

LIFEPAC CIVICS UNIT FIVE

RELATIONSHIP TO THE WORLD

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FOREWORD

Credits

LIFEPAC CIVICS:

Unit 5: Relationship to the World

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LIFEPAC Civics is a five-unit high school elective course that will examine American government. Through the ages, there have been governments wherever there have been significant numbers of people. Governments are formed because groups need an organization to create and enforce rules that control conduct within the population.

What is needed to establish a government? Who sets up the government? What freedoms should be available to the society? What ingredients make up a good government? By examining the forms of government established by tribes and nations, we can gain an idea for some of the building blocks that are required for making a government successful.

Some magnificent documents were written in the 1700s. One of the most treasured documents in American history is the Declaration of Independence. With the Declaration of Independence, America announced its intention to become a free and self-supporting nation. It took until 1783 to finally win that independence and then the country was already dealing with the problems of collecting taxes, enforcing laws, and establishing trade. Through argument, debate, deliberation, and agreement, brilliant minds assembled what is considered one of the best governmental writings in the history of nations, the Constitution of the United States of America. Though their individual views differed in many aspects the religious influence on the actions of the Founding Fathers was significant. As the settlements grew into colonies, the colonies into states and the states into a nation, the structure of government grew to meet these needs.

LIFEPAC Civics contains the following units. This specific unit is highlighted below.

Unit 1 — A New Nation

Unit 2 — The Constitution

Unit 3 — Branches of Government

Unit 4 — Government by the People

Unit 5 — Relationship to the World

Note: All vocabulary words appear in **boldface** print the first time they are used in the text. If you are unsure of the meaning when you are reading, study the definitions given in the Glossary.

UNIT 5 INTRODUCTION

The previous four units have centered primarily on your role as a citizen of the United States. The study of the Declaration of Independence, the Constitution, the Bill of Rights, and the amendments, along with other documents that influenced the thoughts of the Founding Fathers, has helped to reveal why America has achieved such a respected and powerful position in the world. The market economy that was encouraged by representative government has provided Americans with a standard of living unknown anywhere else in the world. This section will examine how the American system of capitalism functions.

With the growing economy and a powerful military,

America has played an increasingly important role in international affairs around the world. The many facets of this involvement in the world community will be the topic for discussion in the last section of this unit. As a citizen in today's modern society, the study of the economy of the United States should help you to better understand the factors that contributed to the growth of this country. As citizens of the United States, our loyalty and allegiance is pledged to our country, but we must never fail to see and respond to the needs of those scattered throughout the world. Hopefully you will be a better citizen, of both the United States and the world, after you have completed this study.

UNIT GOALS

When you have completed Unit 5, you should be better prepared to:

- *Explain how competition among buyers and sellers determines a market price.* (Sections I and III)
- *Describe how the government works to regulate the economy.* (Section I)
- *Discuss the factors that are used to monitor the condition of the economy.* (Section I)
- *Provide examples which demonstrate that economic systems and types of government are closely related.* (Sections I, II, and III)
- *Compare and contrast at least two ideologies to describe how social and economic conditions give rise to tyrannical regimes.* (Section II)
- *List the domestic/foreign policies and constitutional principles that affect the United States' relations with the world.* (Section III)
- *Describe the three phases of international relationships that the United States has gone through since its founding.* (Section III)
- *Discuss the role of the citizen in the economic life of the country.* (Sections I and II)
- *Identify the historical steps in the development of America's modern economic system.* (Sections I, II, and III)

I. ECONOMICS

SECTION I EXAMINES THE GROWING INVOLVEMENT OF THE UNITED STATES, FIRST IN DEVELOPING A DOMESTIC ECONOMIC POLICY, AND THEN IN BECOMING INVOLVED IN THE INTERNATIONAL ECONOMIC COMMUNITY. EVERY GOVERNMENT MUST BE CONCERNED WITH ITS OWN ECONOMIC AFFAIRS AS WELL AS WITH ITS ECONOMIC RELATIONSHIPS WITH OTHER NATIONS OF THE WORLD. AMERICA'S SPECIAL ECONOMIC ASSOCIATION WITH THE COUNTRIES OF THE MIDDLE EAST WILL BE STUDIED IN THE FINAL LESSON OF THIS SECTION.

LESSON 1

GOVERNMENT AND ECONOMICS

The study of economics is a complex investigation of the interaction of many factors: supply, demand, market, and competition to name a few. This lesson will examine the involvement of the United States government from its historical beginnings with the establishment of the First National Bank to its modern organizations and institutions that oversee and monitor economic indicators. At the completion of this lesson, you should be better prepared to:

- Describe the role of government in a market economy.
- Describe how government taxes, policies, and programs affect individuals, groups, businesses, and regions.
- Identify and analyze the aims and tools of government fiscal and monetary policies.
- Evaluate the extent to which government policy affects the economy.
- Analyze the influence of the federal government on the American economy.
- Explain how the role of government in a market economy often includes providing for national defense, addressing environmental concerns, defining and enforcing property rights, attempting to make markets more competitive, and protecting consumers' rights.
- Analyze the elements of America's market economy in a global setting.
- Describe the characteristics of different economic systems and institutions.
- Explain how prices affect distribution and allocation in the economy.
- List the roles played by local, state, and national governments in both the public and private sectors of the United States' free enterprise system.
- Analyze government policies that influence the economy at the local, state, and national levels.
- Describe the aims of government fiscal policies (taxation, borrowing, spending) and their influence on production, employment, and price levels.

LESSON 2

INTERNATIONAL ECONOMICS

The United States spent most of the time during the late seventeenth and eighteenth century developing its domestic policies. However, the entrance of the United States into World War I began a new era of America's involvement with the world. Since that time, the United States has become a world leader both in military power and in economic influence. At the completion of this lesson, you should be better prepared to:

- Describe how domestic and foreign policies and constitutional principles of the United States affect its relations with the world.
- Identify and discuss basic concepts associated with trade between nations.
- Identify factors that have led to increased international interdependence.
- Identify the major responsibilities of the federal government in international policy.
- Evaluate arguments for and against free trade.
- Explain the effects that international trade has on the United States economic and political policies.
- Describe the role of the United States government in helping to set international trade policies.

LESSON 3

CASE STUDY: THE MIDDLE EAST

Probably one of the most prominent examples of the involvement of the United States in the military and economic affairs of the world has been demonstrated in the Middle East. The oil rich countries of the world have been notoriously unstable in their governments. Strife and conflict have plagued the region for years. The establishment of the nation of Israel and America's support of her has compounded the problems of the relationship of the United States with the Arab states. This lesson examines the conflict that continues to the present time in this area of the world. At the completion of this lesson, you should be better prepared to:

- Identify and evaluate the United States' historical economic, ideological, and humanitarian concerns in the Middle East.
- Identify and evaluate Middle Eastern antagonism toward the United States (i.e. support of Israel, cultural differences, etc.) and the foreign policy steps taken to address these issues.
- Discuss the reasons why some geographical regions, such as the oil fields of the Middle East, tend to be more crucial to the United States in the striving for international balance of economic power.

GOVERNMENT AND ECONOMICS

Thus far you have studied many of the historical, social, religious, cultural, and political factors that have influenced the growth and development of the United States. You briefly analyzed the source of funding for the expenses of government through the process of taxation. Included with that lesson was a summary of some of the things on which government revenue is spent. This section will examine in greater depth that aspect of government that involves their actions in the field of economics.

