

Study Guide for Civics and Economics End of Course Exam
Foundations of the American Political System and the Basic Values and Principles

1. Trace the development of ideas about self-government in colonial North America.
Terms and People to Know:
 - **Magna Carta** – established the principle that the power of the English monarch was not absolute, limited the power of the king
 - **Social Contract Theory** – (Locke, Hobbes, Rousseau) the state government arose out of a voluntary act of free people, by contract the people agree to give up to the state as much power is needed to promote the well-being of the society
 - **English Bill of Rights** – free parliamentary elections, right to speedy and fair trial, no cruel and unusual punishment or excessive bail
 - **Mayflower Compact** – signed by the Pilgrims, 1st constitution in the New World, set up a direct democracy
 - **Virginia House of Burgesses** – elected legislature in VA, 1st representative form of government in colonies
 - **Natural rights** – life, liberty, property (pursuit of happiness) – John Locke -> Thomas Jefferson

2. What were the causes of the American Revolution?
 - Change in England’s attitude toward colonies after French and Indian War (*salutary neglect* – enforcement of trade rules not strict)
 - Taxes
 - Mercantilism
 - History of self-government
 - **Declaration of Independence** (Thomas Jefferson) – English colonies in America declared their independence from Britain; “all men created equal”; right to self-determination (alter or abolish unjust government); popular sovereignty; social contract theory

Terms to Know:

- French and Indian War – war between the French / Indians and the British over land claims in the New World, the British won and the French have to give up their land east of the Mississippi River
- Proclamation line of 1763 – line set at the end of the F and I War that English settlers could not cross the Appalachian Mountains, attempt to lessen the friction between the settlers and the Indians
- Stamp Act – required tax to be paid on certain documents, stamp placed on document after it was paid
- Quartering Act – British soldiers had to be quartered in colonial homes
- Declaratory Act – asserted Britain’s right to tax the colonists, specifically to pay debts accumulated during the F and I War
- Navigation Acts – trade could only be conducted with British ships, items had to be sent from and through Great Britain
- Writs of assistance – search warrants that gave British soldiers the right to search colonists’ homes and businesses whenever and for whatever reason
- Albany Plan of Union – an early attempt, by Ben Franklin, to try and unite the colonies against Great Britain, “Join or Die”
- Sons of Liberty – group of Patriots that supported the cause of Independence from Great Britain, helped get the Stamp Act repealed
- Boston Tea Party – event in Boston where tons of tea were dumped into the harbor
- Intolerable Acts (Coercive Acts) – in response to the Boston Tea Party, British closed the Boston port, no town meetings allowed, and British soldiers tried in Britain
- Common Sense – pamphlet written by Thomas Paine calling for independence
- Boston Massacre – mob of colonists descended upon British soldiers, British fired and killed 5 colonists, considered the first violent act of the Revolution, used in colonial propaganda
- Committees of Correspondence – organization of letter writers among the colonists to keep colonists informed of all events
- First Continental Congress – in Philadelphia, GA didn’t send a delegate, tried to reach out to King George III, wasn’t pushing for independence yet
- Second Continental Congress – held after the first battles of the Revolutionary War, placed George Washington in charge of the army, resolved to declare independence
- Major Battles of Revolutionary War –
 - Lexington and Concord – first battles of the war
 - Battle of Saratoga – turning point of the war, after a Colonial victory the French decide to help the colonists
 - Battle of Yorktown – final battle of the war, the British are forced to surrender after being surrounded

People to Know:

John Peter Zenger (trial – freedom of the press)	King George III	Paul Revere
Samuel Adams	George Washington	Thomas Jefferson

3. What were the major problems of the nation under the Articles of Confederation and how were they resolved by the new Constitution?
 - **Confederation** – form of government in which an alliance of independent states creates a central government with very limited power
 - **Articles of Confederation** – first plan of national government after independence from Britain

Problems with the Articles:

- Unicameral
- No judicial or executive branch
- No army
- Congress could not tax or regulate trade
- Each state had only one vote regardless of size
- All 13 states required to approve amendments

Federal System – form of government with powers divided between a central government and several regional governments (states) - *federalism*

- ✓ Bicameral Congress with 3 branches to provide checks and balances
- ✓ Maintain and support army
- ✓ Power to tax and regulate interstate trade
- ✓ House based on population, Senate equal representation (Great Compromise)
- ✓ ¾ vote to approve amendment
- ✓ necessary and proper clause (elastic clause)

Terms to Know:

