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Economics 101

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Economics 101

• *With money tight for many families, Americans are learning the importance of economics in everyday life. This guide to basic economic terms will help you make smart financial choices.*

Tiara Hills, 14, of Greenburgh, New York, used to spend all her money on clothes and games. She would later regret it when she realized that she didn't need everything she bought. Now Tiara saves some of her money by depositing it in a bank. "I am saving for college so that when I get older, I can get a good job and be able to buy things without worrying about how I'm going to pay for them," she says.

In these tough times, Tiara has come to realize, like many teens, that people make economic decisions every day. For instance, when you buy a candy bar rather than save your money for a new iPod, that's an economic choice.

Economics is the study of how people use limited resources to make, distribute, and **consume** (use up) goods and services. Economists study the relationships between consumers' wants and needs and all of the products that are made, bought, and sold.

Limited Resources

Earth has only so many resources, and there just aren't enough things--cars, computers, even candy--for everyone. Economists call this phenomenon **scarcity**.

For most of us, money is also a scarce or limited resource. Because of this, we have to make choices about what we can buy (a new T-shirt) and what we can only dream about buying (a house on the beach) .

The things that people buy and sell come in two basic forms. **Goods** are items of value that can be seen and touched, such as baseball gloves and TVs. **Services** are nonphysical products that are of value to people and society, such as education, entertainment, and health care.

Supply and Demand

Imagine that you spent the past few months saving up to buy a new leather jacket--a bargain at \$50. Your mom knows that you need the jacket to stay warm this winter. But when she takes you to the store, something is wrong. Your dream jacket is now \$69.99.

What happened? The price of an item depends upon **Supply** (the availability of an item) and **Demand** (the number of people who want an item and the amount they are willing to pay for it).

An increase in demand tends to make prices higher, while a decrease in demand tends to make them lower. Supply works the opposite way: An increase in supply makes prices lower, while a decrease in supply can make them higher.

The availability and price of an item are also determined by the cost of producing and distributing it. Costs include labor, natural resources, and **capital** (money and other assets used to fund a business).

Credit and Debt

Economies are also affected by **credit** and **debt**. Credit means the ability to borrow money. People rely on credit to make essential purchases, including homes and cars, for which it would take years to save. Businesses and governments also borrow to make necessary investments.

Unfortunately for our economy, Americans have accumulated way too much debt. For years, MasterCard ads told consumers that many credit-card purchases were "priceless." But nothing comes without a price, especially when it saddles you with debt.

According to recent figures from the U.S. Federal Reserve, the average American household carries \$8,565 in credit-card debt. At the same time, people's savings are dwindling. This imbalance has contributed to the current economic crisis.

Wise Choices

Like Tiara, Jaidae Bailey is spending less these days. The fifth-grader from Brooklyn, New York, has opened a savings account and is watching her money grow. "I leave my money in the bank because it earns **interest**," Jaidae tells *JS*.

Interest is the percentage a bank pays you based on how much is in your account. This works because you are in effect lending the bank money. The bank typically will pay you 1 to 3 percent a year in interest. It makes its money by charging people who borrow from it at a higher interest rate.

Investing in **stocks** is another way to make money grow. A stock is a share of ownership in a business. Jasmine Bradwell, 12, of Greenburgh, New York, is planning to invest her money in the stock market. "I go on the Internet and check out how [companies are] doing," she tells *JS*. Investors can earn money when the companies they invest in do well.

These days, most people with investments have lost money, at least on paper, because of the economic downturn. But experts say that keeping one's money in the stock market is still a wise choice. Sooner or later, bad times get better.

Economics and You

What is the most important part of any economic system? You--and people like you. As a citizen, you can be part of all three of these groups:

- **Consumers**, who buy products and want the best value.
- **Producers**, who create the items you buy and want to make a profit.
- **Governments**, which provide public services (such as education) and regulate business.

How do you fit in? When you go to get a job, you will help create goods or services. And, someday, you can vote for leaders who have the best economic plan for an individual like you.

