Name ________________________________ Class ___________________ Date ____________________

Chapter 1 Study Guide Economic Decisions and Systems

Part 1 True or False

Directions Place a *T* for True or an *F* for False in the Answers column to show whether each of the following statements is true or false.

		Answers
1.	A video game is an example of a product that fulfills a need.	1. ***F***
2.	Tangible products you can purchase to meet your wants and needs are called goods.	2. ***T***
3.	When you decide to buy a jacket instead of a concert ticket, you are making a trade-off.	3. ***T***
4.	Capitalism is another name for a traditional economic system.	4. ***F***
5.	Competition forces businesses to search for new ways to satisfy customers' wants and needs.	5. ***T***
6.	The market price for a product is the point where demand exceeds supply.	6. ***F***
7.	Economists predict future changes in the economy.	7. ***T***
8.	China is the largest producer of goods and services in the world.	8. ***F***

Part 2 Multiple Choice

Directions In the Answers column, write the letter that represents the word, or group of words, that correctly completes the statement.

		Answers
9.	The basic economic problem is (a) having unlimited wants and needs but limited economic resources (b) deciding what goods and services to produce (c) identifying the goods and services available to you (d) determining how to satisfy needs and wants.	9. ***A***
10.	An important principle of the U.S. economic system is (a) the right to private property (b) the freedom of choice (c) competition (d) all of the above.	10. ***D***
11.	If freezing weather damages orange crops in Florida (a) the demand for oranges will decrease (b) the price of oranges will increase (c) the supply of oranges will remain unchanged (d) the price of orange juice will decrease.	11. ***B***
12.	Water, air, and minerals are examples of (a) consumer resources (b) natural resources (c) capital resources (d) human resources.	12. ***B***
13.	If you decide to purchase a digital copy of your favorite movie instead of a pair of jeans, the value of the jeans is the (a) market price (b) profit (c) opportunity cost (d) trade-off price	13. ***C***

Part 3 Matching

Directions In the Answers column indicate which economic system is best described by each statement.

A.	command economy	C.	traditional economy
B.	market economy	D.	mixed economy

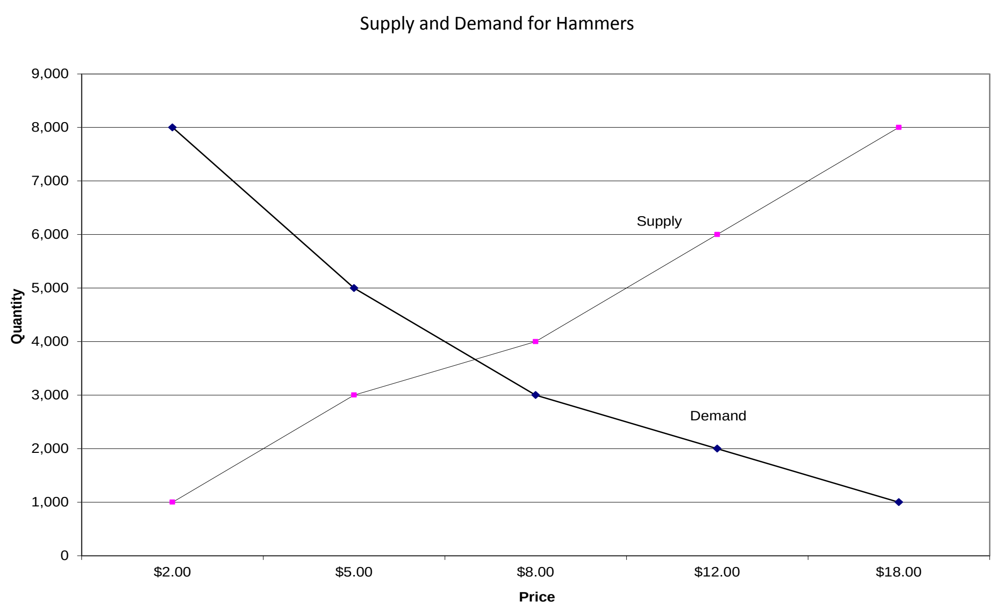
		Answers
14.	Resources are owned and controlled by the people of the country.	14. ***B***
15.	The government decides what and how goods are produced.	15. ***A***
16.	Workers often use hand tools and readily available natural resources.	16. ***C***
17.	As countries become more developed, they often adopt this economic system.	17. ***D***
18.	Consumers base their decisions on their own self-interest.	18. ***B***

Part 4 Activities

19. Review your own recent purchases and observe Internet ads or store signs that feature price changes. In the following table, list five examples of products or services for which you have noticed price changes. Identify the product or service; show whether the price change was an increase or decrease; and identify the reason for the price change. ***Answers will vary.***

Product or Service	Price Increase or Decrease?	Reason for Price Change
corn	***increase***	***Midwest flooding***
gasoline	***increase***	***unrest in the Middle East***
DVD	***decrease***	***no longer a popular format***
swimsuits in May	***increase***	***increase in purchasing***
swimsuits in November	***decrease***	***out of season/overstocked***

20. The graph below represents the supply and demand for hammers. Using the data provided in this graph, write a paragraph discussing the relationship between supply and demand. Why is it important for businesses to have this type of information when producing or selling a product? Based on the information provided, what is the market price for a hammer?



In order for businesses to plan for the production and sale of an appropriate quantity of goods, they must know or be able to project how much consumers will be willing to pay for a particular product. Based on the data provided in the graph, the market price of a hammer is approximately $7.00.

21. For the past three years, Marci and Jeff have operated a small bake shop in their suburban neighborhood. Through their hard work and positive word-of-mouth advertising, the business has grown. Now Marci and Jeff are exploring ways to expand the business. They like their current location and have built a loyal customer base there, so they do not want to relocate. Because it is not possible to enlarge their current bake shop, they have considered opening a second location in another part of town. This would give their business exposure to new customers, but it also would require them to lease space, purchase ovens and other equipment, and hire and train new employees. Also, one of them probably would have to move to the new location to oversee operations. Another option is for Marci and Jeff to sell their baked goods to other businesses in town, such as restaurants and small grocery stores, for resale to their customers. That option would allow both Marci and Jeff to remain in their current location, but it would require them to upgrade their current ovens and add employees to handle the increased production. They also would need to hire a salesperson to contact local companies, purchase a delivery vehicle, and hire a driver to deliver the baked goods to locations around town. Use the steps in the decision-making process to help Marci and Jeff decide which option to pursue.

What is the problem Marci and Jeff face?

Marci and Jeff want to expand their business, but they do not want to move from their current location.

What are the choices that Marci and Jeff must consider?

They must decide whether they should open a second bake shop in another part of town or whether they should offer their baked goods to local restaurants and grocery stores for resale.

What are the advantages and disadvantages of each choice?

Answers will vary. If they open a second shop, they will develop new customers in a different part of town. However, it will be a costly expansion, and one of them will have to oversee the new operation. If they sell their baked goods through other outlets, it will cost less, but they may not be able to maintain quality control.

Which choice do you think is best for Marci and Jeff and why?

Answers will vary.

What should Marci and Jeff do once they have decided how they will expand their business?

Answers will vary. If they choose to open a second shop, they should begin exploring possible locations. If they decide to sell their baked goods through other outlets, they may want to test the market by contracting with a sales professional who can contact some restaurants and grocery stores to see if there is an interest.

[This page left intentionally blank]