



# SAMPLER

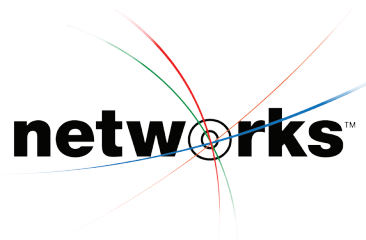
## INQUIRY JOURNAL

# UNDERSTANDING ECONOMICS

**SAMPLER**

**INQUIRY JOURNAL**

UNDERSTANDING  
**ECONOMICS**



## Dear Student,

Many of us are curious, and we have questions about many things. We have the more personal questions, such as, “What type of job or career might I be suited for?” or “How do I learn the best way to save money to buy the things I want or need?” We also have questions of a larger nature about the world around us. These might include questions such as the following: “What does being treated like an adult mean?” “How do I understand what I see or read about in school, online, or in the news?” “Why do nations go to war with one another?” “Why do political parties clash with one another so frequently?”

Asking good questions helps us take charge of our own learning. Learning to ask good questions is a process, as “yes” or “no” types of questions do not get us very far in discovering why events happened or why people feel as they do. Once we master this process, however, we become better thinkers and researchers and can find out more about subjects that interest us. Asking good questions is also important if we want to understand and affect the world around us.

In this book, as in other parts of the program, there will be Essential Questions that you will research. These are universal questions. Examples of such questions include the following: “In what ways do people cope with the problem of scarcity?” “What factors affect prices?” “How do we determine the economic and social well-being of the United States?” “What is the role of savings in the financial system?” You will develop some of your own Supporting Questions to help you answer the Essential Questions.

As you move through the study of economics, you will be reading primary and secondary sources about a specific time period. **Primary sources**—whether they are diaries, poetry, letters, or artwork—were created by people who saw or experienced the event they are describing. **Secondary sources**—whether they are biographies, or history books, or your student text, are created after an event, by people who were not part of the original event.

Once you have completed the readings and answered the accompanying questions, there is a “Report Your Findings” project in which you answer the Essential Questions. You will work on some parts of the project by yourself, and you will work on other parts of the project with your classmates. You will be given many opportunities to take informed action. This means that you will use what you have learned and apply it to a current issue in a way that interests you. You will share this information with other students or with people in your community.

# Understanding Markets

In this unit, you will learn how markets are structured and how they operate. You will also study the factors that influence the choices buyers and sellers make. Read the Essential Questions for each of the four chapters in this unit and think about how they will help you understand markets.

## TALK ABOUT IT

Select one Essential Question from each chapter in this unit and discuss it with a partner. What type of information would you need to know in order to answer it? For example, to understand how prices are determined, you must know how the laws of supply and demand work.

**DIRECTIONS:** Write down two Supporting Questions for each chapter that will help you understand one or more Essential Question in the chapter.

### Chapter 4 Demand

#### ESSENTIAL QUESTIONS

- *How does demand help societies determine WHAT, HOW, and FOR WHOM to produce?*
- *What are the causes of a change in demand?*

#### MY RESEARCH QUESTIONS

Supporting Question 1:

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Supporting Question 2:

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## Chapter 5 Supply

### ESSENTIAL QUESTIONS

- *What are the basic differences between supply and demand?*
- *Why is the production function useful for making business decisions?*
- *How do companies determine the most profitable way to operate?*

### MY RESEARCH QUESTIONS

Supporting Question 1:

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Supporting Question 2:

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## Chapter 6 Prices

### ESSENTIAL QUESTIONS

- *How do prices help determine WHAT, HOW, and FOR WHOM to produce?*
- *What factors affect prices?*

### MY RESEARCH QUESTIONS

Supporting Question 1:

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Supporting Question 2:

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## Chapter 7 Market Structures

### ESSENTIAL QUESTIONS

- *How do varying market structures impact prices in a market economy?*
- *Why do markets fail?*
- *How does the government attempt to correct market failures?*

### MY RESEARCH QUESTIONS

Supporting Question 1:

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Supporting Question 2:

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### INDEPENDENT INQUIRY ACTIVITIES

Chapters 4, 5, and 7

For Chapters 4, 5, and 7, your teacher may ask you to conduct a research project using the Research Questions you have developed. For these independent inquiry projects, you will follow these steps.