Many people are learning for the first time that economics is not just an abstract (theoretical) science, but an important part of everyday life. In the end, it's all about you and your money. Learn from the teens featured here, and spend it wisely!

Web Watch: The Economy for Kids www.scholastic.com/juniorscholastic

You and Your Money

These tips from a financial expert will help you manage your money. Be sure to ask an adult for help!

Save: Put your extra change in a piggy bank. When it's full, deposit the money into a savings account at a bank. Do this each time your piggy bank fills up.

Invest: Read your newspaper's business section to see which businesses are doing well. Take note of the companies that are popular with your friends and family. Always do this with a professional investor's aid.

Spend: But do so smartly. Think before you buy. Decide whether something is really important before you spend money on it. Ask yourself: How can I get the best value?

Think About It

1. How might a scarcity of supply affect the price of an item?
2. What important lessons might be learned during an economic downturn? Explain.

Helping Out

• *With many parents struggling to pay the bills, teens are ready, willing, and able to help*

"A lot of people have been talking about [the economy] lately because of how bad it's getting," Mackenzie Heriford, 16, of Rock Island, Illinois, recently told *The Associated Press*. "My parents have been a lot more conservative with their money."

Families, and teens, are feeling the pinch. Becca Kahme, 17, of Hopewell, New Jersey, is bypassing Abercrombie and saving on food a lot these days. "I rent DVDs now, and come home from school for lunch when I can," she told *USA Today*. "I guess we're growing up early."

Here are some other ways that teens are helping out:

- trading in old video games for cash
- shopping at lower-end stores and outlets
- finding used items on eBay and swap sites
- borrowing books from the library rather than buying them
- turning off TVs and computers when they are not in use

- playing video games with friends instead of going to the movies.

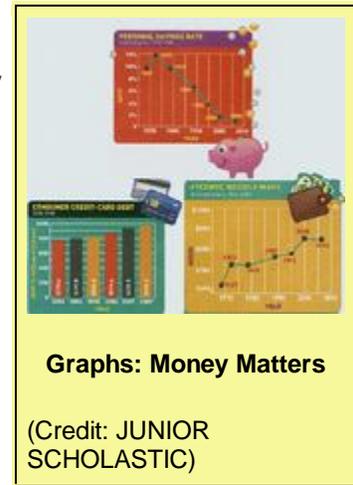
What are some of the ways you're helping to conserve money? What others can you think of?

Money Matters

- *How do Americans manage their money? How well do you?*

Do people always save and spend wisely? Do higher wages necessarily lead to greater savings and lower credit-card debt? Those are two important questions that economists are asking and trying to answer.

Economists have a vast array of studies and other sources on which to base and answer their questions. Here, we give you three graphs that provide insights into significant economic trends in the U.S. Study them, then answer the questions below.



Questions

Write your answers on a separate sheet of paper.

1. Which year had the highest **personal** savings rate?
2. Which year had the lowest?
3. By how many billion dollars did credit-card debt rise from 2003 to 2008?
4. Between which years labeled on the graph did weekly wages decrease?
5. Between which years labeled on the graph was there the greatest increase in weekly wages? By about how much?
6. Did people save at the highest rates when they were earning the most?
7. What might this tell you about prices over the years?
8. By how much (in dollars) did the average weekly wage increase between 1967 and 2006?
9. Why do you suppose people are saving less money than they were 30 or 40 years ago?
10. Which of these three graphs do you find most dramatic or interesting? Explain.

*With so many news reports focused on the recession, debt, credit crises, and job losses, students may be wondering what economics is and how national economic issues compare with those in their everyday lives. This feature gives readers a basic outline of economic principles and why economics has such a major impact on our lives at every level, from the **personal** to the federal to the global.*

Getting Started

Before students look at the article, put these economics terms on the board: *capital, consume, credit, debt, goods and services, interest, scarcity, stocks, and supply and demand*. Do students know what they mean? Advise them to watch for these words and their meanings as they read the article.

Economics Basics

- **Production, distribution, and consumption:** As the NCSS points out in the seventh of its 10 thematic standards, people have come up with many ways to answer "four fundamental questions:

What is to be produced? How is production to be organized? How are goods and services to be distributed? How shall factors of production (land, labor, capital, and management) be allocated?"

