judge them. Then he evaluates each alternative with a “yes” or “no.” In the end, Jesse chooses the jersey because it satisfies more of his criteria than any other alternative.

Using a decision-making grid is one way to analyze an economic problem. It forces you to consider a number of alternatives and the criteria you’ll use to evaluate the alternatives. Finally, it makes you evaluate each alternative based on the criteria you selected.

**Opportunity Cost**

People often think of cost in terms of dollars and cents. To an economist, however, cost means more than the price tag on a good or service. Instead, economists think broadly in terms of opportunity cost, the cost of the next-best alternative. When Jesse decided to purchase the jersey, his opportunity cost was the MP3 player—the next-best choice he gave up. In contrast, trade-offs are all of the other alternatives that he could have chosen.

Even time has an opportunity cost, although you cannot always put a monetary value on it. The opportunity cost of reading this economics book, for example, the history paper or math homework that you could not do at the same time.

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**Additional Support**

Trade-Offs of Higher Education

As many high school students approach graduation, they must weigh the trade-offs of attending college or immediately entering the workforce. In 2004, 67 percent of students completing high school chose to enroll in college. This percentage has increased from 49 percent in 1972. In making these choices, high school graduates must weigh both the cost of attending college, as well as the potential earning power they will gain by acquiring a college education. For the academic year 1984–1985, the average cost of undergraduates’ tuition, room, and board was about $4,500. By 2004–2005, that figure had increased to more than $13,000. However, the earning power of workers with a college degree also proved significantly higher than that of workers with a high school diploma or GED. In 2004, males with a bachelor’s degree or higher earned about 67 percent more than workers who had only completed high school.
Economies face trade-offs when deciding what goods and services to produce.

**Economics & You** You just learned that you face trade-offs and opportunity costs when making choices. Read on to learn how opportunity cost applies to countries as well as individuals.

To illustrate opportunity cost, economists use the production possibilities frontier, a diagram representing various combinations of goods and services an economy can produce when all its resources are in use. In the example in Figure 1.6, a mythical country called Alpha produces two goods—cars and clothing.

**Identifying Possible Alternatives**

Even though Alpha produces only two goods, the country has a number of alternatives available to it. For example, it could choose to use all of its resources to produce 70 units of cars and 300 units of clothing, which is shown as point a in Figure 1.6. Or it could shift some of its resources out of car production and into clothing, thereby moving to point b. Alpha could even choose to produce at point c, which represents all clothing and no cars, or at point e, which is inside the frontier.

Alpha has many alternatives available to it, which is why the figure is called a production possibilities “frontier”—to indicate the maximum combinations of goods and services that can be produced. Production at point e could also be the result of other idle resources, such as factories or land that are available but not being used. As long as some resources are idle, the country cannot produce on its frontier—which is another way of saying that it cannot reach its full production potential.

**Fully Employed Resources**

All points on the curve such as a, b, and c represent maximum combinations of output that are possible if all resources are fully employed. To illustrate, suppose that Alpha is producing at point a, and the people would like to move to point d, which represents the same amount of cars, but more clothing. As long as all resources are fully employed at point a, there are no extra resources available to produce the extra clothing. Therefore, point d cannot be reached, nor can any other point outside the curve. This is why the figure is called a production possibilities “frontier”—to indicate the maximum combinations of goods and services that can be produced.

**The Cost of Idle Resources**

If some resources were not fully employed, then it would be impossible for Alpha to reach its maximum potential production. Suppose that Alpha was producing at point b when workers in the clothing industry went on strike. Clothing production would fall, causing total output to change to point e. The opportunity cost of the unemployed resources would be the 100 units of lost clothing production.

Production at point e could also be the result of other idle resources, such as factories or land that are available but not being used. As long as some resources are idle, the country cannot produce on its frontier—which is another way of saying that it cannot reach its full production potential.