1. Research the answers to your Supporting Questions using online and library resources in addition to the Student Edition text. Analyze the primary and secondary sources you have located and take notes.
2. Select a method to report your findings, such as a research paper, oral presentation, or a visual essay. Prepare your findings and submit them to your teacher or share them with your class.
3. To conclude, think of ways you could take action based on your findings. Choose one way to get involved.

### GUIDED INQUIRY ACTIVITY

Chapter 6

This unit's guided inquiry activity focuses on Chapter 6 *Prices*. In the guided inquiry activity, you will follow the same process as the independent activities; however, primary sources and questions about these sources and the Student Edition text are provided to help guide you through the inquiry process.

Reread the Supporting Questions you developed for Chapter 6 as you prepare to search for evidence in the Student Edition text.



# How Prices Work

**DIRECTIONS:** Search for evidence in Chapter 6, Lesson 1, to help you answer the following questions.

**1 DESCRIBING** How do prices act as a signal to both producers and consumers?

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**2 SUMMARIZING** What are the advantages of prices?

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**3 DIFFERENTIATING** How does the price system differ from rationing?

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**4A HISTORY** During the energy shortage of the 1970s, what system did the U.S. government use to ration gasoline?

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**4B ANALYZING EVENTS** Do you think this system was fair? Why or why not?

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## ESSENTIAL QUESTION

*How do prices help determine WHAT, HOW, and FOR WHOM to produce?*

As you gather evidence to answer the Essential Question, think about:

- how prices serve as signals for both producers and consumers.
- the advantages of a price system.
- the problems with rationing.
- how prices help allocate resources efficiently.

## My Notes

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**5 ANALYZING ISSUES** Four common problems associated with rationing are listed in the left-hand column. Imagine that the government has decided to ration Internet usage in schools. How could each of the four problems manifest itself in this situation?

Perceived Fairness	
Administrative Expense	
Distorted Incentives	
Abuse and Misuse	

**6 EVALUATING** Is rationing ever justified? If so, under what circumstances? If not, why not?

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**7 EXPLAINING EFFECTS** Fossil fuels, such as coal and gas, are nonrenewable resources. When we run out, we will have to find alternative sources of energy. How might the steady depletion of fossil fuels affect the allocation of resources?

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## ESSENTIAL QUESTION

*How do prices help determine WHAT, HOW, and FOR WHOM to produce?*



## VOCABULARY

*jumble*: mess

*equate*: equal; match

## Where Do Prices Come From?

**DIRECTIONS:** Read the excerpt from an article by economist Russell Roberts. Then answer the questions that follow.

**EXPLORE THE CONTEXT:** Russell Roberts is an economist, author, and professor. He also hosts a podcast about economics. This excerpt comes from an article called “Where Do Prices Come From?” In the article, Roberts examines the factors that influence prices.

### SECONDARY SOURCE: ARTICLE

“There’s a certain predictability to prices. An orderliness. It needn’t be that way. Prices could be a random jumble, high one day low the next. On some days, movie tickets could cost more than oxford button down shirts, oranges more than a quart of milk. What is the source of that order? Where do prices come from? The answer at first, seems obvious. The seller sets the price. But if you’ve ever tried to sell anything, you know that it’s not really true. . . . [I]f you choose a price that’s too high, you won’t sell it. . . . Prices adjust to equate how much people want to buy with how much they want to sell. And if people want to buy more than they did before, prices rise. If people want to sell more than they did before, prices fall. Supply and demand. Buyers are competing with each other. Sellers are competing with each other. The prices we observe emerge from this competition.”

—Russell Roberts, “Where Do Prices Come From?,” June 4, 2007

- 1 ANALYZING CENTRAL IDEAS** According to Roberts, how are prices ultimately determined?

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- 2A IDENTIFYING EFFECTS** How are prices affected by competition?

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**2B DRAWING CONCLUSIONS** Today, many stores sell identical products. As a result, some stores offer to price match, or sell an identical item for the same price as a competitor. Why would a store offer to price match if it means selling a product for less than the listed price?

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**3 INFERRING** Why might individuals feel that “prices could be a random jumble”?

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**4 INTEGRATING INFORMATION** In May, a department store is selling swimsuits for \$60 each. In September, the same swimsuits are selling for \$30 each. According to Roberts, why would the department store reduce the price of swimsuits in September?