OBJECTIVES

- Describe the role of government in a market economy.
- Describe how government taxes, policies, and programs affect individuals, groups, businesses, and regions.
- Identify and analyze the aims and tools of government fiscal and monetary policies.
- Evaluate the extent to which government policy affects the economy.
- Analyze the influence of the federal government on the American economy.
- Explain how the role of government in a market economy often includes providing for national defense, addressing environmental concerns, defining and enforcing property rights, attempting to make markets more competitive, and protecting consumers' rights.
- Analyze the elements of America's market economy in a global setting.
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- Analyze government policies that influence the economy at the local, state, and national levels.
- Describe the aims of government fiscal policies (taxation, borrowing, spending) and their influence on production, employment, and price levels.

VOCABULARY

capitalism — an economic system whereby the decisions concerning which products will be produced, how many, and to whom they will be distributed are made by private individuals and companies

economics — the study of the production of goods and services and the process by which they are distributed, including not only the method of distribution, but also the procedure by which they are divided up

expired — lapsed; a charter or contract that has run out and not been renewed; having come to an end

ECONOMICS DEFINED

Economics is the study of the production of goods and services and the process by which they are distributed. The goods and services in this definition include anything that can be bought and sold. *Goods* are produced in many ways, from the factories and manufacturing plants scattered throughout the United States to the little shops and stores in which items are produced for sale to others. *Services* represent all of those activities which consumers or customers pay someone to perform on their behalf. The distribution of goods and services includes not only the method

by which they are distributed, but also the procedure by which they are divided up among those individuals who desire to possess them.

SUPPLY AND DEMAND

The United States is unique among the nations of the world in that the standard of living is quite high compared to that of many countries. Few Americans, however, possess everything that they want to have. For the consumer, there is always the desire for something new or different or better. That means that for the producer, there is a market for the goods that



THROUGH COMPETITION, PRODUCERS TRY TO SELL BETTER PRODUCTS AT OR BELOW THE GOING PRICE.



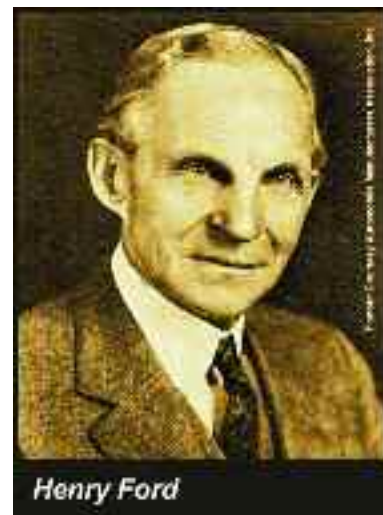
he produces. This helps to resolve a need that he has, namely, to earn more money. Driving the economy of any nation is this concept of supply and demand.

Demand is the force that drives a consumer, who has the necessary money or credit, to purchase a particular product within a certain period of time. *Supply* is the willingness of a producer or a supplier to bring a designated amount of a certain product to the market at a specified price during a given period of time. As consumers purchase goods or services and it appears that there is a continued need, the producer continues providing the necessary products or services. This is the driving force of a nation's economy.

COMPETITION

When it becomes apparent that a certain product is selling well or that there is a great demand for a particular service, other producers of goods and services enter that market. Their goal becomes to sell a better product or provide a superior service at or below the going price. Thus, the element of competition enters the market. This not only provides choice for the consumer, but also the opportunity to purchase a better product at a lower price. The determining factor in the value of certain goods or services is said to be its price. However, this can be a changing measure and not always a true evaluation of the product. If the producers are not able to keep up with the demand, in other words, there are more buyers than there are products available, the price tends to go up. The consumer is more willing to pay a higher price for the privilege of being able to purchase the product. Thus, the same product now costs more, simply because

there are not as many available, and they are in greater demand. However, if the supplier produces too many of a particular product, and there are not enough buyers, then the producer tends to lower his price in order to get rid of his surplus.



In a country such as America, this opportunity for producers to produce and consumers to purchase is considered to be a free enterprise system, where *choice* is the key word. Prices are determined by the availability of the product and the demand of the consumers. In America, a prime example of

this competitive market is the automobile industry. When Henry Ford first developed the assembly line to mass produce his Model T's, little did he realize the impact that this would have on the future of society. Today, the leading American automobile makers; Ford, General Motors, and Chrysler, compete every year for top honors in producing and selling the most autos. However, imported foreign automobiles have been providing a further challenge to American-made products and have provided stiff competition. The impact of foreign products will be discussed in a later lesson. ■



Fill in the blanks with the correct answers.

- 1.1 Define economics. _____
- 1.2 In economic terms, _____ are those items that are produced for someone to purchase.
- 1.3 _____ are the activities for which individuals pay others to perform on their behalf.
- 1.4 Economics is not only concerned with the method by which goods and services are distributed, but also in how they are _____ among the individuals who purchase them.
- 1.5 The force that drives a person to purchase a particular product is called _____.
- 1.6 The willingness of a producer to bring a certain number or amount of a product to the market is called the _____.
- 1.7 When there are not enough goods on the market for all of the eligible buyers, the price tends to go _____.
- 1.8 When there are too many goods on the market and not enough buyers, the price tends to go _____.
- 1.9 When other producers see that a product is selling well and they begin to produce a similar product, they are exercising the principle of _____.

**GOVERNMENT INVOLVEMENT
REQUIRED**

An economic system that is totally controlled by the consumers and those who produce the goods and services is known as a **capitalistic** system. The opposite system is called *central planning*, which is one in which all economic decisions are made by a central government. While the economy of the United States functions under the principles of capitalism and is often referred to as being an example of capitalism, no government operates under a totally capitalistic or a totally central planning system. Although governments may lean in one direction or another, all governments combine characteristics of each form of economic system.

THE FIRST NATIONAL BANK

While it would be impossible in one section in this course to discuss the full range of the economic activities of the federal government, we will review a few of the ways in which it helps to insure that the economy of the United States remains stable. While

protecting the interests of the country, the government is also looking out for the economic welfare of its citizens. The first major economic action by the national government took place in 1789 when Alexander Hamilton, as the Secretary of the Treasury in Washington's cabinet, proposed the establishment of the First National Bank. Nothing in the Constitution gave the new government the direct authority to perform such an action. Hamilton based his recommendation on the implied powers of the Constitution. Since the government had the power to raise revenue through taxation and the power to borrow money, he felt that it must have an institution through which these activities could take place.