**Production Possibilities Frontier**

![Figure 1.6](image1.png)

**The production possibilities frontier shows the different combinations of two products that can be produced if all resources are fully employed.**

**Economic Analysis** Why can production take place on or inside the frontier?

**Differentiated Instruction Strategies**

**BL** Have students summarize the concept of trade-offs.

**AL** Ask students to write a brief paragraph explaining how knowing about trade-offs will influence their decision making in the future.

**ELL** Have students fill out a decision-making grid as they complete the activity.

**Analyzing Trade-Offs**

**Objective:** Understand the costs involved whenever a choice is made.

**Focus/Teach:** Ask students to brainstorm possible purchases that involve choices. Then review the decision-making grid, and have students answer the activity questions.

**Assess:**

**Close:** Ask students why it is important to analyze trade-offs when they are making economic decisions.
**Differentiated Instruction**

**Logical/Mathematical** Tell students that Gerard has two choices for a summer job—a manufacturing job that pays $10.25 per hour or a landscaping job that pays $8.65 per hour. At the landscaping company, he could work and have lunch with three of his closest friends.

**Ask:** For one 40-hour workweek, what would be the opportunity cost, in dollars, of accepting the landscaping job? ($64.00) What would be the opportunity cost of accepting the manufacturing job? (not working or eating lunch with his friends every day)

**Economic Analysis**

**Answer:** zero

**Economic Analysis**

**Answer:** having more resources or increased productivity

**Levelled Activities**

**BL** Reading Essentials and Note-Taking Guide, p. 7

**OL** Economic Concepts Transparencies, Strategies, and Activities, p. 3

**AL** Enrichment Activities, p. 1

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**Opportunity Cost**

Suppose that Alpha was producing at point a and that it wanted to move to point b. This is clearly possible as long as point b is not outside the production possibilities frontier. However, Alpha will have to give something up in return. As shown in Figure 1.7, the opportunity cost of producing the 100 additional units of clothing is the 30 units of cars given up.

As you can see, opportunity cost applies to almost all activities, and it is not always measured in terms of dollars and cents. For example, you need to balance the time you spend doing homework and the time you spend with your friends. If you decide to spend extra hours on your homework, the opportunity cost of this action is the time that you could not spend with your friends. You normally have a number of trade-offs available whenever you make a decision, and the opportunity cost of the choice you make is the value of the next best alternative that you give up.

**Economic Growth**

The production possibilities frontier represents potential output at a given point in time. Eventually, however, changes may cause the production possibilities frontier to expand. The population may grow, the stock of capital may expand, technology may improve, or productivity may increase. If any of these changes occur, then Alpha will be able to produce more in the future.

The effect of economic growth is shown in Figure 1.8. Economic growth, made possible by having more resources or increased productivity, causes the production possibilities frontier to move outward. Economic growth will eventually allow Alpha to produce at point d, which it could not do earlier.

**Reading Check**

**Answer:** by representing potential output at a given point in time

**Reading Check**

**Answer:** by representing potential output at a given point in time

**Reading Check**

**Answer:** representing potential output at a given point in time

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**Evaluating**

**Logical/Mathematical**

The production possibilities frontier represents potential output at a given point in time. As point a is approached, opportunity cost increases. As point b is approached, opportunity cost decreases.

**Economic Analysis**

**Answer:** by representing potential output at a given point in time

---

**Logical/Mathematical**

The short-run production possibilities frontier is: A. the boundary of all possible combinations of the two goods that can be produced with the available resources.

**Economic Analysis**

**Answer:** A. the boundary of all possible combinations of the two goods that can be produced with the available resources.
**Thinking Like an Economist**

**MAIN Idea** Economists use a strategy called cost-benefit analysis to evaluate choices.

**Economics & You** When you work a complicated math problem, do you ever look at a simplified example to better understand the process? Read on to learn how economists use models to understand complex economic activities.

Because economists study how people satisfy seemingly unlimited and competing wants through the careful use of scarce resources, they are concerned with strategies that will help people make the best choices. Two strategies are building models and preparing a cost-benefit analysis.