- Shay's Rebellion - movement by New England farmers desperate to be paid for the service in the Revolutionary War, illustrated the American government under the Articles was weak
- Virginia Plan – plan that favored the big states at the Constitutional Convention, representation based on population, call for a strong federal government, three branches
- New Jersey Plan – benefited small states, equal representation in the legislature
- Great Compromise (Connecticut Plan) – created the Federal Government that exists today, bicameral legislature based on population and equal representation
- Three-Fifths Compromise – compromise between Northern and Southern states to count slaves as 3/5 a person
- Commerce and Slave Trade Compromises – Congress was granted to the right to control interstate and foreign trade, but the new government couldn't ban the slave trade for 20 years
- Electoral College – set up during the Constitutional Convention because the delegates didn't trust the average voter to make a wise decision

4. Compare the viewpoints of the Federalists and the Anti-Federalists.

Federalist – strong national government, supported by wealthy landowners and merchants

The Federalist Papers

Anti-Federalist – more rights to the states, supported by small farmers, Bill of Rights

5. How did the Bill of Rights Extend the Constitution?

- Provided guarantees for individual liberties
- Limit or extend rights and powers of the government
- First 10 amendments to the Constitution

First Amendment - Freedom of religion, assembly, petition, press, speech

- Free Exercise Clause – guarantees each person the right to believe in and practice whatever the person chooses in matters of religion
- Establishment Clause – prohibits the establishment of a religion or the sanctioning of an existing religion by the government
- Symbolic speech – expression of beliefs / ideas by conduct rather than in speech or print (ex. Burning US Flag)
- Prior restraint – to keep someone from saying something
- Libel – printed lies and Slander – spoken lies (illegal)

Second – Right to bear arms

Third - No quartering soldiers during times of peace

Fourth – no search and seizure without a search warrant

- Probable Cause – a strong belief that someone has committed a crime
- Exclusionary Rule – evidence gained by illegal means cannot be used in the trial

Fifth - Eminent domain (fair compensation for government taking private property), due process,

no double jeopardy (being tried for the same crime twice), no self-incrimination, grand jury indictment (body of citizens convened by a court to decide whether there is enough evidence to bring a person to trial)

- Miranda Warning – an advisory statement about the rights of a suspect which police must read

Sixth - Speedy and public trial, fair and impartial jury, right to a lawyer, notification of charges, right to cross-examine witnesses

Seventh – Right to trial by jury in civil cases

Eighth – No cruel and unusual punishment, no excessive bail or fines

Ninth – People have more rights than the ones listed

Tenth – Powers reserved to the states

6. Compare the American system of government to other forms of government.

Dictatorship (Authoritarian) – government power is unlimited in the hands of an individual or small group of people, individual rights are not guaranteed, elections do not offer a choice, government not bound by rule of law, force used to keep the peace - **totalitarianism**

Democracy – both *Direct* (where all citizens participate in each decision) and *Representative* (where citizens elect officials to make decisions for them)

government is limited by the consent of the people, liberties and rights are guaranteed,
government and the people are under the rule of law

Monarchy – (limited and absolute) rule by a king or queen, passed down by heredity

Oligarchy – government by a few & **Theocracy** – government ruled by or subject to religious authority

The United States Constitution and Values, Purposes, and Principles of American Democracy

1. Identify principles in the U.S. Constitution.

- **Popular Sovereignty** – the government gets its power to rule from the people
- **Limited Government** – the government is not all powerful; its powers are limited by the Constitution
- **Separation of Powers** – the legislative, executive, and judicial powers are divided among three independent and coequal branches of government
- **Checks and Balances** – the system of overlapping the powers of the three branches to permit each branch to “check” the power of the others so that one branch does not become too powerful
- **Judicial Review** – power of the courts to determine the constitutionality of the actions of the legislative and executive branches (Marbury v. Madison)
- **Federalism** – the division of power among a national government and state governments

Federalism in Action:

Delegated or Expressed Powers – those powers granted to the national government in the Const.

(to declare war, raise and maintain armed forces, regulate foreign and interstate trade, print and coin money, conduct foreign affairs)

Reserved Powers – the powers held by the states in the federal system

(determine qualifications for voters, conduct elections, govern marriage and divorce laws, public schools, license professionals)

Concurrent Powers – those powers that both the national and state governments possess

(to collect taxes, to make and enforce laws, establish and maintain courts)

Powers Denied to both Federal and State Governments:

Ex post facto laws – laws that apply to actions occurring before the law was passed

Bills of Attainder – sentence a person to jail without a fair public trial

Levy taxes on exports

Pass any law that violates the US Constitution

Grant titles of nobility

Legislative Branch – makes the **Laws**

National - Congress (Senate and House of Representatives)

State – General Assembly (Senate and House of Representatives)

Local – City Council, County Commissioners

Judicial Branch – interprets the laws (**Judges** them...what do they mean?)