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**5A ANALYZING INFORMATION** In real estate, a seller’s market occurs when demand for homes is high but few homes are for sale. A buyer’s market occurs when demand for homes is low and many homes are for sale. How would home prices be affected by a seller’s market? How would home prices be affected by a buyer’s market?

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**5B EVALUATING** Who decides the value of a home? How does this relate to the price of the home?

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# The Effects of Prices

**DIRECTIONS:** Search for evidence in Chapter 6, Lesson 2, to help you answer the following questions.

## ESSENTIAL QUESTION

*What factors affect prices?*

As you gather evidence to answer the Essential Question, think about:

- how price can affect a buyer's decision to buy a product and a seller's decision to produce a product.
- how changes in supply and demand affect price.
- how prices adjust in competitive markets.

**1 ANALYZING CENTRAL IDEAS** Why is price a compromise between buyers and sellers?

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**2A DRAWING CONCLUSIONS** A pizza restaurant is willing to offer 50 pizzas at a price of \$22 per pizza. Buyers are willing to buy 10 pizzas at this price. Will there be a surplus or a shortage of pizzas at the end of the day? Why?

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**2B INFERRING** The pizza restaurant decides to lower the price of a pizza to \$15. Just before closing time, the restaurant sells its last pizza. What can you infer about the \$15 price?

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**2C PREDICTING** What do you think would have happened if the pizza restaurant had decided to lower the price of a pizza to \$10 instead of \$15?

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## My Notes

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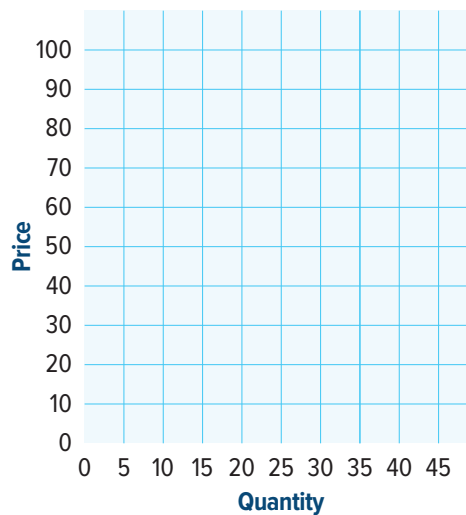
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- 3 IDENTIFYING EFFECTS** Fill in the table to describe how each event will affect supply, demand, or both. Then explain how the price will change. The first one has been done for you as an example.

Event	Effect	Price Change
A hailstorm destroys most of the corn growing in several Midwestern states.	The supply of corn will decrease.	The price of corn will increase.
A toy company heavily advertises stuffed animal versions of the main characters from a popular children's movie.		
A large oil shipment spills in the Pacific Ocean right after a major manufacturing company begins using new machines that rely on oil.		
Automated bots purchase thousands of tickets to a popular concert minutes after tickets go on sale.		
The government releases a report showing that cake sold at a national bakery has been making people ill.		

- 4A INTERPRETING CHARTS/GRAPHS** Review the supply and demand schedule for school sweatshirts. Then use the information provided to create a supply and demand curve.

Price	Quantity Demanded	Quantity Supplied	Surplus/Shortage
\$100	0	45	45
\$60	15	35	20
\$50	20	30	10
\$40	25	25	0
\$30	30	20	-10
\$20	35	10	-25
\$10	45	0	-45



- 4B INTEGRATING INFORMATION** Based on the supply and demand schedule and/or the supply and demand curve in question 4A, what is the equilibrium price and quantity for school sweatshirts?

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## ESSENTIAL QUESTION

*What factors affect prices?*

## Principles of Economics

**DIRECTIONS:** Read the excerpt from *Principles of Economics* by Alfred Marshall. Then answer the questions that follow.

**EXPLORE THE CONTEXT:** There is nothing more crucial to the study of economics than the relationship between supply and demand, which ultimately determines the equilibrium price. Economist Alfred Marshall uses the simple analogy of scissors cutting paper to explain how utility, which affects demand, and cost of production, which affects supply, interact to determine price.



## PRIMARY SOURCE: BOOK

“We might as reasonably dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value [price] is governed by utility or cost of production. It is true that when one blade is held still, and the cutting is effected by moving the other, we may say with careless brevity that the cutting is done by the second; but the statement is not strictly accurate, and is to be excused only so long as it claims to be merely a popular and not a strictly scientific account of what happens.