**Build Simple Models**

One of the most important strategies is to build economic models. An economic model is a simplified equation, graph, or figure showing how something works. Simple models can often reduce complex situations to their most basic elements. To illustrate, the production possibility frontiers in this section and the circular flow diagram in Figure 1.3 on page 15 are examples of how complex economic activity can be explained by a simple model.

Another basic model is the production possibilities frontier that is illustrated in Figure 1.6 on page 21. Realistically, of course, economies are able to produce more than two goods or services, but the concepts of trade-offs and opportunity costs are easier to illustrate if only two products are examined. As a result, simple models such as these are sometimes all that economists need to analyze or describe an actual situation.

It is important to realize that models are based on assumptions, or things we think are true. In general, the quality of a model is no better than the assumptions on which it is based, but a model with simple assumptions is usually easier to understand. In the case of the production possibilities frontier, for example, we assumed that only two goods could be produced. This made the model easier to illustrate and still allowed us to discuss the concepts of trade-offs and opportunity costs.

It is also important to keep in mind that models can be revised to make them better. If an economic model helps us to make a prediction that turns out to be right, the model can be used again. If the prediction is wrong, the model might be changed to make better predictions the next time.

**Opportunity Costs.**

**Step 3: Evaluating Trade-Offs and Opportunity Costs.** Students will identify trade-offs and determine opportunity costs associated with changes in production.

**Directions:** Explain to students that their T-shirt business must now decide whether to produce hats also. Have students compose a list of possible trade-offs associated with this decision. Inform students that they will evaluate the opportunity costs associated with producing hats by making a production possibilities curve. Direct students to construct such a curve using the data in the following table.

<table>
<thead>
<tr>
<th>Number of T-Shirts and Hats Produced</th>
<th>T-Shirts</th>
<th>Hats</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>400</td>
<td></td>
<td>175</td>
</tr>
<tr>
<td>300</td>
<td></td>
<td>300</td>
</tr>
<tr>
<td>200</td>
<td></td>
<td>350</td>
</tr>
<tr>
<td>100</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td>0</td>
<td></td>
<td>500</td>
</tr>
</tbody>
</table>

When each group has completed its production possibilities chart, ask group members to use their finished work to describe the opportunity costs of producing several quantities of hats.

**Hands-On**

**Chapter Project**

**Step 3**

*Reading Strategy*

**Making Connections** Ask students to think about the ways in which economists might gather the data they use to study specific parts of the economy. Then, direct students to make a list of these methods. Students may suggest methods such as statistical analysis, polling and interviews, and surveys or questionnaires. Invite students to explain how these approaches to gathering data might help economists develop economic models.

**Writing Support**

**Personal Writing** Have students write a paragraph expressing their thoughts on the following question: Does an economist’s model have value if data collected shows that his or her theory is incorrect? Students should clearly state their opinions on the topic and provide reasonable explanations for their beliefs. (Answers will vary, but students may suggest that such a model does have value because it points the way for further study of the issue.)

**CAREERS**

**Economist**

**The Work**

* Collect and analyze data, observe economic trends
* Advise businesses and other organizations on such topics as energy costs, inflation, imports, and employment levels
* Study economic conditions in the United States or in other countries to estimate the economic effects of new legislation or public policies

**Qualifications**

* Strong computer and quantitative skills
* Ability to conduct complex research, write reports, and prepare statistical data
* Bachelor’s degree, with a focus on economics and statistics, accounting, or calculus
* Master’s degree required for most economists in the private sector

**Earnings**

* Median annual earnings: $72,780

**Job Growth Outlook**

* Slower than average

**Source:** Occupational Outlook Handbook, 2006–2007 Edition

[Image of a circular flow diagram with arrows indicating money, goods, and services flowing between households and firms.]
**CHAPTER 1, SECTION 3**

**C Critical Thinking**

Comparing and Contrasting

Ask: How are economic models and cost-benefit analyses alike and different? (They are both strategies that help people make the best economic choices. An economic model uses graphs, equations, or illustrations to explain concepts. A cost-benefit analysis compares an action to its benefits.)