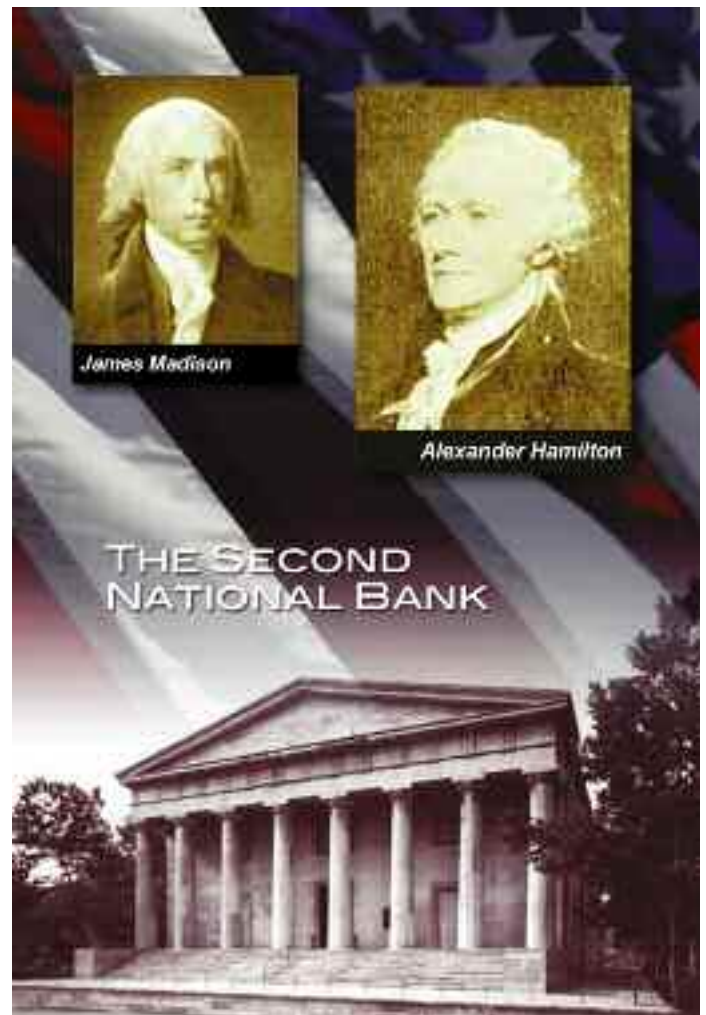
President Washington was uncertain of the constitutionality of this act, so when it was presented to him following the approval of Congress, he consulted with his cabinet. Although Thomas Jefferson and James Madison were opposed to the establishment of this bank, in 1791 President Washington ultimately signed the bill creating the bank. It proved to be a successful endeavor.

THE SECOND BANK OF THE UNITED STATES

Twenty years later, in 1811, the charter for the bank **expired**, and Congress did not extend the life of the bank. As a result, the bank was allowed to close. However, after a rather confused period of time with no bank and with the War of 1812 creating a demand for federal funds, Congress again turned its attention to the need for a bank. Interestingly enough, James Madison was now the president of the United States. In 1816, President Madison approved a charter for another twenty years establishing the Second Bank of the United States. Madison was criticized for reversing his position, but he replied by saying that the original Congress had approved the bank and that it had proven to be a success for twenty years. He said that *“a veto from the executive, under these circumstances, with an admission of the expediency, and almost from necessity, of the measure, would have been a defiance of all the obligations derived from a course of precedents amounting to the requisite evidence of the national judgment and intention.”* In other words, the First National Bank had proven to be a successful and necessary institution, and that, therefore, justified the chartering of the Second Bank.

The constitutionality of the establishment of the bank was officially tried before the Supreme Court in 1819 in the case of *McCulloch v. Maryland*. Many of the states had resisted the organization of the Second Bank of the United States because it had begun calling in some of the debts that the states owed the national government. The state of Maryland resisted and responded by placing a tax upon any bank not chartered by the state. When the United States bank refused to pay the tax, Maryland filed a lawsuit naming James McCulloch, cashier at the Baltimore branch of the Second Bank of the United States, as the target of the lawsuit.

The Supreme Court heard the case and, under the leadership of Chief Justice John Marshall, determined, first of all, that Congress had the authority to charter the bank under the implied powers of the Constitution. The justices said that the power to collect taxes and borrow money implied the need for an institution through which this could be done and that this was a necessary and proper interpretation of their powers. Secondly, the Supreme Court determined that the power to tax was the power to destroy and,



therefore, Maryland could not require the Second Bank to pay any taxes. It held that a federally established action took precedence over a state ruling.

MODERN BANKING ACTIVITIES

In the period from 1837 to 1862, which is known as the Free Banking Era, there was no central bank. In 1863, in response to the increasing debts of the Civil War, the National Banking Act was passed which provided for a series of national banks. This continued until 1913, when Congress passed the Federal Reserve Act. This act provided for a formal organization of the country into banking districts and established a board to manage the financial affairs of the nation. It has become a substantial influence in regulating the economic activities of the United States. Alan Greenspan, as chairman of the Federal Reserve Board, was a familiar figure to American households from 1987 until 2006. His decisions on interest rate increases or decreases, made in conjunction with his fellow board members, served to guide the economy through many prosperous times as well as through difficult times.

OTHER FEDERAL AGENCIES

The venture into banking was the first of many economic activities of the national government. Since that time, many other agencies have been established to help determine the economic policies of the national government. The Securities and Exchange Commission has the responsibility to supervise activities involving the securities industry. It oversees the sale and distribution of stocks and bonds, and regulates the activity of trust companies. Agencies of both the executive and the legislative branches establish policies regulating the workplace and working conditions of the American worker. Minimum wage limits, length of the work week, the amount of taxes to be assessed, and safety conditions are only a few of the areas in which federal agencies have become involved. The federal government occasionally intervenes in employer-employee disputes. They provide

mediators and arbitrators to settle disagreements and have, on occasion, entered a conflict to end a strike.

Federal agencies monitor the activities of corporations and large companies. They make decisions regarding company mergers. They work to prevent the development of monopolies that can control prices and service. They prosecute illegal or unethical behavior of officers of corporations and companies. They oversee the transportation industry, build highways, regulate air and rail travel, and provide constant supervision of automobile safety. Federal agencies are involved in many economic activities in the administration of the affairs of the government and the supervision of its citizens. The extent of federal regulation is a political issue that is debated by many groups and individuals. It will be an ongoing issue that will be dealt with in different ways by different political leaders. ■



Fill in the blanks with the correct answers.

- 1.10 When the production of goods and services is privately determined, the country is operating under a _____ system.
- 1.11 A system in which the government determines how much of what product will be produced is said to have a _____ system.
- 1.12 The period of time from 1837 to 1862 was known as the _____ Era.
- 1.13 In 1913, Congress established the _____.
- 1.14 List four ways in which the government is involved in the economic lives of the government or its citizens. _____



Answer True or False.

- 1.15 _____ No government operates completely under one economic system.
- 1.16 _____ The First National Bank was established by Thomas Jefferson.
- 1.17 _____ The First National Bank was established by the Congress under their implied powers of the Constitution.

- 1.18 _____ The Second Bank of the United States was chartered immediately upon the expiration of the First National Bank.
- 1.19 _____ James Madison decided to approve of the Second Bank because the First National Bank had been passed by Congress and had been successful.
- 1.20 _____ The Supreme Court declared the Second Bank to be constitutional in the case of *McCulloch v. Maryland*.



Complete the following.

- 1.21 **Critical Thinking:** Explain what the court meant when it said that “the power to tax was the power to destroy.”

