

THE AMERICAN ECONOMY

Fascinating Facts

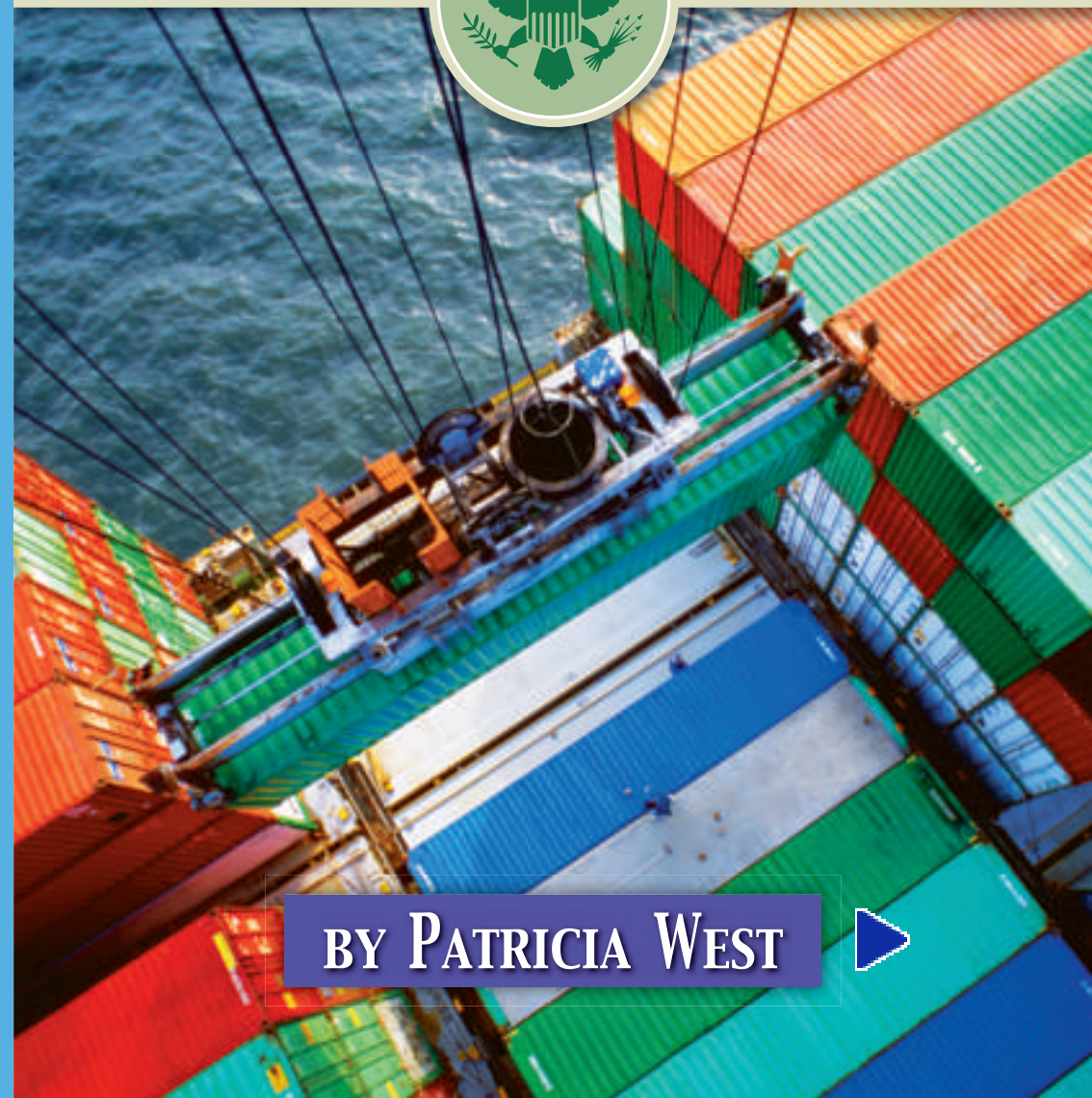
- A living person cannot have his or her picture on a United States bill.
- Some words that people sometimes use for *money* are *bread*, *bucks*, *greenbacks*, *jack*, and *dough*.
- The United States Mint makes about 20 million pennies each day.

Genre	Comprehension Skill	Text Features
Nonfiction	Cause and Effect	<ul style="list-style-type: none"> • Chart • Sidebars • Captions

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BY PATRICIA WEST





In this book you will be introduced to the workings of the United States economy and the role that you play in our nation and world's economies. You will read about the variety of goods and services that can be bought and sold and the choices that they represent for consumers.



Vocabulary

economy

goods

services

consumer

producer

supply

demand

tax

globalization



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Goods and Services

Economics is a complex term. Even experts disagree on its complete meaning. When you buy something, you are taking part in the **economy**, a system of buying and selling goods and services. **Goods** include sporting equipment, books, CDs, and clothing—almost anything that you can hold or touch. **Services** include things such as piano lessons, haircuts, and airplane trips—things that you cannot actually touch or hold.