**D Differentiated Instruction**

Verbal/Linguistic Have students research to find out what elements are used to measure a country’s standard of living (for example, poverty rate and personal income). Have students use their findings to comment on the standard of living in the United States.

**Caption Answer:** to investigate projects that give the highest return per dollar spent

**Reading Check** Answer: It reveals the choice with the lowest cost and the highest benefits.

**Additional Support**

**Activity: Interdisciplinary Connection**

Science Tell students that determining value can be very difficult when economic decisions are related to environmental concerns. When the Northern Spotted Owl was declared a threatened species, the owls’ nesting sites and surrounding locations became protected by the government. This helped the chances for the owls’ survival, but it greatly impacted the logging industry in parts of the northwest. Because fewer trees could be cut down, logging decreased dramatically. Many workers lost their jobs in an area with few other economic opportunities. Have students report on another case in which environmental government policy impacted the economy. Discuss how the value of the environment might be weighed against other economic concerns.

**The Road Ahead**

**Main Idea** The study of economics helps people become better citizens.

**Economics & You** As you become old enough to vote, are you also becoming more aware of current events? Read on to learn how economic issues affect politics.

The study of economics does more than explain how people deal with scarcity. Economics also includes the study of how things are made, bought, sold, and used. It provides insight as to how incomes are earned and spent, how jobs are created, and how the economy works on a daily basis. The study of economics also gives us a better understanding of the workings of a free enterprise economy—one in which consumers and privately owned businesses, rather than the government, make the majority of the WHAT, HOW, and FOR WHOM decisions.

**Topics and Issues**

The study of economics will provide you with a working knowledge of the economic incentives, laws of supply and demand, price system, economic institutions, and property rights that make the U.S. economy function. Along the way, you will learn about topics such as unemployment, the business cycle, inflation, and economic growth. You will also examine the role of business, labor, and government in the U.S. economy, as well as the relationship of the United States economy with the international community.

All of these topics have a bearing on our standard of living—the quality of life based on the ownership of necessities and luxuries that make life easier. As you study economics, you will learn how to measure the value of our production and how productivity helps determine our standard of living. You will find, however, that the way the American people make economic decisions is not the only way to make these decisions.
Economists have identified three basic kinds of economic systems. We will analyze these systems and how their organization affects decision making in the next chapter.

**Economics for Citizenship**

The study of economics helps us become better decision makers—in our personal lives as well as in the voting booths. Economic issues are often debated during political campaigns, so we need to understand the issues before deciding which candidate to support.

Most of today’s political problems have important economic aspects. For example, is it important to balance the federal budget? How can we best keep inflation in check? What methods can we use to strengthen our economy? The study of economics will not provide you with clear-cut answers to all of these questions, but it will give you a better understanding of the issues involved.

**Understanding the World Around Us**

The study of economics helps us understand the complex world around us. This is particularly useful because the world is not as orderly as your economics textbook, for example. Your book is neatly divided into sections for study. In contrast, society is dynamic, and technology and other innovations always lead to changes.

Economics provides a framework for analysis—a structure that helps explain how things are organized. Because this framework describes the incentives that influence behavior, it helps us understand why and how the world changes.

In practice, the world of economics is complex and the road ahead is bumpy. As we study economics, however, we will gain a much better appreciation of how we affect the world and how it affects us.

**Critical Thinking**

4. **The Big Idea** Why is it important for governments to understand trade-offs and opportunity costs? Explain in a brief paragraph.

5. **Synthesizing** How does economics play a part in politics?

6. **Analyzing Visuals** Study the production possibilities frontier in Figure 1.6 on page 21. What does it mean when the frontier shifts outward? What possible causes exist for such a shift?

7. **Economic Way of Thinking** Search the newspaper and identify a major economic issue facing your community or state. Identify possible solutions and prepare a decision-making grid to evaluate the alternatives. What decision would you make? Write a short essay in which you explain your choice.

**Answers**

1. All definitions can be found in the section and the Glossary.
2. Answers will vary, but students should illustrate how analyzing trade-offs and opportunity costs can help them make economic decisions.
3. Building economic models and preparing a cost-benefit analysis

4. **Possible answer:** Understanding trade-offs and opportunity cost helps governments decide what goods and services to produce.