**ECONOMIC INDICATORS
UNEMPLOYMENT RATES**

Government officials use many mathematical tools to determine the overall health of the economy of the country, for this is an indication of the financial condition of America’s people. The unemployment rate is constantly calculated. Using figures gathered from a number of sources, such as the demand for unemployment insurance and the number of laborers known to have been laid off, the government determines how many individuals are capable of working and who want to work, but who are unable to find a paying job. This is expressed as a percentage that is the number of unemployed individuals divided by the total workforce, including the unemployed. This figure generally averages between four and seven percent. The low point in the last half of the century was in 1953 when the unemployment rate was about 2.5 percent. In 1983, unemployment reached a high of just over 10 percent. High unemployment represents a period of financial crisis, and a low unemployment rate generally indicates a financially prosperous economy. Another related indicator is expressed as the number of jobs added during a given period of time.

GROSS NATIONAL PRODUCT

Another indicator of the nation’s economy is the gross national product (GNP). This is the sum total of the final goods and services that are produced in a given time period by the citizens of a country. Final goods are those products that are used or consumed by the final recipient. For example, the sale of a refrigerator to a store is not counted, but when that refrigerator is sold to a customer, then the sale is included in the GNP. The higher the GNP, the more likely it is that the economy is healthy and prospering.

GROSS DOMESTIC PRODUCT

The Gross Domestic Product (GDP) is similar to the GNP except that it includes the entire total of the final goods and services produced within the boundaries of a country. As an illustration, a Finnish company may own a paper mill in the United States. The income that is earned by American workers is counted as part of the Gross National Product (GNP) of the United States, but the income earned by the company is a part of the Finnish Gross National Product (GNP). When computing the Gross Domestic



Product (GDP), *all* of the income earned by the company *and* the employees is considered part of the GDP of the United States. In addition, there are other more technical processes by which economists calculate the financial condition of the nation, but these are the main indicators.

ECONOMIC CONFLICT

The American economy is driven by the competitive spirit of American businesses and industries. As a citizen, you are well aware of the continual pressure that is placed on you as a consumer to purchase a particular product. If one cell phone company is doing exceptionally well, there will soon be one or two more providing competing services, supposedly at a better price. As discussed earlier, American automobile manufacturers are facing stiff competition from auto makers in Japan, Germany, Korea, and even China. While the government is constantly challenged to protect American business interests, the fact is that consumers respond to the competition by purchasing products that are less expensive or of higher quality.

Besides looking for new markets and expanding opportunities, producers of many products require

more resources for their materials. The petroleum industry has developed oil fields in many areas of the United States, but they are constantly seeking new sources of oil reserves. The pressure to drill in the Alaskan wilderness, as studied earlier, reflects a conflict of economic interests between the government and the environmentalists. The need of the lumber industry for additional wood products has led to conflict with other environmentalists in the logging of some of the old forests of the country.

Some communities resist the efforts of the so-called “big box” companies, meaning the large discount stores such as Wal-Mart, to build stores within their city limits. They fear that they will have an adverse effect on the small local businesses. Yet many of these same individuals will shop in these stores if they are given the opportunity. Other communities welcome these stores, recognizing that the opportunity for lower prices, more jobs, and greater selection of merchandise will be the result. Each of these opinions represents economic decisions that individuals and government agencies make in the political process. This is a part of the experience of living in a market economy. ■



Fill in the blanks with the correct answers.

1.22 Three economic indicators are _____ , _____
 _____ , and _____ .

1.23 List three areas in which various forces come into economic conflict.

THE STUDY OF ECONOMICS IS A VAST EXAMINATION OF THE PROCESS INVOLVED IN THE PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES. IT IS AN INTRICATE INTERACTION AMONG INDIVIDUALS, BUSINESSES, CORPORATIONS, AND GOVERNMENT THAT IS FREQUENTLY AFFECTED BY FACTORS, SUCH AS WARS AND NATURAL DISASTERS, WHICH ARE BEYOND THE CONTROL OF ANY OF THESE GROUPS. HAVING AT LEAST A GENERAL UNDERSTANDING OF THE WORKINGS OF THIS VAST ECONOMIC SYSTEM CAN HELP YOU AS A CITIZEN TO BE A MORE INFORMED PARTICIPANT IN YOUR GOVERNMENT AND YOUR COMMUNITY.

PROJECT 1A: ECONOMICS OF A NEW BUSINESS

OBJECTIVES

- *List and discuss several economic decisions that an entrepreneur must make regarding the establishment of a new business under a capitalistic system.*
- *Describe the economic contributions that a community makes to new and developing businesses and industries.*
- *Discuss economic decisions that must be made in moving a company to a new location.*
- *Explain the economic impact upon a community when a business or industry shuts down or moves to another area.*

QUESTIONS

- *What economic decisions does an individual need to make as he plans for the opening of a new business?*
- *How is the economy of a community affected by this new business?*
- *What economic factors may influence an owner of a company to determine the need for a move of his company to a new location?*
- *Finally, what impact can the shutting down or moving of a business have upon a community?*

PROMPT

Imagine that you are a young entrepreneur who has just developed a method for accessing information on the Internet faster and more efficiently. You see the potential for this service on the market, so you begin making plans for establishing a product development company in the small Mid-western town in which you live. You proceed with your plans, and over the period of a few years, your company outgrows its space and facilities. The company has become an employer of almost one hundred employees. You determine that the wisest decision would be to move your company several hundred miles away to a larger, more centralized city.

PROCESS

In a paper of no fewer than 500 words, discuss the economic decisions that are involved in the growth and development of this company, from its earliest stages to the time when it is moved to a larger city. As you write your paper, consider the following economic issues:

- *What economic resources will I need in order to establish and develop this company? (capital, labor, facilities)*
- *What economic resources does this community have that will be needed or beneficial to the development of a new company? (banks to provide capital, a labor market, real estate companies to assist in land purchase)*
- *What economic influences would this new company experience as it grows from a small, beginning organization to a well-established, successful corporation? (competition, supply and demand, tax issues, distribution of products)*
- *What economic reasons might be used to justify the moving of a company to a larger area? (tax incentives, greater potential labor market, better travel connections, centralized distribution)*
- *What economic impact could this have on the community from which the company is moved? (unemployment, empty facilities, loss of tax revenue)*

Adult Check: _____
Initial Date

INTERNATIONAL ECONOMICS

As the twentieth century began, America had just begun to establish her place among the nations of the world. The defeat of the Spanish in Cuba established the United States as a military power willing to enforce the principles of the Monroe Doctrine. With the advent of World War I, the United States became involved in world affairs on an international scale. This role expanded to her becoming a leader in influencing international economics as well.

OBJECTIVES

- Describe how domestic and foreign policies and constitutional principles of the United States affect its relations with the world.
- Identify and discuss basic concepts associated with trade between nations.
- Identify factors that have led to increased international interdependence.
- Identify the major responsibilities of federal government in international policy.
- Evaluate arguments for and against free trade.
- Explain the effects that international trade has on the United States economic and political policies.
- Describe the role of the United States government in helping to set international trade policies.