National – district courts →US Court of Appeals →US Supreme Court

State – trial courts [district (misdemeanors) and superior (felonies)] → Appeals Courts →

NC Supreme Court

Executive Branch – **Enforces** the laws

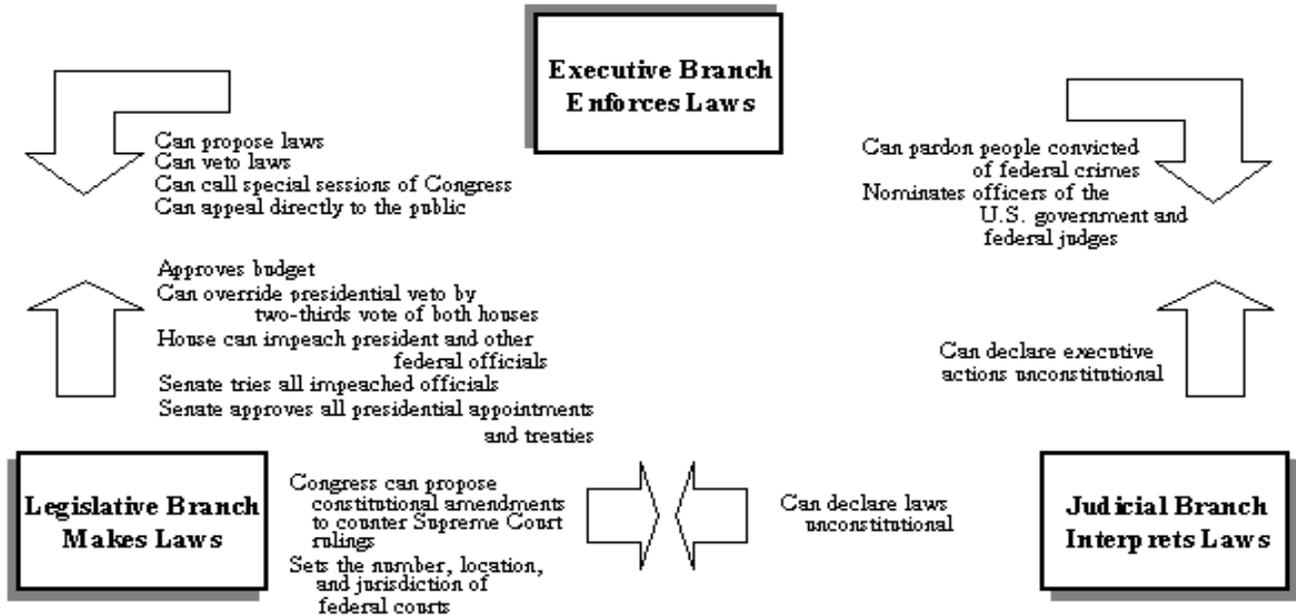
National – President

State – Governor

Local – County: City Manager (hired by county commissioner); City/Town: mayor

Separation of Powers

The Checks and Balances System



2. Explain how U.S. Constitution defines the framework and structure of the 3 branches of the federal government.

Preamble: introduction, explains the purposes of the document

- To form a more perfect union
- To establish justice
- To insure domestic tranquility (peace within the country)
- To provide for the common defense
- To promote the general welfare
- To secure the blessings of liberty for current and future generations

Article I: discusses legislative branch

Necessary and Proper Clause (Elastic Clause) – basis for Congress' *implied powers*

Includes listing of Powers denied to Congress

Article II: discusses executive branch

Article III: discusses judicial branch

Article IV: discusses relations among states

“full faith and credit clause” – each state must respect the laws, records, and court decisions of every other state

Article V: provides for the methods by which formal changes (amendments) can be made

Article VI: *Supremacy Clause* – declaration of the supremacy of federal law over any and all state laws

Article VII: provides for the method by which the Constitution would be *ratified* (approved) by the states

The Legislative Branch

US Congress – *bicameral* (two houses)

1. *House of Representatives* – 435 members, (# per state based on population) (our Rep. is David Price) (lower house)
2. *Senate* – 100 members (2 per state) (our Senators are Kay Hagan and Richard Burr) (upper house)

Qualifications/Term of

1. House – 2-year term, at least 25 years old, resident of state from which elected, US citizen
2. Senate – 6-year term, at least 30 years old, resident of state from which elected, US citizen

Legislative Leaders

1. *President of the Senate* (today is Joe Biden)
 - a. Is also the Vice President
 - b. Is not a member of the Senate