5. **Possible answer:** Economic issues are often debated in political campaigns. Voters may decide which candidates to support by understanding their positions on economic issues.

6. It means that resources have been shifted from the production of one good to another. Possible causes will vary but may include that demand for one of the goods has increased.

7. Answers will vary but should demonstrate the student’s understanding of decision-making grids to evaluate alternatives.
Search for the Perfect Jeans

We all have them. And if you don’t, you are probably looking for them—the perfect pair of jeans. Preferably, they are faded, soft, and perfect. In 1969, Don and Doris Fisher opened the first Gap store in San Francisco “to make it easier to find” that perfect pair. This store was only the beginning. Gap, Inc., expanded its consumer market through Banana Republic, Old Navy, and, most recently, Forth and Towne.

Something for Every “Body”

Why did a single retail shop morph into four different brands? In the 1990s, Gap seemed to be losing its edge. A boastful rival claimed to Gap’s then-CEO Mickey Drexler that “he could create a cheap Gap knockoff that one day would be bigger than Gap itself.” Drexler liked the idea and ran with it himself. Enter Old Navy.

Just as each body requires a different pair of jeans—be it boot cut or low rise—each Gap, Inc., brand has a unique identity that is carried out in the store environment and marketing agenda. For example, budget-conscious consumers can peruse the deals at Old Navy while standing on concrete floors and listening to loud music. Down the street at Banana Republic, a more sophisticated crowd is checking out the season’s trendiest fashions at “approachable prices.” Meanwhile, at Forth and Towne, the target is the female baby boomer. These 35-and-over women are treated to chandeliers and lavish fitting rooms stocked with bottled water and chocolates.

Retail Success

The economics and marketing savvy behind the retailer’s rise to success are pretty simple: provide a product of value at different price levels in order to reach the maximum number of consumers. It seems to be working. With more than 3,000 stores and 2005 revenues topping out at $16 billion, Gap, Inc. operates under the notion that every “body” deserves that perfect pair of jeans.

Analyzing the Impact

Answers:
1. Each of their brands now has a unique identity that is carried out in the store environment and marketing agenda.
2. Answers will vary but should identify aspects of the site’s design that reflect the brand’s target audience.

Extending the Content

Gap Facts

In 1969 Doris and Don Fisher opened the first Gap clothing store. By the next year, the San Francisco outlet boasted $2 million in sales. The Fishers quickly opened a number of other Gap stores in the 1970s to capitalize on the brand’s popularity. In 1976 the Gap went public, offering 1.2 million shares of stock. Less than eleven years later, the company’s annual sales topped $1 billion. By 1998, the company had Gap stores in all 50 states. The company now operates more than 3,100 stores throughout the United States, Canada, the United Kingdom, France, Ireland and Japan, and employs more than 150,000 people.
SCARCITY

Because of scarcity, society needs to decide how to distribute limited resources to satisfy seemingly unlimited wants and needs.

Factors of Production

Four factors of production are required to produce the things we would like to have.

Trade-offs and Opportunity Costs

All economic decisions require us to make choices among alternatives. Trade-offs are all the available alternatives. The opportunity cost is the next-best alternative we give up.

Modeling an Economic Decision

Step 4: Bringing It All Together. Students will synthesize what they learned in previous steps.

Directions: Have students resume work in their groups. Instruct each group to compile their work throughout the chapter into a booklet. The booklet should include their summary reports from Step 1, their answers to the questions posed in Step 2, and the production possibilities charts from Step 3.

Assessing

Ask students to think about needs that all people have and then consider people’s most common wants. Have a volunteer record students’ responses on the board. Then lead a class discussion about the most significant wants that people seek to acquire. Ask: How do you think people determine what their most important wants will be? (Answers will vary, but students may suggest that people determine what these wants will be based on factors such as the items’ practicality, affordability, status, value, and so on.)