VOCABULARY

balance of payments — the sum of the money received from the sale of the exports minus the cost of the imports

domestic — of or pertaining to a country's internal affairs

isolationism — national policy of avoiding political alliances or relations with other countries

stalemate — a situation where no action can be taken; a standstill; a fight without a winner

trade deficit — negative balance of trade in which the cost of the imports is greater than the profit from the exports

trade gap — an informal term meaning the same as trade deficit

trade surplus — positive balance of trade in which the profit from the exports is greater than the cost of the imports

HISTORICAL PRECEDENT

In 1823, in an address to Congress, President James Monroe made a proclamation that came to be known as the Monroe Doctrine. In it, he proclaimed that no European nation should colonize any land in the Americas or intervene in the activities of any of the sovereign nations of the Americas. This was meant to include the United States, Mexico, and whatever other Western nations existed at the time. In exchange for this, he declared that the United States would remain neutral in all wars between European nations and between any European nation and its colonies, as long as those colonies did not exist in the Americas. He stated that if such colonial wars did take place in the Americas, that the United States would see this action as being a hostile act towards itself.

Thus, America's **domestic** policies began to be formulated.

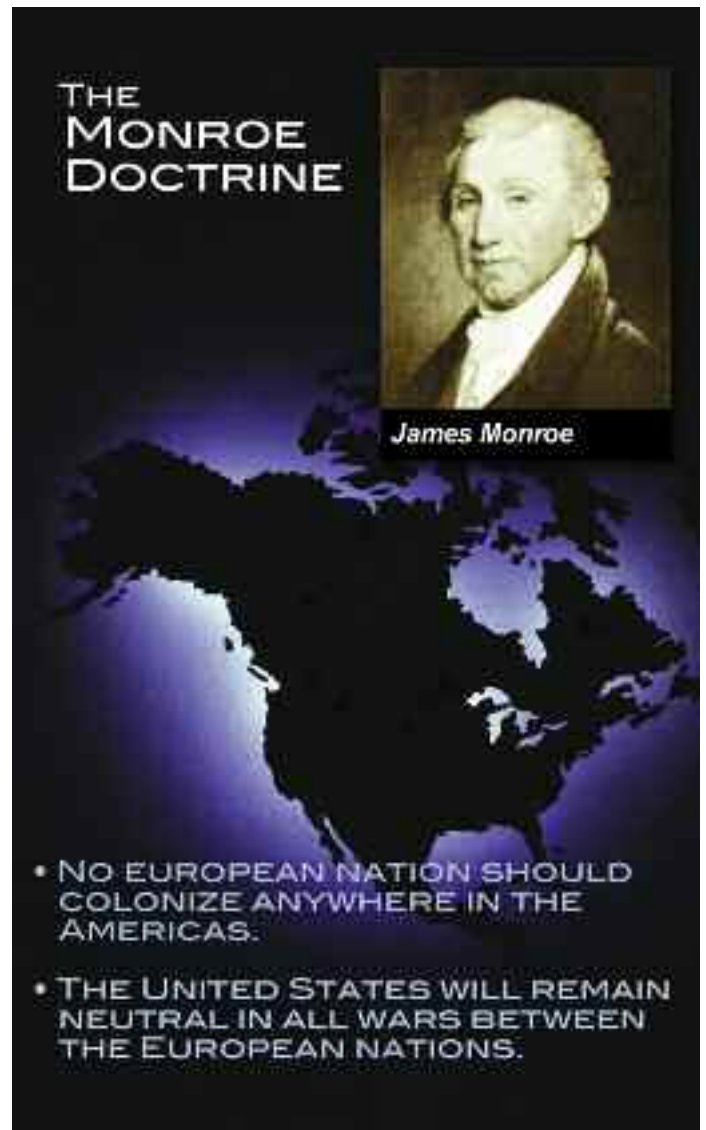
Though many leaders were hesitant to accept this policy of **isolationism** at first, it ultimately became a widely adopted viewpoint by most American officials. For almost a century, this policy remained in effect and was practiced by the United States government. Although the issue of neutrality was set aside beginning with World War I, parts of the Monroe Doctrine relative to conflicts within nations in the Western Hemisphere were exercised on several occasions in the twentieth century.

INTERNATIONAL MILITARY INFLUENCE

In the years between the Revolutionary War and World War I, the United States had only two con-

frontations with foreign nations. In the War of 1812, the United States and Great Britain again came into conflict, although the struggle involved many Canadian soldiers as well as American Indian tribes who fought on both sides of the conflict. Much of the controversy revolved around the Canadian border, although there were some Americans who hoped to remove the British influence from North American shores completely. The battle basically ended in a **stalemate**, with the boundaries between Canada and the United States remaining basically the same. The war did succeed in firmly establishing the country of Canada as a separate and independent nation in the Western Hemisphere.

Eighty-six years later, in 1898, United States forces engaged the army of Spain on the island of Cuba. Several factors led up to the war, including a concern by Americans over the Spanish treatment of Cuban citizens and the feeling on the part of many Americans that Cuba was actually an extension of the United States. With the sinking of the battleship *Maine* under suspicious circumstances in the Havana harbor, the battle cry "Remember the *Maine*," was sufficient to fuel the flames of war. No proof was ever found as to the cause of the sinking of the ship. The war quickly ended because the Spanish navy had become extremely weak as a result of conflicts in which Spain had been engaged around the world. As a result, the United States gained a number of island possessions, and her role in world affairs was introduced. ■



Fill in the blanks with the correct answers.

- 1.24 The document that established the isolationist policy was called the _____.
- 1.25 In this statement, the United States agreed to remain _____ in disputes between nations in Europe.



Answer True or False.

- 1.26 _____ The War of 1812 involved fighting between American soldiers and British and Canadian soldiers.
- 1.27 _____ The United States lost the Spanish-American War.
- 1.28 _____ As a result of the Spanish-American War, Cuba became a possession of the United States.

INTERNATIONAL ECONOMIC INFLUENCE

With the emergence of the United States as a military power in world affairs, the impact that America could exert economically also became apparent. With the disappearance of the frontier and the expansion of business and industry as a result of the Industrial Revolution, Americans began looking elsewhere for markets for their produce and their manufactured goods. Economics is defined as the study of how goods and services are produced and how they are distributed. However, it is actually much more complex than that because it represents the interaction of many different factors—finance, politics, human behavior, government regulation, supply and demand, and markets, to name just a few. Entire courses are devoted to the study of economics, so this course can only scratch the surface of a very complicated process.

INTERNATIONAL TRADE

The principle of international economics includes two different concepts, international trade and international finance. The study of international trade is an analysis of how goods and services are exchanged across international borders. International finance includes the study of currency and how the value and flow of money is determined as it is exchanged across international borders. The United States plays an important role in setting the tone for international trade, and that trade in turn has a strong effect on the economic conditions of this country.

No nation is capable of producing everything that is desirable or necessary to meet the demands of its people. Countries do not have all of the natural resources nor do they have all of the facilities capable of producing the goods to satisfy the needs of its citizens. A prime example in the United States is its inability to adequately supply the petroleum needs of the country. As a result, the United States must import oil from regions that have an abundance of oil resources, such as the Middle East. As a result, as modern transportation methods developed, more and more goods and services were exchanged between nations.

This international trade has provided for the interaction of nations on a day to day basis. Nations strive to find buyers for the goods and services they export in

order to gain the revenue they need to purchase imported goods and services from other countries. In an effort to regulate this trade for the benefit of their countries, governments get involved to determine a proper balance between the goods imported and those that are exported. Phrases such as **balance of payments**, **trade gap**, **trade deficit**, and **trade surplus**, are economics terms that are used to refer to situations where there is either a balance between imports and exports, or when there are either more imports or more exports. Each of these factors can play a significant role in the financial condition of the country.