The dog groomer is a producer with a service to sell. The dog owner is a consumer buying that service.

Consumers and Producers

All people are **consumers**. This means that they buy goods and services that they need or want.

Some people are also **producers**. They make or provide goods and services and sell them

to consumers. Producers such as bakers, farmers, CD makers, and car manufacturers provide goods. Examples of producers who provide services are teachers, barbers, pilots, and dentists.

Producers and consumers depend on one another. Without producers, there would be no goods and services to buy. Without consumers, there would be no one to buy those goods and services. A healthy economy requires a balance between production and consumption. There must be enough goods available to most consumers who want to purchase them, but not so many that a large number of goods remain unsold.



In different parts of the world, many different items have been used as money. The first coins were used some 2,600 years ago along the border where Europe meets Asia. About 1,400 years ago, the Chinese began using paper money.



These are all examples of goods that are bought and sold.





Needs and Wants

The goods and services that people must have to live are called *needs*. Needs include food, a place to live, and clothing. *Wants* are goods and services that we would like to have but that are not necessary for living. For example, foods such as bread and fruit are needs, but things like ice cream and CDs are wants. A warm, safe home is a need, but a huge house with a swimming pool is a want.

You probably have your own list of wants. These wants usually must wait until you have what you need.

Shoppers today have many choices. Wise consumers read and listen to advertisements carefully.



In the past, people produced almost all the goods they needed by themselves. We now depend on each other to produce most goods and provide services.



Choices

Consumers constantly have to make choices because no one can buy everything that he or she wants. If you have money to spend, you might want to buy a book and a CD. You may not have enough money for both, however, so you will have to choose one.

How do people decide what to spend their money on? In the United States, there are many choices. For instance, a grocery store may have nearly twenty-five different kinds of cereal on its shelves. The producers of these cereals want consumers to know about their products, so they hire advertisers. Advertisers are experts in providing information about products. This skill is the service they have to sell. They create advertisements, or ads, for magazines, newspapers, radio, television, and the Internet. These ads influence consumers' buying decisions. It is important that consumers understand that advertisements can sometimes be misleading.





When the demand for a product is less than the supply, the seller may lower the price.



Supply and Demand

The amount of goods and services produced is called the **supply**. The want or need that makes consumers buy these goods and services is called the **demand**.

Ideally supply and demand should balance each other. There should be a large supply of something if there is also a large demand for that item. Items that are less in demand should be produced in smaller quantities. Sometimes the supply of an item is larger than the demand for it and there are items left over. In contrast a small supply of an item that is in great demand means that some consumers will not be able to fill their wants or needs. Producers must plan carefully to provide the right supply.



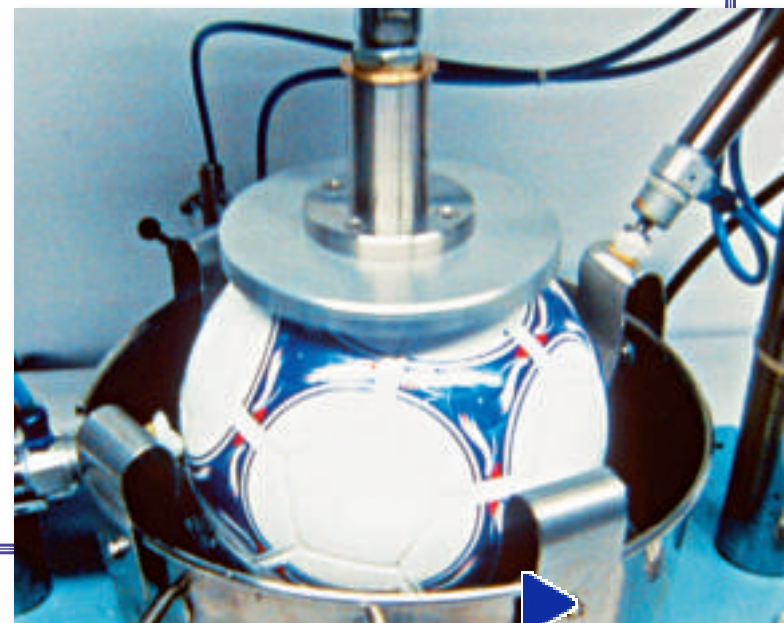
Cost and Price

Producers of a good or a service want to earn money, which is called a *profit*. For example, the producer of soccer balls has to buy materials, hire workers to make the balls, and provide a place for those people to work in. Added up, those expenses are the producer's costs.

If the cost for making one soccer ball is seven dollars, the producer may decide to sell each ball for ten dollars. The profit for each ball sold is three dollars, the difference between the cost and the price. Producers can then spend this money on goods and services for themselves, or they can spend the money expanding their factories so as to make more money in the future.