Personal Writing

Direct students to write an essay in which they explain how their economic choices might change if they found themselves with twice the amount of financial resources they currently have. Ask them to consider whether they would allocate more money to spending, saving, and so on, and encourage them to explain the reasoning behind their decisions.

Hands-On Chapter Project

Step 4: Wrap Up

Then, review the Big Idea with students by asking volunteers to explain how the problem of scarcity and the concept of limited resources affected each step in the T-shirt business plan.
UNIT 1 Fundamental Economic Concepts

28

Review Content Vocabulary
Use the key terms from the list below to complete the sentences that follow.

a. capital goods  
   b. consumer goods  
   c. economics  
   d. factors of production  
   e. human capital  
   f. opportunity cost  
   g. scarcity  
   h. services  
   i. utility  
   j. value

1. Economic products designed for final use by people are called ______.
2. The ______ of a CD player can be expressed in dollars and cents.
3. Haircuts and appliance repairs are examples of ______.
4. ______ arises because society does not have enough resources to produce all the things people would like to have.
5. The ______ of going to a football game instead of working would include the money not earned at your job.
6. ______ is the sum of the skills, abilities, health, and motivation of people.
7. ______ is another name for the capacity of a product to be useful.
8. The only factors of production that are themselves the result of earlier production are ______.
9. Land, capital, labor, and entrepreneurs are ______.
10. ______ is the study of how people use limited resources to satisfy unlimited wants.

Review Academic Vocabulary
On a separate sheet of paper, use each of these terms in sentences that follow.

11. resource  
   12. comprehensive  
   13. transferable  
   14. accumulation  
   15. mechanism  
   16. alternative  
   17. assumption

18. Cause: not having enough resources to produce all of the things that people would like to have. Effects: careful decisions have to be made about how to use resources.
19. They are all required to produce goods and services.
20. describing an economic activity; analyzing the economic activity; explaining the activity to other people; predicting what may happen in the future

21. Consumers: People who use goods and services to satisfy their wants and needs.
   Goods: Tangible products that are useful, relatively scarce, and transferable to others.
   Services: Acts of work or labor performed for someone.

22. the fact that some necessities have a very low monetary value and some nonnecessities have a very high value
23. Individuals earn their income in factor markets, where factors of production are bought and sold. They spend their income in product markets. Businesses use this money to produce more goods and services.
24. to produce more with the same amount of resources; to invest in human capital
25. the next-best alternative
26. the various combinations of goods and services that an economy can produce when all of its resources are in use
27. Economists can use models to analyze or describe an actual situation, which helps people make economic choices.
28. It helps us become better decision makers.

Critical Thinking
29. You have learned that scarcity is the fundamental economic problem for societies. Write a short paragraph explaining how scarcity affects you and your family on a daily basis.
30. **Determining Cause and Effect** Copy the two diagrams of the production possibilities frontiers shown below. Then write captions that explain what each diagram is showing.

![Diagram of Production Possibilities Frontier](image)

31. **Understanding Cost-Benefit Analysis** How would you apply the concept of cost-benefit analysis to the decision whether to finish high school? To further your education beyond high school? To purchase a computer? Explain your results in a few sentences.

32. **Evaluating Alternatives** Refer to the chapter opener activity on page 4 and evaluate the alternatives in one of the three categories (location, music, refreshments). What criteria will you use? What are the trade-offs? On a separate sheet of paper, illustrate your decision in a decision-making grid similar to the one below.

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Criterion 1</th>
<th>Criterion 2</th>
<th>Criterion 3</th>
<th>Criterion 4</th>
</tr>
</thead>
</table>

33. **Persuasive Writing** Research a recent school funding levy for your school district that was not approved. Find out what changes the school district had to implement to adjust to the reduced funding levels and reduced resources available to schools. Write a two-page paper in which you evaluate the choices.

34. **Math Practice**

   - a. What are the annual costs from the pothole damage?
   - b. What are the annual costs due to damage from collisions?
   - c. Given the size of the annual budget, make your recommendation as to which project should be undertaken. Explain your answer in terms of dollar benefits per dollar spent.