As a result, nations develop methods whereby they can control, at least to a certain degree, the exchange of goods and services. Governments can establish tariffs on imported goods. This tax, which is placed on imported goods, can serve at least two purposes. It can be a revenue tariff designed for the purpose of raising funds for the government, or it can be a protective tariff which is placed on an imported product. This has the effect of increasing its cost so that similar, more expensive products manufactured within the country can more fairly compete with the cost of the imported product. Thus, it is *protecting* the American merchant.

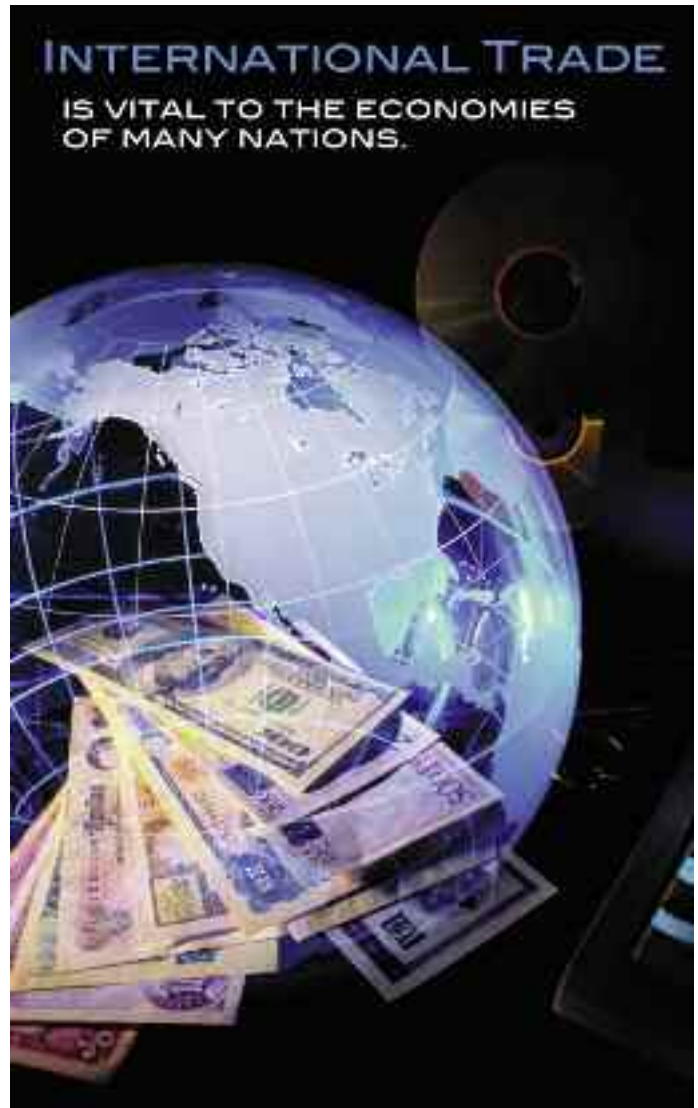
Recent trends in the United States government's activities have been to negotiate free trade agreements between nations. The goal of free trade agreements is to encourage almost unlimited exchange of imports and exports. This policy is promoted by those political groups who feel that a basically unlimited market system will work for the benefit of all. They feel that competition will create better products at lower prices and that society will benefit from these competing elements. Much debate is being waged over this issue, and only time will prove the most effective position.

INTERNATIONAL CURRENCY

Another very complex process is the interaction of the currency of the many different nations involved in international trade. Since every nation has its own currency based on its own monetary system, there has to be a process for determining how one country's currency compares with that of another. The value of a nation's currency depends upon the demand that other nations place upon that currency.

Since the demand rises and falls, so does the value of the currency. Large central international banks have become involved in the buying and selling of currency, and these organizations help to determine the value of a nation's currency. At the present time, the American dollar is used as the basis for establishing an international standard for the value of certain commodities such as gold and oil. The term *medium of exchange* is used to express the value of one nation's currency against another's. For example, if you were going to travel in Canada, you could go into any bank and exchange your American dollars for Canadian dollars. You would find that you would receive considerably more Canadian dollars than you had American dollars. This is based on the exchange rate which has established that the Canadian dollar is worth less than the American dollar.

Government financial experts constantly monitor the foreign exchange rates, and if they determine that there is a financial problem developing, they can recommend the investment of their currency in an effort to stabilize or increase the value of their money. It is a process that requires the work of trained financial experts to constantly maintain a country's stable financial position. The economic interdependence of nations around the world is evident as one analyzes the delicate balance that is necessary for the security of the world financial market. The collapse of one nation or its currency can contribute to financial problems in many other countries as well. ■



Fill in the blanks with the correct answers.

- 1.29 The United States began to be involved economically with the rest of the world because they needed more _____ , and they needed a _____ for their new products.
- 1.30 The study of international economics requires knowledge of international _____ and international _____ .
- 1.31 The term used to express the value of one nation's currency against another nation's is called _____ .
- 1.32 The standard for determining the value of gold or oil on the international market is the _____ .



Answer True or False.

- 1.33 _____ The United States gets much of its petroleum from the Far East.
- 1.34 _____ No nation can function economically completely on its own.



Circle the letter of the correct answer.

- 1.35 To figure a country's _____ they take the sum of the money received from the exports minus the cost of its imports.
- a. balance of trade
 - b. trade gap
 - c. trade deficit
 - d. trade surplus
- 1.36 A country has a _____ when the money received from its exports is more than the cost of its imports.
- a. balance of trade
 - b. trade gap
 - c. trade deficit
 - d. trade surplus
- 1.37 When a country spends more on its imports or more than it receives from its exports, it is said to have a _____ or _____ .
- a. balance of trade
 - b. trade gap
 - c. trade deficit
 - d. trade surplus
- 1.38 A tariff that is placed on an import for the purpose of raising funds for the country is called a(n) _____ tariff.
- a. protective
 - b. revenue
 - c. excise
 - d. social
- 1.39 A tariff that is placed on an import for the purpose of raising the price of the product so an American-made product can compete is called a(n) _____ .
- a. protective
 - b. revenue
 - c. excise
 - d. social

THE UNITED STATES TRIED FOR YEARS TO REMAIN SEPARATE FROM THE PROBLEMS ON THE EUROPEAN CONTINENT. ULTIMATELY, BECAUSE OF WARS AND THE NEED FOR MORE MARKETS FOR AMERICAN PRODUCTS, THE ISOLATIONIST POLICY WAS BROKEN DOWN. AMERICA HAS BECOME A LEADER, NOT ONLY BECAUSE OF HER MILITARY POWER, BUT ALSO BECAUSE HERS IS ONE OF THE MOST STABLE OF THE WORLD ECONOMIES. THE AMERICAN DOLLAR HAS BEEN A STANDARD ON THE WORLD MARKET, BUT WORLD COMPETITION CONTINUES TO BE KEEN AMONG MANY OF THE RISING INDUSTRIAL NATIONS OF THE WORLD.

CASE STUDY: THE MIDDLE EAST

In an earlier lesson, you learned that the United States was established on a Judeo-Christian foundation. America's respect and concern for the nation of Israel has a Biblical basis, for God has promised to bless the nation that blesses His people, the Jews. This has historically been the position taken by America.