• **Value:** What makes something valuable? If chunks of gold were strewn about everywhere we looked, would it cost so much? If diamonds weren't so difficult and dangerous to mine, would people still be willing to pay huge sums for them? If anyone could print money, how worthy would a fistful of \$100 bills be?

Word's Worth

• **economy:** Today, people tend to think of the economy as a large-scale system, having to do with the **finances** of a state or a country. But its roots lie closer to home. Before the term was applied to governmental systems, it referred to family matters. Economy comes from two Greek words: *oikos* (*EE-kohs*), meaning "house," and *nemein*, "to manage" or "to distribute." The Greeks combined the words to form *oikonomos*--"household manager"--someone who clearly had to watch expenses in order to keep the home running smoothly. *Oikos* is also where we get the prefix *eco-*, as in *ecology*, *ecosystem*, and *eco-friendly*.

Content-Area Questions

Culture/Social Studies

1. What are the two basic forms in which people buy and sell things? (goods and services)
2. After students read "Helping Out," have them share their own experiences. Have their families been cutting back lately? If so, in what ways? How are teens they know helping out?

Geography

1. Can something of little worth in one culture or location be valuable in another? Give examples as well as reasons to support your answer.

Language Arts

1. Review the terms listed in the "Getting Started" section at left by asking students to explain, in their own words (and without looking at the article), what each means.
2. What is the difference between *want* and *need*? Why do we so often confuse the two?

Math

1. Have students compare national average prices for basic goods with prices in their own area by consulting the figures at data.bls.gov/cgi-bin/surveymost?ap.

History

1. If readership had gone up after the war instead of down, would there have been a strike? Explain.

Research and Reflect

Have students consider items once counted as extremely valuable--such as salt, spices, and silks--in light of what they learned by reading the article. In particular, ask them to think of those items in terms of the times and places in which they were valued. What roles did scarcity, supply and demand, and production, distribution, and consumption play in making those commodities so valuable to people in those times and places?

Quiz

Choose the correct answer to each question.

1. Which of the following is likely to be the result of an increase in the supply of gasoline?

- A. higher prices
- B. higher salaries
- C. lower prices
- D. quicker production

2. What is the economic term for money and other assets used to run a business?

- A. bonds
- B. capital
- C. interest
- D. stocks

3. A flood that halts production at a textile mill is likely to do what?

- A. decrease demand for clothes
- B. increase clothing sales
- C. lower clothing prices
- D. raise clothing prices

4. A share in the ownership of a business is called what?

- A. capital
- B. economics
- C. interest
- D. stock

5. How do banks make money?

- A. buying mortgages
- B. charging interest
- C. paying investors
- D. training workers

6. Which best describes the U.S. economy in late 2008 and early 2009?

- A. healthy
- B. holding steady
- C. on the rise
- D. struggling

7. Nonphysical products that are of value to people and society are called what?

- A. goods
- B. interest
- C. scarcity
- D. services

8. Which of the following is much lower now than it was 30 or 40 years ago?

- A. credit-card debt
- B. minimum wage
- C. supply of houses
- D. U.S. savings rate

9. What makes it possible for people to spend money that they don't yet have?

- A. ATMs
- B. credit
- C. scarcity
- D. wages

10. Investors provide businesses with what?

- A. demand
- B. interest
- C. shares
- D. working capital

Answers

Money Matters

1. 1973 (12.0 percent)
2. 2006 (0.8 percent)
3. \$205.9 billion (\$976.3 minus 770.4)
4. From 1973 to 1979, and from 2000 to 2006
5. from 1967 to 1973; by more than \$100
6. No; 2000 had the highest wages earned but the second-smallest percentage saved.
7. that prices were going up, leaving people with less money to save
8. about \$225
9. Answers will vary; one likely answer is that cost of living has gone up faster/higher than wages
10. Answers will vary; should be supported by cogent explanations.

Quiz

1. C
2. B
3. D
4. D
5. B
6. D
7. D
8. D
9. B
10. D