35. **Thinking Like an Economist**

   - a. $10,400
   - b. $72,000
   - c. Answers will vary but should explain dollar benefits per dollar spent.

36. **Interpreting Cartoons**

   - a. Answers will vary but should demonstrate an understanding of trade-offs and opportunity costs.
**Focus**

Ask students to use an online inflation calculator to determine how much 25 cents per hour in 1938 would equal today. (You might suggest that they visit www.minneapolisfed.org.) Have students write a paragraph explaining whether they think the 1938 minimum wage was fair. (Students who believe that it was not fair may point out that the 1938 wage is equivalent to less than $4.00 per hour today. Students who believe it was fair may point out that Depression-era businesses could not afford to pay more than 25 cents per hour.)

**Teach**

**S** **Skill Practice**

**Analyzing Information**

Ask: Does this graph support Dreier and Candaele’s argument? Why or why not? (Possible answer: The graph supports their argument because it shows that the purchasing power of the minimum wage is nearing its lowest value since 1950.)

**Additional Support**

**Extending the Content**

**Minimum Wage in the States** As of 2007 the federal minimum wage was $5.15 per hour. However, millions of Americans earning minimum wage that year received a higher hourly rate of pay than $5.15. This is because more than half of the states have set minimum wage rates that are higher than the federal rate. When state and federal laws set differing wage rates, the higher standard applies. Thus, in states such as New York, Massachusetts, Oregon, and California, workers earning the minimum wage received more than $7.00 per hour. Kansas, on the other hand, had a state minimum wage of $2.65 per hour. Louisiana, Mississippi, Alabama, Tennessee, and South Carolina had no minimum wage law as of 2007.
**CON** WAGE HIKE WOULD COST JOBS

Raising the federal minimum wage by $1.50 an hour will reduce job opportunities for those who need it most, new entrants to the job market with the least skills or experience. Raising the minimum wage hurts all American consumers and workers, by artificially inflating the cost of entry-level jobs, which is passed on through higher prices and lower real wages.

The convenience store industry offers a compelling employment opportunity, with competitive wages, flexible schedules, and career development. Most convenience stores offer wages far above the minimum—in 2001, the average was $9.28 an hour. However, our industry strongly opposes an increase in the federal minimum wage because it will discourage the creation of entry-level jobs and hurt small businesses. With higher costs of health care and other benefits, and lower profit margins, convenience store owners and petroleum marketers cannot sustain an increase in the minimum wage.

NACS members want to do what’s best for their own employees without government interference. And NACS members are very concerned about the inevitable result of a higher minimum wage—a ‘ripple effect’ of higher prices throughout the economy.

If Congress really wants to help low-income workers, there are much more constructive things that can be done, such as reducing payroll taxes, cutting the capital gains tax, and eliminating unnecessary and burdensome regulations.

—Allison Shulman, director, National Association of Convenience Stores, government affairs

**Assess/Close**

**W** Writing Support

Expository Writing Have students select a time in U.S. history when Congress raised the minimum wage. Instruct students to research and then write about the economic effects of the minimum wage increase they selected.

**Analyzing the Issue**

Answers:

1. An increase would lift millions of Americans out of poverty, spark consumer spending, create jobs, and lower employer expenses.
2. It will discourage the creation of entry-level jobs and force businesses to absorb greater expenses that would lower profit margins.
3. Answers will vary but should be logical and well supported.

**Activity: Interdisciplinary Connection**

**Art** Organize the class into small groups. Instruct students in each group to decide among themselves which position on the minimum wage issue they support. Have groups then prepare sketches for a visual advertising campaign promoting the position they support. Ideas for campaigns include posters, bumper stickers, web banners, T-shirt logos, billboards, placards, mugs, and so on. Ask groups to present the sketches of their visual ad campaigns to the class. After groups have presented, have students discuss the strengths and weaknesses of each ad campaign. They might consider whether the campaign is eye-catching and unique and whether it appeals to a diverse group of viewers. Then ask the class to vote on which ad campaign they think would be most effective.