This political position has placed the United States in a unique situation, since the growing need for oil has led the country to a great reliance upon several Middle Eastern nations for an ongoing supply of oil. These nations are traditionally enemies of the nation of Israel. Thus, America finds herself in a difficult position between two ideologies that have waged conflict since the earliest of Biblical times.

OBJECTIVES

- *Identify and evaluate the United States' historical economic, ideological, and humanitarian concerns in the Middle East.*
- *Identify and evaluate Middle Eastern antagonism toward the United States (i.e., support of Israel, cultural differences, etc.) and the foreign policy steps taken to address these issues.*
- *Discuss the reasons why some geographical regions, such as the oil fields of the Middle East, tend to be more crucial to the United States in the striving for international balance of economic power.*

VOCABULARY

incentive — something that encourages one to action

HISTORICAL PERSPECTIVE THE JEWISH NATION

America has always held the Jewish people in high regard. Jewish immigrants represent a large population in many cities across the United States. They have established themselves in business and industry, and many have prospered by what they have accomplished. Throughout the nineteenth century and continuing into the twentieth century, Jews were severely persecuted in many countries of the world, including Russia and Germany. With the advent of World War II and the knowledge of the developing Jewish holocaust, the United States became even more supportive of Jewish efforts to establish an independent nation. With the creation of Palestine in 1948, the Jewish people became almost an instant influence in world affairs, particularly as they pertained to the Middle East.

With the support of Great Britain and the United States, the nation of Israel became a force to be reckoned with in the Middle East. For centuries, the Arabic nations of this region had maintained their sov-

ereignty over the region. They were primarily a Muslim people made up of many different countries and ethnic groups. They had known warfare and conflict between the racial and religious groups for years. With the discovery of the vast resources of crude oil within their borders in the early twentieth century, their role in world affairs quickly escalated.

THE ORGANIZATION OF OPEC

Recognizing the importance of their vast supplies of petroleum, seven Arab nations met together on September 17, 1960, and formed what has come to be known as the Organization of Petroleum Exporting Countries, or more commonly known as OPEC. Initially, they met in an attempt to resist the pressure that large US and British oil companies were placing on them to both increase oil production and reduce the cost. By the 1970s, they began to realize the influence that they had, and began to exercise their strength. They have used this power to gain a greater percentage of the profits from the sale of their petroleum products.



OPEC is made up of twelve nations: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. The international headquarters is located in Vienna, Austria. According to their statute, the primary goals of OPEC are:

- to coordinate and unify the petroleum policies of its members and to determine the best means for protecting their interests;
- to develop ways to stabilize the prices of oil in international oil markets;
- to guard the interests of the producing nations for the purpose of securing a steady income to the producing nations;
- to assure an efficient, economical, and regular supply of petroleum to nations that purchase the oil;
- to guarantee a fair income for those who invest in the petroleum industry.

The OPEC nations have about two-thirds of the world's oil reserves. They produce about 40% of the world's petroleum, and they account for about 50% of the export of oil. It is estimated that in 2004 the member nations of OPEC received \$338 billion dollars in revenue from the oil that they exported. Oil on the international market is valued in terms of the American dollar. Following the Gulf War in 1990–1991, oil prices hit bottom at \$10.00 a barrel. By the spring of 2006, oil prices were over \$70 a barrel. The impact on the economy of America and of the world is obvious when one realizes the effect that decisions of OPEC can have upon the cost of petroleum fuel. For the American citizen, the price of gasoline at the local service station is a direct reflection of the international price of oil as determined by the member nations of OPEC. ■



Fill in the blanks with the correct answers.

- 1.40 America has always been supportive of the _____ nation.
- 1.41 The nation of _____ was created in Palestine in 1948.
- 1.42 The term OPEC stands for _____ of _____ .
- 1.43 OPEC is made up of how many nations? _____
- 1.44 The price of oil is based on the cost per _____ .



UNITED STATES RELATIONS WITH OPEC

A look at the OPEC nations reveals that there are countries with whom the United States has friendly relations, but there are some whom the United States considers to be hostile nations. This places America in the very delicate role of maintaining communication with friends within OPEC in order to assure fair and equitable treatment for America in the decisions that they make. As stated above, the support that the United States gives to the nation of Israel, which is basically an enemy of many of the OPEC nations, further compounds the problem of international relations. Nevertheless, America's role as a superpower in the ranks of world nations provides her with a voice that cannot be easily silenced.

America's increased dependence on Middle Eastern oil for industrial plants and auto fuel has led the United States to strive for peaceful relations with the ever-changing leaders of these countries. America frequently has found herself in the middle of conflicts between leaders and groups. With the establishment of the nation of Israel, a new element of conflict was added. As a result, America has been a peace keeper in the region for years, with varying degrees of success. Compounding the problem is the existence of many different racial and ethnic groups throughout the Middle East. These groups cross national boundaries and operate outside of the control and jurisdiction of governments.

MODERN PERSPECTIVE TERROR ON SEPTEMBER 11, 2001

The terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001—often called 9/11—added a new and more dangerous element to America's relationship with the nations of the Middle East. While this region has always been an area of unrest, turmoil, and strife within its own boundaries, increasingly in recent years, the acts of terrorism have reached outside the realms of their own boundaries. Such acts of violence as attacks on American embassies, the capture and holding of hostages, violence on a cruise ship, attack on a naval ship, and the first World Trade Center bombing came with ever increasing frequency. Finally, the terrorist attack in New York City demonstrated the ultimate religious and political hatred that this element holds for Americans and their society. Without regard for age, nationality, race, or religious conviction, the al-Qaeda terrorists indiscriminately took the lives of approximately three thousand innocent American citizens.

SEARCH FOR THE TERRORISTS

Recognizing that the center for the training and organization of these terrorist bands lay in areas of the Middle East, President George W. Bush, acting with approval from the Congress, authorized the use of American troops to destroy these centers of operation. Although the wars in Afghanistan and Iraq were both brought to a successful conclusion, the continued attempts by scattered terrorist



PROJECT 1B: ENVIRONMENTAL POLITICS

OBJECTIVES

- *Identify international, national, and local examples of government policies that affect the physical and human conditions of a place or region.*
- *Analyze the gains and losses incurred by the policy.*
- *Evaluate whether the policy should be maintained and how it can be improved or remedied.*

QUESTIONS

- *How can economic factors affect environmental issues in a given location or region?*
- *How does this impact the lives of those who live in these regions? Are they generally favorable or unfavorable to the economic decisions that may need to be made?*
- *What are negative environmental arguments that may be raised against actions that are being taken for primarily economic reasons?*

PROCESS

In a paper of no less than 500 words, provide examples of government policies and decisions that somehow affect the physical and/or human characteristics of a region. Examples might be: the land management policy in the nation of Brazil, logging of the redwoods in Western United States, drilling for oil in the Arctic National Wildlife Refuge (ANWR), or placement of some freeway in a particular location. Select one example and discuss the arguments for and against pursuing the economic policy as determined by the government or an agency thereof. Take a stand, and defend it.

Adult Check: _____
Initial Date

REVIEW FOR SELF TEST I

Read the section review that follows and look over the objectives and problems in this section to prepare for Self Test I. If you did not complete the problems successfully or are not sure about the information that relates to each objective, review the material again.