- c. Only votes to break a tie
- d. **President pro tempore** presides most often in VP's absence
- 2. Speaker of the House (today is Nancy Pelosi – first female)
 - a. Elected by the House
 - b. Serves as presiding officer, maintains order
 - c. Is a member of the House
 - d. May vote on any issue, must vote to break a tie
- 3. Majority Leader – plans the order of business on the floor for the majority party
- 4. Minority Leader – represents the minority party
- 5. Party Whip – checks with party members and advises the floor leader of the number of votes that can be counted on in any matter
- 6. Committee Chairperson – member of the majority party with the most seniority (years of service) who chairs a committee, making key decisions about the treatment of a bill

Powers of Congress:

- 1. passes laws (both houses)
- 2. confirms or rejects presidential appointments (Senate)
- 3. declares war and makes peace (both houses)
- 4. impeaches federal government officials (House brings charges; Senate holds trial)
- 5. ratifies treaties (Senate)
- 6. overrides vetoes (2/3 vote both houses)
- 7. finances government (all spending bills <appropriations bills> must start in the House)
- 8. approves the coining of money

Steps in Making a Law

- 1. A bill is introduced by a member in one of the houses
 - a. It is given a title and printed
 - b. Leader of the house sends it to the appropriate committee
- 2. The bill is studied by the house committee
 - a. Committee holds hearings on bill
 - b. May amend, rewrite, **pigeon hole** (ignore), or approve bill
 - c. If bill is approved, committee sends it to full house with a favorable report
- 3. The bill is debated and approved or rejected by full house
 - a. The bill may be amended, returned to committee for more revisions, rejected, or approved
 - b. If majority of members approve the bill, it is passed and sent to the other house
- 4. The approved bill is sent to the other house
 - a. Given title and read
 - b. Sent to appropriate committee
- 5. The bill is studied by committee
- 6. If sent by committee, debated and approved or rejected by second house
- 7. The bill is sent to a **joint conference committee** if there are differences in the House and Senate versions of the bill. Both houses must approve the same conference committee version of the bill.
- 8. If bill is approved by both houses, it's then sent to the president.
 - a. The President signs or vetoes the bill.
 - b. **Pocket veto** – President ignores bill and Congress goes out of session within 10 days
 - c. Congress can override the veto with a 2/3 vote in each house.

Ways in which a Law may be Changed

- 1. a new law may be approved which replaces the former law
- 2. laws may be repealed or abolished by an act of Congress
- 3. laws may be declared unconstitutional and revoked as a result of judicial review and interpretation
- 4. citizens may collect a required number of signatures to force a **referendum**, or have a chance to approve or reject state and local laws by voting on them (**initiative**)

Types of Laws

- 1. **statutory laws** – made by lawmaking bodies
- 2. **common law** – developed from common practice and customary ways of dealing with problems
- 3. **administrative law** – made by governmental agencies or departments
- 4. **constitutional law** – based on the Constitution and the interpretations of the Constitution as described by Supreme Court decisions

The Executive Branch

Components

President
Vice-President
Executive Departments (15)
Cabinet (heads or secretaries of departments)

Qualifications – President must be at least 35

A natural-born citizen
A resident in the US for at least 14 years

Terms of Office – 4 years (may only serve 2 terms) (22nd Amendment)

Cabinet and Executive Departments

Cabinet – is composed of heads of the 15 executive departments

Advises the President

Is appointed by the President; approved by the Senate

Serves as long as appointing president is in office and wants member to serve

15 Executive Departments – include State, Treasury, Defense, Justice, Labor, Commerce, etc.

Functions and Powers of the Executive Branch: see that all laws are carried out (enforced)

1. approves or vetoes bills passed by Congress
2. commands armed forces
3. develops and carries out foreign policy (our relationship to other nations)
4. appoints ambassadors and federal judges
5. proposes laws and programs to Congress
6. prepares federal budget
7. grants pardons
8. administers federal programs and services through Cabinet departments
9. may call Congress into special session

Presidential / Vice Presidential Elections

1. **Primaries** and **Caucuses** are held to decide the delegate who will attend the party's national convention.
2. **Delegates** at each party's convention nominate a candidate to represent their party in the general election
3. In the **General Election** (November) voters "select" their choice of nominated candidates
4. The **Electoral College** actually chooses the President
 - a. Each state is allotted as many electoral votes (electors) as it has senators and representatives
Senators + Representatives = Electoral Votes (NC has 15)
 - b. No state has fewer than 3 electoral votes
 - c. Total of 538 electoral votes; candidate must receive a majority 270
(435 in House, 100 in Senate, 3 for D.C.)
5. If no candidate wins a majority, the House of Representatives chooses the president. Each state gets one vote. Two elections have been decided by the House.