In the same way, when a thing already made has to be sold, the price which people will be willing to pay for it will be governed by their desire to have it, together with the amount they can afford to spend on it. Their desire to have it depends partly on the chance that, if they do not buy it, they will be able to get another thing like it at as low a price: this depends on the causes that govern the supply of it, and this again upon cost of production. But it may so happen that the stock to be sold is practically fixed. This, for instance, is the case with a fish market, in which the value of fish for the day is governed almost exclusively by the stock on the slabs in relation to the demand: and if a person chooses to take the stock for granted, and say that the price is governed by demand, his brevity may perhaps be excused so long as he does not claim strict accuracy. So again it may be pardonable, but it is not strictly accurate to say that the varying prices which the same rare book fetches, when sold and resold at Christie’s auction room, are governed exclusively by demand.”

—Alfred Marshall, *Principles of Economics*, 1890

## VOCABULARY

*dispute*: argue

*utility*: usefulness

*brevity*: conciseness; simplification

*governed*: determined

- 1 DETERMINING MEANING** Based on the context in which it is used, what is the meaning of the word *effected*?

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**2A DESCRIBING** How is the price of a product determined? Use the scissors analogy to explain the process.

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**2B ANALYZING TEXT STRUCTURE** Why do you think Marshall decided to incorporate the scissors analogy into his discussion of supply and demand?

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**3 INFERRING** How does price act as a balance between supply and demand?

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**4 ANALYZING POINT OF VIEW** Tim goes to the grocery store every day for one month. He determines that the average price for apples during that month is \$3 per pound. The next month, however, the average price for apples is \$6 per pound. Tim concludes that the price rose because demand for apples increased. How would Marshall respond to Tim's conclusion?

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**5 COMPARING** According to Marshall, how are the prices for fish at a fish market and the prices for rare books at an auction house similar?

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# Social Goals, Prices, and Market Efficiency

**DIRECTIONS:** Search for evidence in Chapter 6, Lesson 3, to help you answer the following questions.

## ESSENTIAL QUESTION

### *What factors affect prices?*

As you gather evidence to answer the Essential Question, think about:

- how markets are affected by price ceilings and price floors.
- why government interference in the market may lead to conflicting economic goals.
- events that may cause markets to “talk.”

**1A DETERMINING CENTRAL IDEAS** What is a price ceiling? What is a price floor?

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**1B EXPLAINING EFFECTS** How can a price ceiling create a shortage? How can a price floor create a surplus?

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**2 INFERRING** Under what circumstances might the government use price controls?

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**3 ANALYZING ISSUES** How can the goal of economic equity conflict with the goal of economic efficiency?

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## My Notes

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**4 EVALUATING** The Student Edition text uses rent control and sugar prices as examples of price ceilings and price floors. Use information from the text to fill in the graphic organizer.

	Example	Objective	Problems
<b>Price Ceiling</b>	Rent control in major U.S. cities		
<b>Price Floor</b>	Sugar prices after the 2008 Farm Act		

**5 ANALYZING POINT OF VIEW** A political candidate says that monthly health insurance premiums are too high. If elected, he promises to pass a law that sets a price ceiling of \$150 for monthly premiums. This is below the current equilibrium price. How might people who support this law respond? How might people who oppose this law respond?

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**6 RELATING EVENTS** Congress announces a new foreign trade deal. Shortly after, the markets begin “talking.” Stock prices rise, and the prices of gold and oil drop. What are the markets saying?

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## ESSENTIAL QUESTION

*What factors affect prices?*

# The Pernicious Effects of Price Controls

**DIRECTIONS:** Read the excerpt from an article written by economist Valentin Petkantchin. Then answer the questions that follow.

**EXPLORE THE CONTEXT:** Although most people think that price ceilings benefit consumers by ensuring lower prices, French economist Valentin Petkantchin disagrees. In this article, he discusses the ways that price ceilings can actually harm consumers.



## SECONDARY SOURCE: ARTICLE

“It is quite easy to comprehend how artificially high prices penalize consumers, but the damage caused by artificially low prices is less obvious. Is it not in consumers’ interest to pay less for products and services?