When you are ready, take Self Test I. The Self Test will check your understanding of this section. Any items you miss on this test will show what areas you need to restudy.

LESSON 1

GOVERNMENT AND ECONOMICS

The study of economics is a complex investigation of the interaction of many factors: supply, demand, market, and competition, to name a few. This lesson examined the involvement of the United States government from its historical beginnings with the establishment of the First National Bank to its modern organizations and institutions that oversee and monitor economic indicators. Having completed this lesson, you should be better prepared to:

- Describe the role of government in a market economy.
- Describe how government taxes, policies, and programs affect individuals, groups, businesses, and regions.
- Identify and analyze the aims and tools of government fiscal and monetary policies.
- Evaluate the extent to which government policy affects the economy.
- Analyze the influence of the federal government on the American economy.
- Explain how the role of government in a market economy often includes providing for national defense, addressing environmental concerns, defining and enforcing property rights, attempting to make markets more competitive, and protecting consumers' rights.
- Analyze the elements of America's market economy in a global setting.
- Describe the characteristics of different economic systems and institutions.
- Explain how prices affect distribution and allocation in the economy.
- List the roles played by local, state, and national governments in both the public and private sectors of the United States' free enterprise system.
- Analyze government policies that influence the economy at the local, state, and national levels.
- Describe the aims of government fiscal policies (taxation, borrowing, spending) and their influence on production, employment, and price levels.

LESSON 2

INTERNATIONAL ECONOMICS

The United States spent most of the time during the late seventeenth and eighteenth century developing its domestic policies. However, the entrance of the United States into World War I began a new era of America's involvement with the world. Since that time, the United States has become a world leader both in military power and in economic influence. Having completed this lesson, you should be better prepared to:

- Describe how domestic and foreign policies and constitutional principles of the United States affect its relations with the world.
- Identify and discuss basic concepts associated with trade between nations.
- Identify factors that have led to increased international interdependence.
- Identify the major responsibilities of federal government in international policy.
- Evaluate arguments for and against free trade.
- Explain the effects that international trade has on the United States economic and political policies.
- Describe the role of the United States government in helping to set international trade policies.

LESSON 3

CASE STUDY: THE MIDDLE EAST

Probably one of the most prominent examples of the involvement of the United States in the military and economic affairs of the world has been demonstrated in the Middle East. The oil rich countries of the world have been notoriously unstable in their governments. Strife and conflict have plagued the region for years. The establishment of the nation of Israel and America's support of her has compounded the problems of the relationship between the United States and the Arab states. This lesson examined the conflict that continues to the present time in this area of the world. Having completed this lesson, you should be better prepared to:

- Identify and evaluate the United States' historical economic, ideological, and humanitarian concerns in the Middle East.
- Identify and evaluate Middle Eastern antagonism toward the United States (i.e. support of Israel, cultural differences, etc.) and the foreign policy steps taken to address these issues.
- Discuss the reasons why some geographical regions, such as the oil fields of the Middle East, tend to be more crucial to the United States in the striving for international balance of economic power.

SELF TEST I

Fill in the blanks with the correct words from the word list below. Not all words will be used. (3 points each)

capitalistic
central planning
communistic

competition
demand
divided
down

economics
goods
greed
services

socialistic
supply
up

- 1.01 The study of the production of goods and services and the process by which they are distributed is called _____ .
- 1.02 In economic terms, _____ are those items that are produced for someone to purchase.
- 1.03 _____ are the activities for which individuals pay others to perform on their behalf.
- 1.04 Economics is not only concerned with the method by which goods and services are distributed but also in how they are _____ among the individuals who purchase them.
- 1.05 The force that drives a person to purchase a particular product is called _____ .
- 1.06 The willingness of a producer to bring a certain number or amount of a product to the market is called the _____ .
- 1.07 When there are not enough goods on the market for all of the eligible buyers, the price tends to go _____ .
- 1.08 When there are too many goods on the market and not enough buyers, the price tends to go _____ .
- 1.09 When other producers see that a product is selling well and they produce a similar product, they are exercising the principle of _____ .
- 1.010 When the production of goods and services is privately determined, the country is operating under a(n) _____ system.
- 1.011 A system in which the government determines how much of what product will be produced is said to have a(n) _____ system.

Answer True or False. (3 points each)

- 1.012 _____ As a result of the Spanish-American War, Cuba became a possession of the United States.
- 1.013 _____ The establishment of the nation of Israel in the Middle East has helped make for more peaceful relations among the countries there.
- 1.014 _____ The events of 9/11 brought the new element of terrorism on American soil into the international picture.
- 1.015 _____ The goals of President Bush in sending troops to the Middle East were to strike at the bases of the terrorists and to promote the spread of democracy.
- 1.016 _____ No government operates completely under one economic system.
- 1.017 _____ The First National Bank was established by Thomas Jefferson.
- 1.018 _____ The First National Bank was established by the Congress under their implied powers of the Constitution.
- 1.019 _____ The Second Bank of the United States was chartered immediately upon the expiration of the First National Bank.
- 1.020 _____ James Madison decided to approve of the Second Bank because the First National Bank had been passed by Congress and had been successful.
- 1.021 _____ The Supreme Court declared the Second Bank to be constitutional in the case of *McCulloch v. Maryland*.

Circle the letter of the correct answer. (3 points each)

- 1.022 To figure a country's _____ they take the sum of the money received from the exports minus the cost of its imports.
- a. balance of trade
 - b. trade gap
 - c. trade deficit
 - d. trade surplus
- 1.023 A country has a _____ when the money received from its exports is more than the cost of its imports.
- a. balance of trade
 - b. trade gap
 - c. trade deficit
 - d. trade surplus
- 1.024 When a country spends more on its imports more than it receives from its exports, it is said to have a _____ or _____. (6 points for this problem)
- a. balance of trade
 - b. trade gap
 - c. trade deficit
 - d. trade surplus
- 1.025 A tariff that is placed on an import for the purpose of raising funds for the country is called a(n) _____ tariff.
- a. protective
 - b. revenue
 - c. excise
 - d. social

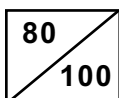
- 1.026 A tariff that is placed on an import for the purpose of raising the price of the product so an American-made product can compete is called a(n) _____ .
- protective
 - revenue
 - excise
 - social

Match each statement to the corresponding letter of the correct word or phrase below. Not all answers will be used. (3 points each)

- | | |
|----------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| 1.027 The standard for determining the value of money on the international market is the _____ . | a. Monroe Doctrine |
| 1.028 The study of international economics requires a knowledge of international foreign _____ and international currency. | b. trade |
| 1.029 The document that established the isolationist policy was called the _____ . | c. Declaration of Independence |
| 1.030 Three economic indicators are unemployment rates, _____ , and Gross Domestic Product. | d. market |
| 1.031 The Middle Eastern nation of _____ was created in 1948. | e. American dollar |
| | f. Gross National Product |
| | g. trade Deficit |
| | h. Israel |
| | i. Iraq |

Short Answers (4 points)

- 1.032 Discuss the complications of fighting the war on terrorism. How does this differ from wars that America has fought in the past?



Score _____
Adult Check _____

Initial Date