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Chapter 2: Economics and the Global Economy

Check Your Answers: Section Assessment

Section 2

Review Key Concepts
1. The three goals of an economy are stable prices, low unemployment, and high productivity.

2. Gross Domestic Product, which measures productivity; Consumer Price Index (CPI), which is the cost of a market basket of goods; and unemployment rate, which shows how many people are unemployed and looking for work.

3. Expansion, recession, trough, and recovery.

4. Nations trade with one another because they do not always have all the resources to produce the goods they need. It is sometimes smarter to trade with other countries that can produce goods at a lower cost.

5. A balance of trade is the difference between the value of imports and exports. When the value of exports exceeds the value of imports, the country has a trade surplus. A trade deficit is when the value of imports exceeds the value of exports.

6. Free trade is based on market economic principles and no regulations. The purpose of protectionism is to protect domestic businesses in a given industry.

7. Comparative advantage means a country can produce a good more efficiently at a lower opportunity cost. Absolute advantage means a country can produce more of a product.

Higher Order Thinking
8. Sample answer: In a recession, I would advise business owners and consumers to cut back on spending. Investors should cut their losses. In a recovery, business owners and consumers could resume spending. Investors can be more aggressive.

English Language Arts
9. Pros and Cons of Free Trade As a consumer, you see an increase in the variety of goods available to you in the marketplace and a decrease in prices. With the elimination of trade barriers, U.S. businesses can grow by introducing their products to foreign customers. Negative outcomes may include a reduction in U.S. jobs and wages and an increase in the U.S. trade deficit.

Mathematics

10. Currency Exchange Shirt = \$25.99 × 1 = \$25.99; Purse = \$45.00 × 1 = \$45.00; Shoes = \$35.99 × 2 = \$71.98; Total Canadian dollar cost = \$25.99 + \$45.00 + \$71.98 = \$142.97; American dollar cost = \$142.97/\$1.10 = \$129.97