Such price controls also have pernicious effects. First, lower prices lead consumers to buy more, thereby raising demand. But lower prices also make production and investment in regulated goods or services less lucrative. Resources and production factors are thereby likely to leave a sector, or a country, where such controls apply.

Unless other measures are imposed, such as subsidizing affected producers or investors, imposing a ceiling price will make a regulated good or service become scarce. Long lineups start to form, preventing consumers from getting as much as they want. Generally speaking, lower prices may benefit certain consumers in the short term but, by penalizing producers, they end up causing consumers damage in the long run.”

—Valentin Petkantchin, “The Pernicious Effects of Price Controls,”  
Montreal Economic Institute, 2006

### VOCABULARY

*penalize:* hurt

*pernicious:* harmful

*lucrative:* profitable; rewarding

*imposed:* put in place

*subsidizing:* paying part of the costs

- 1 DETERMINING MEANING** Petkantchin describes the harmful effects of “artificially high prices” and “artificially low prices.” What does he mean by the word *artificial*?

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**2 SUMMARIZING** How are consumers hurt in the long run by price ceilings?

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**3 ANALYZING TEXT STRUCTURE** Petkantchin says that “it is quite easy to comprehend how artificially high prices penalize consumers.” Why would Petkantchin begin a discussion of price ceilings (artificially low prices) with this statement about artificially high prices?

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**4 INFERRING** How would subsidizing producers compensate for price controls?

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**5 IDENTIFYING PERSPECTIVES** What might someone who disagrees with Petkantchin argue about price controls?

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**6 ANALYZING POINT OF VIEW** The minimum wage is an example of a price floor, or an artificially high price intended to ensure that workers can earn enough money to support themselves. Do you think Petkantchin would support the minimum wage? Why or why not?

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ESSENTIAL QUESTIONS

*How do prices help determine WHAT, HOW, and FOR WHOM to produce?*

*What factors affect prices?*

**My Notes**

Multiple horizontal lines for taking notes in a light blue sidebar.

**1 Think About It**

Review the Supporting Questions that you developed at the beginning of the unit. Review the evidence that you gathered in Chapter 6. Were you able to answer each Supporting Question?

If there was not enough evidence to answer your Supporting Questions, what additional evidence do you think you need to consider?

Four horizontal lines for providing answers or additional evidence.

**2 Organize Your Evidence**

Complete the chart below with information about prices.

How Prices Help Us	
How Demand Affects Prices	
How Supply Affects Prices	
How Government Policies Affect Prices	

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### 3 Talk About It

Work in small groups. Talk with your group and compare and contrast the information you included in your chart. How do prices help us? How do supply and demand affect prices? How do government policies affect prices? Explain your answers.

### 4 Write About It

Choose one of the topics from the Organize Your Evidence chart. Write a detailed paragraph about that topic. Include specific examples that help your reader understand the importance of prices and/or the factors that affect prices.

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### 5 Connect to the Essential Questions

Imagine that you are going to start your own business. How would you determine the prices for your product? Write a business plan that includes WHAT you would produce, HOW you would produce it, and FOR WHOM you would produce it. Include the prices for the product, why you chose those prices, and the factors that would affect the prices. As you devise your business plan, think about the Essential Questions: *How do prices help determine WHAT, HOW, and FOR WHOM to produce? What factors affect prices?*

# CITIZENSHIP TAKE ACTION



## MAKE CONNECTIONS

Recall that governments set price controls in order to ensure economic equity and economic security for people and businesses. Choose an example of a price control in your state, such as rent control, the state minimum wage, the minimum wage in a specific city, or another price floor or price ceiling. Then research the price control you have selected. Investigate the history of the price control, including why it was enacted, any updates or changes to the law since it was established, and how it has affected consumers and producers in the area. Decide if you support or oppose the price control. Then take action by writing a letter to a local official. In your letter, clearly state your position on the price control and support it with logical reasoning and evidence.

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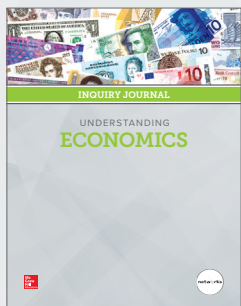






# UNDERSTANDING ECONOMICS

## INQUIRY JOURNAL SAMPLER



### UNDERSTANDING ECONOMICS

#### UNIT 2 Understanding Markets