The Judicial Branch

Function – to interpret the laws and Constitution

Components – from lowest to highest

District Courts – trial courts, original jurisdiction, judge or jury trial

US Courts of Appeal (also called Circuit Courts) – hear cases on appeal from lower courts,

appellate jurisdiction, 3-judge panels, no juries

Decisions: reverse, uphold, or **remand** (send back to be tried again)

US Supreme Court – final appeals court, **original jurisdiction** in cases dealing with ambassadors

and in disputes between states, interprets laws, determines constitutionality of acts of other

branches (**judicial review**)

Terms of Office – for life, or until resigns or impeached

Appointment Process – appointed by the President, approved or confirmed by the Senate

Terms to Know:

- *Majority opinion* – written statement by a majority of the justices in support of a decision made by the court (the winning side)
- *Minority opinion (Dissenting Opinion)* – written statement not supporting the opinion
- *Concurring opinion* – when a justice votes with the majority but for a different reason
- *Writ of Habeas Corpus* – court order that a prisoner be brought before the court and that the detaining officer show cause why the prisoner should not be released
- *Writ of Certiorari* – order from higher court telling lower court to send up the record of a case for its review
- *Due Process of Law* – constitutional guarantee that the government will not deprive any person of their natural rights by any unfair action (substantive due process – 14th Amendment) and that the government must act in accordance with established rules (procedural due process – 5th Amendment)

- Criminal law – body of law that defines crimes and their punishments, the government is the accuser (*prosecutor*)
- Civil law – body of law relating to human conduct, including disputes between private persons (private individual is the *plaintiff*)
- Defendant – in a civil case the person who has been accused of wrongdoing, in a criminal case the person the government has charged with a crime
- Misdemeanor – minor crime (vandalism, parking violations, trespassing, etc.)
- Felony – serious crime (murder, rape, kidnapping, etc.)

Court Proceedings:

1. First Court Appearance – judge / magistrate determines whether probable cause exists and decides whether to release the accused
2. Probable Cause Hearing – evidence is presented to determine whether the case should go to trial, may be in the form of a grand jury or a preliminary hearing
3. Arraignment – formal charges read to defendant, defendant enters plea
4. Jury Selection – attorneys question prospective jurors
5. Trial or Agreement:
 - Plea Bargain – a guilty plea is submitted in return for a lesser charge
 - Probation – an alternative to prison, offender must follow certain conditions
 - Parole – the conditional release
 - Acquit – to find not guilty

Important US Supreme Court Decisions:

Marbury v. Madison - Established Judicial Review, declared Judiciary Act of 1789 unconstitutional
McCulloch v. Maryland - National Government is supreme in conflict between national and state power
Gibbons v. Ogden - Congress regulates interstate commerce
Gideon v. Wainwright - Person accused of a major crime has the right to an attorney
Miranda v. Arizona - At the time of arrest suspects must be informed of their rights before questioning
Mapp v. Ohio - Evidence obtained during an illegal search cannot be used
Plessy v. Ferguson - Established the principle of separate but equal
Brown v. Board of Education of Topeka - Overturned Plessy, began school integration
Swann v. Charlotte Mecklenburg Board of Education - Using busing to desegregate schools is OK
Korematsu v. U.S. - Internment camps upheld, gov. can infringe on civil liberties for national security
Heart of Atlanta Motel v. US - Prohibits racial discrimination, under the commerce clause
Regents of the University of California v. Bakke - Affirmative action cannot include quotas
Roe v. Wade - Legalized abortion
Furman v. Georgia - Death penalty is unconstitutional when it is not applied equally
Gregg v. Georgia - Death penalty is not cruel and unusual if it is applied with procedures
Engel v. Vitale - School prayer violates the establishment clause
Tinker v. Des Moines - Students can wear symbolic speech to protest in school
Hazelwood School District v. Kuhlmeier - Inappropriate school newspaper articles can be censored
New Jersey v. T.L.O. - School has the right to search if it is “reasonable”
Bethel School District v. Frasier - Inappropriate school speech can be prohibited
Texas v. Johnson – it is legal to burn the US flag

Describe how the U.S. Constitution may be changed

- Changes are proposed on the National level, approved (ratified) on the State level
- Example of Federalism

Amending the Constitution can begin 1 of 2 ways:



(26 of our 27 amendments were proposed by Congress and ratified by State Legislatures)

