

Personal Finance © 2012

Chapter 2: Economics and the Global Economy

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Money functions as a medium of exchange, a unit of value, and a store of value. The main properties of money are that it is divisible, usable, and stable.
2. Regulator, protector, and assistant for the economy.
3. The Federal Budget projects the revenue the government expects to generate and the costs of running the government. A balanced budget is when anticipated expenses match expected revenue.
4. Answers will vary. Sample response: The SEC protects investors by regulating the sale of stocks and bonds; OSHA protects workers by creating and enforcing safety guidelines; the FDA protects consumers by regulating the safety and labeling of food, drugs, and cosmetics; the EPA protects the environment.
5. The Federal Reserve is made up of a Board of Governors and 12 Federal Reserve banks. It supervises and regulates financial institutions; provides banking services to banks and the government; writes regulations and implements consumer protection laws; and offers information on economy, consumer credit and monetary policy.
6. The main source of government revenue is taxes. The government spends more than it gets in revenue, causing a budget deficit. The government borrows money to cover the deficit, creating the national debt.

Higher Order Thinking

7. Answers may vary. The government controls the federal funds rate. If the government raises the rate, the rates on loans will increase.

21st Century Skills

8. **Property Rights** Downloading music from the Internet is considered illegal when the downloader does not pay. Those that download illegally in the United States can be imprisoned, fined and/or sued.

Mathematics

9. **Government Budget** Total earned = $\$2,500,000 + \$4,750,000 + \$6,420,000 = \$13,670,000$; Total surplus/(deficit) = $\$13,670,000 - \$13,340,000 = \$330,000$ surplus.

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 \times 1 = \25.99 ; Purse = $\$45.00 \times 1 = \45.00 ; Shoes = $\$35.99 \times 2 = \71.98 ; Total Canadian dollar cost = $\$25.99 + \$45.00 + \$71.98 = \142.97 ; American dollar cost = $\$142.97/\$1.10 = \$129.97$