In this way money travels a circular path from consumer to producer and then on to other producers and consumers.

In this photograph, a soccer ball is being tested. Soccer balls like this one can be made quickly and cheaply. Each one is exactly the same.





Employment and Wages

The owner of a factory or store is an *employer*. The people who have jobs at the factory or store are the *employees*. The employer pays the employees wages, or an agreed-upon amount of money, for the work they do. When these employees receive their pay, they can buy the goods and services they want and need. Of course, the employees may also save some of the money they earn.

Employers and employees act as a team. When employers pay their employees fairly, the employees will do good work and produce profit for their employer.

This worker is a *human resource*. He, in turn, is using many other resources to do his job. His tools, for example, are *capital resources*.



Resources

Where do producers get the materials to change into goods and services to sell? Many materials are *natural resources* such as trees, oil, and water. *Human resources* are the workers who produce the goods and services. Miners, doctors, and teachers are just a few examples of human resources. *Capital resources* include the machinery used to produce the goods and services. One example of a capital resource is the machine that stitches together a soccer ball.





Tax money helps pay for our national parks, such as Yellowstone National Park in Wyoming.



In the United States, our state and national governments help provide citizens with some of the goods and services they need by collecting many kinds of **taxes**.

One kind of tax is a sales tax, which is an additional charge on some goods you buy. For example, if a CD costs ten dollars, the seller may charge you ten dollars and fifty cents. The extra fifty cents sales tax is money that is

sent to your state government. Other taxes collected by state governments and by the federal government include taxes on property and income.

Local, state, and national governments use this tax money to pay for services such as national parks, playgrounds, schools, police, and firefighters. These are services that everyone in the country needs.

Some government money also goes to people who cannot work, such as elderly or disabled people. Everyone has an obligation to help these people. In turn, workers who are healthy now may themselves need help in the future.



Our Nation's Economy

In the United States, people and businesses are free to produce any goods or services that they wish. They make decisions depending on a variety of factors, including what interests them and how much profit they can make. This kind of economy is called *free enterprise*.

Not all countries have this kind of economy. In some countries, the government decides what goods and services will be provided. The government might even decide who will be the producers of these goods and services.





Goods from Around the World

Your home probably contains goods that come from faraway places and goods that come from places close to home. You can often learn where an item was made by looking at its label or at its bottom.

This is a list of items that may be found in a family's kitchen and where they were made.



KIND OF GOOD	PLACE MADE
Clock	Hong Kong
Toaster Oven	Japan
Mug	England
Blender	Mexico
Dish	China
Fork	Germany
Teapot	France
Place Mat	India



Some goods can be produced more cheaply in other countries than they can be in the United States. When this happens, United States factories that also make these goods may close, and factory workers may lose their jobs. The loss of jobs is a problem for individual workers and for the nation's economy as a whole.

Sometimes businesses in the United States move their factories to another country. When this happens, our nation's workers may lose their jobs to workers in that other country.

Even some of our nation's service jobs sometimes move out of the country. For example, some United States companies have their customer service calls answered in places as far away as India.





Imports and Exports

The United States has traded goods with many other countries for years. The goods that a country buys from other countries are called *imports*. The goods that a country sells to other countries are called *exports*.

One of the most important imports bought by the United States is oil from countries in the Middle East. Without this good the nation's economy would not be as productive. For example, without oil, machines could not be run to produce goods and goods could not be delivered.

Years ago, the United States exported more goods than it imported. Today our nation imports more goods than it exports. In fact, in recent years, imports to the United States were worth billions of dollars more than exports. Economists, or experts who study the economy, are concerned about this trade imbalance.



Globalization

World trade has increased because of improvements in communication and transportation. The result of this increased trade is **globalization**, a world economy in which goods and services move easily among many countries. Globalization makes the economies of countries more interdependent, or dependent on each other.

Globalization also has other effects. Around the world, people watch American movies, listen to American music, and wear American fashions. In turn citizens of the United States can enjoy such things as fruit from Mexico, cars from Japan, and shoes from Italy. As a result, people feel that they are really citizens of the world, in addition to being citizens of their home country.

Many imports and exports are shipped by sea.



Glossary

consumer a person who buys goods and services

demand the amount of an item that consumers are willing to buy at different prices

economy the way in which the resources of a country, state, region, or community are managed

globalization the process by which a business makes something or provides a service in different places around the world

goods items that can be bought and sold

producer a person who makes goods or products to sell

services jobs that someone does for others

supply the amount of an item someone has to sell

tax money the government collects to pay for its services

Write to It!

Think of a good or service that you would like to provide in your community. What would it be? How might you produce it? How would you figure out how much to charge? What would be a good way to advertise it? Write two paragraphs that answer these questions.

Write your paragraphs on a separate sheet of paper.

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