Amendments to the U.S. Constitution

- 13th – Abolished slavery
- 14th – Defines citizenship, due process protections, *equal protection clause*
- 15th – no denial of vote due to race, color, or previous condition of servitude
- 18th – prohibition of alcoholic beverages

- 19th – gave women the right to vote (**suffrage**)
- 21st – repeal of the 18th amendment
- 24th – outlawed poll taxes (paying money to vote)
- 26th – gave 18 year olds the right to vote

Informal Ways of Amending the Constitution

- *Passage of basic legislation* – laws spell out brief provisions; how Congress uses its powers
- *Actions taken by the President* – how the President uses their powers
 - (ex. Executive agreement avoids need for Senate approval)
- *Decisions of the U.S. Supreme Court* – interpret the meaning of the Constitution
- *Activities of political parties* – not mentioned in the Constitution, play a major role in government today (ex. Nomination of presidential candidates, organization of Congress)
- *Custom* – practices not mentioned in the Constitution (the executive Cabinet)

Interpretation of the Constitution

- **Strict Constructionist** – one who advocates a narrow interpretation of the Constitution’s provisions, in particular those granting power to the government
- **Loose Constructionist** – one who believes that the provisions of the Constitution are to be constructed in broad terms (liberal constructionist)

The North Carolina State Constitution & State Government

1. *Explain how the NC Constitution and local charters define the framework, organization, and structure of government at the state and local level.*

Legislative Branch:

NC General Assembly – bicameral (only unicameral state legislature is Nebraska)

House of Representatives – 120 members

Qualifications: at least 21 years old, 1-year residency in district

Senate – 50 members

Qualifications: at least 25 years old, 2 years in NC

Terms: 2 years

Sessions: Long Sessions (odd # years, January – July) and Short Sessions (even # years, 6 weeks, start in May) – Must pass the Budget

Local Legislators: **City Council Members and County Commissioners**

Council Manager Plan – council hires a city manager to run day to day affairs

- Statutes – state laws
- Ordinances – local laws
- Board of Education – members are elected and oversees education system
- Referendum – voters vote to reject or approve legislation
- Incorporated – municipalities must receive a charter from the state to exist

Executive Branch:

Governor and Lieutenant Governor – elected separately

Qualifications – at least 30 years old, NC resident 2 years

Terms – 4 years

Cabinet (appointed by Governor) and **Council of State** (elected by NC voters)

Local: **mayors**

- Annexation – municipalities can take over land that is no already part of a city

Judicial Branch – from lowest to highest

District Courts – misdemeanors, civil cases less than \$10,000

Superior Courts – all felonies, civil cases more than \$10,000

Appellate Courts – hears cases on appeal from lower courts, 3-judge panel, no juries

NC Supreme Court – considers issues involving NC law and the NC Constitution

Judges elected by NC voters, serve 8 years (except District terms are 4 years)

- State v. Mann – case that gives NC Constitution supreme authority (about slavery)
- The Leandro Case – state must provide every child with a basic education
- Penal Code – listing of state laws

Types of local Government: Counties (100 in NC) and Municipalities

Municipalities – towns, cities, and villages

Metropolis – city and its surrounding suburbs

2. *Explain the structure and organization of political parties.*

Political Party – group of voters with common ideas trying to influence government

Democratic – 1st political party founded by Jefferson

Republican – emerged in 1860 with Lincoln to oppose slavery
Third Parties – other parties who oppose the major two, hard to win elections

Terms to Know: one-party system, two-party system, multi-party system

- Liberal – based on the belief of progress, protection of political and civil liberties, open minded on traditions and norms, belief in strong and active government
- Moderate – middle ground, not extreme
- Conservative – tradition beliefs and methods, believes in little government involvement, strong military
- Platform – party’s principles, beliefs, and positions on issues
- Plank – individual parts of a party’s platform
- Plurality vote – the most votes among the candidates running (not necessarily majority)
- Political Machine – strong party organization that can control political appointments and deliver votes
- Grassroots – movement started in the local community by the people
- Partisan – along party lines
- Political Action Committee (PAC) – political organization established by a corporation, labor union, or special interest group designed to support candidates by contributing money
- Hard Money – money given directly to candidates by supporters
- Soft Money – money given for “party building” activities
- Canvassing – going door to door to get votes
- Propaganda Techniques:
 - Endorsements
 - Bandwagon
 - Name Calling
“just plain folks”
 - Glittering generalities
Card stacking

3. Describe the election process and the qualifications and procedures for voting.

Voter Qualifications: 18, registered to vote, US citizen

Election Process:

Candidate Campaigns, Primaries and Caucuses, National Convention and candidate nominations,
Candidates Campaign, General Election (Electoral College)

Special Types of Elections:

Initiative – citizens propose legislation
Referendum – citizens vote on proposed laws
Recall – voters can remove official from office

Terms to Know:

- Exit poll – take as you leave the election booth, unofficial way to see how election is going
- Board of Elections – oversees elections process to ensure fairness
- Polling place – place where you go to cast your ballot
- Precinct – geographic area that contains a specific number of voters

The U.S. Economic System

Basic Economic Concepts:

- Economics – the study of how people and countries use their resources to produce, distribute, and consume goods and services
- Consumer – someone who buys goods and services for personal use, not resale
- Goods – products that are purchased and eventually used up
 - Consumer goods – products that satisfy people’s economic needs and wants
 - Capital goods – goods that are used to produce other items (tools, machines)
- Services – actions such as haircutting, cleaning, or teaching that are used up as they are performed
- Producer – someone who makes the goods or provided the services consumers use

Four Factors of Production:

- 1) Land (natural resources)
- 2) Labor (human resources)
- 3) Capital (resources used to make other things)
- 4) Entrepreneurship (people who initiate production)

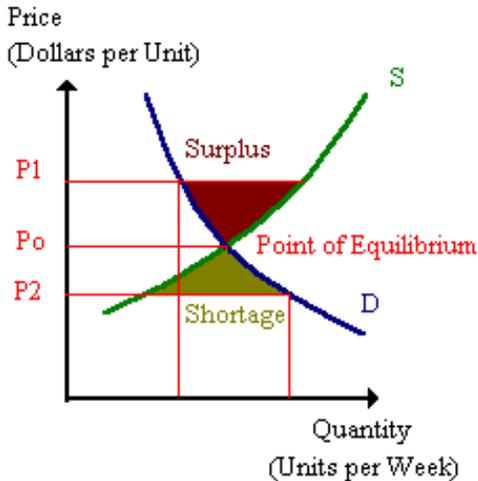
Four economic questions that every nation must ask:

1. What goods and services will be produced?
2. How will the goods and services be produced?
3. Who will get the goods and services?
4. How much will be produced?

*Who gets to decide these questions? – tells us the type of economic system we’ll have

- Scarcity – exists when the demand for a good or service is greater than supply, no economy has an unlimited amount of resources
- Real Costs of Production – the various resources used in producing a good or a service
- Opportunity Costs – the value of time, money, goods and services **given up** in making a choice
- Demand – the amount of goods and services that consumers want at a given price

- Law of Demand – as the price of a product or service increases, the amount demanded by consumers will decrease (inverse relationship)
- Supply – the amount of a good or service that producers will provide to the market at a given price
- Law of Supply – as the price of a product or service increases, the amount supplied will increase (direct relationship)
- Surplus – when supply is greater than demand
- Shortage – when demand is greater than supply
- Tradeoff – a loss of one benefit or advantage in order to gain another
- Production Possibilities Frontier – an economic model that shows the production possibilities open to a country



Types of Economic Systems:

Traditional – economic questions answered by custom, habit, religion, and law
 Change comes slowly, produce same items as ancestors
 Strong sense of family, jobs handed down from parents to children

Command – government owns and controls the factors of production
 Economics questions answered by a central planning agency
 Use of punishments and rewards to meet production goals

Socialists – another term for Command Economy, can have political freedoms for individuals/democracy

Communists – **Karl Marx** wrote the *Communist Manifesto*
 Change through revolution
 Class struggle (proletariat v. bourgeoisie)
 Government takes private property
 Few political freedoms for individuals

Market – economic questions answered by the market place (supply and demand)

No overall planning

Guiding principle is self-interest (**Adam Smith** and the *Wealth of Nations*)

Profit motive – the desire to make money, determine the behavior of the producer

Profit – difference between cost of production and selling price

“**Invisible Hand**” – individuals acting in their own self-interest controls the market, promotes the good of society

“**laissez-faire**” – (leave it alone) little to no government involvement in the economy (hands off), governments only role is to protect freedom and property

Components of Capitalism:

Private property
 Profit motive

Competition
 Freedom of exchange

Mixed Economies – no real world economy is a pure form of a traditional, a command, or a market economy; every existing economy uses a different mix of allocating mechanisms to answer the basic economic questions

International Trade:

Free Trade – nothing stops the flow of goods between buyer and seller, the world is one giant marketplace

Advantages – all nations can use their limited resources more wisely (comparative advantage)

Disadvantages – home businesses may be threatened with cheaper imports, lost profits and loss of jobs, need for greater efficiency and productivity

(NAFTA – North American Free Trade Agreement, EU – European Union, WTO- World Trade Organization)

