

Business and Personal Finance © 2012

Chapter 1: The Fundamentals of Economics

Check Your Answers: Section Assessment

Section 2

Review Key Concepts

1. An incentive is something that encourages specific behavior, such as bonus wages for doing a good job or a fine for breaking the law.
2. Financial markets are markets that provide the means for purchasing and selling stocks, bonds, commodities, and other financial instruments.
3. Depository institutions manage money that is deposited; non-depository institutions do not handle deposits but act as a liaison between savers and borrowers. Depository institutions use deposits; nondepository institutions invest or lend collected funds.
4. Workers may be encouraged by rewards such as bonuses or threatened with losing their job.

Consumers are offered sales or loyalty programs as incentives to buy more. Producers may be offered tax relief for building energy-efficient sites. Savers and investors are offered tax savings for contributing to certain accounts. Citizens may be offered tax deductions to encourage education.

Higher Order Thinking

5. Answers will vary. Sample answers may include: because the government offers tax deductions to home owners, it may encourage more people to buy a new home which would increase the demand.

21st Century Skills

6. **Make Judgments and Decisions** Students may recommend that members of their generation save more money and take fewer risks when it comes to buying homes and buying on credit. They may recommend that the government take measures to oversee the financial markets and the economy to ensure stability.

Mathematics

7. **Local Income Tax and Sales Tax** Local income tax = $\$43,000 \times 2.25\% = \967.50 ;
Sales tax = $\$12,350 \times 6.25\% = \771.88