- Balance of trade – when the amount of goods and services bought and sold between two nations is exactly the same (very rare)
- Trade deficit – nation imports more than it exports
- Trade surplus – nation exports more than it imports
- Protectionism – a policy where barriers are set up to protect a country’s home business and jobs
 - Tariff – tax on imported goods
 - Quota – sets a limit on the number of imports allowed
 - Embargo – ban on trade

Types of Businesses:

1. **Sole Proprietorship** – owned by one individual who assumes all risk or loss and receives all benefits
2. **partnership** – owned by two or more people who assume all risk (unlimited liability)

3. **corporation** – created by law, functions as a separate entity, owned by stockholders, stockholders only risk their initial investment (limited liability)
stock market – where buying and selling of stock takes place

Labor Unions: organization of workers formed to promote the interests of its members

- Higher wages and benefits, shorter work days, safe working conditions, better job security
- collective bargaining – unions and employers negotiate conditions of employment (contract)
- strike – employees’ decision not to work until management agrees to their demands
- mediation – occurs when a neutral person steps in to help both sides reach an agreement with suggestions
- arbitration – when a third party gets to make the final decision for both sides
- picketing, boycott, right-to-work laws, closed and open shop

Types of Competition:

- monopoly – when the market is dominated by one company
- oligopoly – when a very few sellers dominate the market
- pure competition – a market with a great many sellers who produce an identical product
- monopolistic competition – a great number of sellers with similar products, try to differentiate by creating brand loyalty using advertising

Measuring the Health of the Economy:

1. **Inflation** – the general increase in price over a sustained period of time
 - a. CPI (Consumer Price Index) – used to measure inflation
2. **Unemployment Rate** – number of people out of work, but actively looking for a job
3. **GDP (Gross Domestic Product)** – measures the nation’s total yearly output of goods and services, measures the market value of all goods and services, single best indicator of the size and health of the economy, the US has the largest GDP
 - Only counts goods and services produced for a given year
 - Only counts goods sold for the first time
 - Only final goods
 *Categories: Consumer spending, business spending, government spending, net exports

Measuring GDP: “current GDP” – stated in dollars of that year

“Real GDP” – adjusted for inflation – shown in constant dollars (the same year)
 per capita GDP – total production of a nation’s economy divided by its population

The Business Cycle: the up and down movement in the economy

1. **Trough** – worst period, lowest level of economic activity
 Factory production down, employment down, demand down
Recession – short lived
Depression – intense and long lasting
2. **Expansion** – slowly the economy begins to improve
 Demand goes up, employment rises, wages up, new factories and investment
3. **Peak** – highest point of the business cycle
 Factories producing at full capacity, high employment, shortage of some goods
4. **Contraction** – final stage caused by high interest rates, high cost of resources
 Investment goes down, production down, employment down, demand down

Government’s Role in the Economy:

Monetary Policy – used to keep the supply of money in balance

Too much money – inflation

Too little money – recession

The **Federal Reserve** – nation’s central bank, established to keep economy healthy

Board of Governors and the Federal Open Market Committee help set policy

Ways to Control the Circulation of Money:

1. **Reserve Requirements** – money banks have to keep on hand
 Higher Reserve Rate – less money in circulation
2. **Discount Rate** – interest rate the Fed charges to banks
 Higher Discount Rate – less money in circulation
3. **Open Market Operations** – buying and selling government securities
 Selling bonds – less money in circulation
 Buying bonds – more money in circulation

“tight monetary policy” – when Fed cuts back the monetary supply to prevent inflation

“loose monetary policy” – to stimulate demand by increasing amount of money available

Fiscal Policy – changing the tax rate and spending habits of the government

Government spending – idea that government money can stimulate the economy

Taxes – can be raised or lowered to regulate the business cycle

Progressive – a tax that takes a larger percentage of a person's income as that income increases

Proportional – a tax that requires all persons to pay the same percentage of their total income in taxes

Regressive – a tax that takes a larger proportion from a taxpayer with a low income than from a taxpayer with a high income

Banking System:

- Commercial Banks – financial institutions that offer full banking services
 - Checking account – offers immediate access to money (checks, debit cards, ATM)
 - Savings account – leave money to gain interest
 - Certificates of deposit – higher interest rate, but must leave money in account for a specified period of time
- Saving and Loan Associations – traditionally loaned money as its primary service
- Credit Unions – non-profit basis, open to those whose group supports it
- Federal Deposit Insurance Commission (FDIC) – insures savings accounts so people can always receive their money back from the bank

Functions of Money:

1. medium of exchange
2. store of value
3. measure of value

Currency – metal and paper money