



HISTORY & GEOGRAPHY

STUDENT BOOK

▶ **12th Grade** | Unit 6

HISTORY & GEOGRAPHY 1206

FREE ENTERPRISE

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Free Enterprise

Introduction

Mr. and Mrs. Brittingham are discussing some important decisions to make about the purchase of a new car. Mr. Brittingham wants to purchase a Dodge Charger®, but Mrs. Brittingham argues that their **budget** can only afford the purchase of a Ford Focus®. They spend a week shopping around and finally settle on a Chrysler 200®. The Brittinghams have just exercised a healthy dose of **economics** in action. We hear of economics on the evening news. We read of it in the newspaper. We hear people talking about it over lunch. Economics plays such a vital role in the thinking of our society, that it is important that every person be aware of it. But what exactly is “economics?” Economics can be best defined as being the science of producing, distributing, and consuming **goods** or products.

Objectives

Read these objectives. The objectives tell you what you will be able to do when you have successfully completed this LIFEPAAC®. When you have finished this LIFEPAAC, you should be able to:

1. Explain the implications of economics, including the different types of economic systems.
2. Explain the terms commonly used in the subject of economics.
3. Explain how to manage and maintain an economic system, including the challenges involved.
4. Explain how competition between companies works, and identify key terms used.
5. Explain the history and role of unions.
6. Explain the history, purpose, and influence of money.
7. Explain international finance and how it affects everyone.
8. Give a brief history of United States currency.

Survey the LIFEPAAC. Ask yourself some questions about this study and write your questions here.

1. ECONOMIC GROWTH AND FREE ENTERPRISE

Section Objectives

Review these objectives. When you have completed this section, you should be able to:

1. Explain the implications of economics, including the different types of economic systems.
2. Explain the terms commonly used in the subject of economics.
3. Explain how to manage and maintain an economic system, including the challenges involved.

Vocabulary

Study these words to enhance your learning success in this section.

budget	Plans for the use of income and for expenditures for a certain amount of time.
capital	Net worth of a business; assets that include cash on hand, machinery, real estate, and buildings.
capitalism	The freedom of private enterprise with the opportunity to make a profit and risk a loss financially.
communism	A system of total government control over all the financial decisions and operations of the country.
consumption	The use of resources.
economics	The study of finances, resources, and their responsible uses in society.
free enterprise system	The activity of capitalism and the open market of a society.
mixed economy	A combination of governmental control and private enterprise.
resources	Available supply; assets on hand.
selection	The choice of available resources.
supply	Resources that are at hand; available goods.

Note: All vocabulary words in this LIFEPAAC appear in **boldface** print the first time they are used. If you are not sure of the meaning when you are reading, study the definitions given.

ECONOMICS

Economics involves making wise financial decisions. Should you use some of your savings to buy a magazine subscription or save up for that sports jacket you want? Nobody has all the money or all the **resources** they want, so everyone must make choices in **purchases**. We read of the economic challenges to people all over the world. We study it whenever we read of the Russian woman standing in line for three hours to buy a pound of meat for her family. We see it whenever we watch an American television commercial telling us that a new

type of car will make us “feel younger.” Many times we are challenged to make economic decisions between what we want and what we actually need. A need can be defined as the lack of something necessary for one’s existence. For instance, a mother knows her family has a need for food. She wants to make the wisest decisions she can based upon factors such as her household budget, the quality of the supermarket’s food, and the type of meals her family prefers. **Selection** and **consumption** are also dependent upon what is available (supply) and

at what cost (price). God's Word gives high praise to the people who use economics wisely. Proverbs 31 honors the mother who shops carefully (v. 13 and 16), trades wisely (v. 18), and stocks the household pantry (v. 15). Proverbs 28 condemns those who cheat to get wealthy (v. 6 and v. 8) and those who are obsessed with wealth (v. 20), but compliments the man who works at his job diligently (v. 19).

Economic challenges occur to countries as well as families. In this section we will study the different types of economic systems used throughout the world.

Have you ever visited a farmer's market? In your area of the country you may be able to find a farmer's market doing a brisk business during the week-ends. Farmers haggle prices with customers while pickups loaded with anything from watermelons to fresh flowers pull in with their best wares for sale. That is an example of **capitalism** at work. Countries such as the United States and Canada exercise the capitalistic system, which is also called the **free enterprise system**. It is the combination of sellers and buyers who do business, free from government interference. Nobody forces the seller to sell at a certain price. For instance, if Willman's Pharmacy feels it can bring more customers into its store by dropping the price of aspirin by 5 cents a bottle, it has the freedom to do so. Consequently, if Bree-land's Pharmacy across town wishes to be competitive with Willman's Pharmacy by giving a two-for-one sale on hairspray, it is free to make that decision. The American government will not force Breeland's and Willman's to sell all of their aspirin and hairspray at the same price. In the 1700s the Scottish economist Adam Smith wrote of the need for basic economic freedoms which eventually became the building blocks for capitalism. He stressed the importance of letting people pursue a **profit** in business; they can see what **consumers** want. Even though our country does have more government restrictions than Adam Smith would have liked, we have the basics of the free enterprise system in the U.S. Free enterprise, or capitalism, allows the individual to own **capital**. Capital can be business offices, airlines, and housing developments.

A second type of economic system is known as the mixed economy. Great Britain is an example of a



| Farmer's market

country with a mixed economy. In a mixed economy, the government has control over such industries as railroads and coal mines. Although many industries are privately owned, major corporations may be run by the government. The average person has some input in economic decisions, though not as much as in a free enterprise system. The citizens may base their election voting for candidates on new economic challenges and policies facing the nation. The voting may even help decide how much control the government will have in future years.

The third type of economic system is called communism, which is the extreme in government control. Not only does the government decide how much goods will cost, it will also decide what is going to be produced and how much of it will be produced. The shoe store in town will be given the amount of material, the price at which it can be sold and the number of shoes to be assembled in one month. The Soviet Union of decades past was a picture of communism in failure; the government could not keep the goods and **services** in a healthy balance to meet the **supply** and demand of the nation. Cuba is a contemporary example of a communistic economic system. In this type of system, the citizen has virtually no voice in telling the government what they need. As described by Karl Marx in the *Communist Manifesto*, the government takes control of land, communication, transportation, and banking, among other things. The economy is at the mercy of the government from every angle.

THINK ABOUT IT ...

Some nationally known companies claim Christian values and support Christian works. Can you think of any?

**CHECK**

_____ Teacher

_____ Date

THINK ABOUT IT ...

Pretend you were given the right to create a government for an economically depressed nation in order to get it back on its financial feet. Would you choose a *free enterprise system*, a *mixed economy*, or *communism*? How much government control would you want to exert in order to make the economy strong? Discuss the answer with your parents or a fellow classmate.

**CHECK**

_____ Teacher

_____ Date

Match each word with its correct definition.

- | | | | | |
|-----|-------|-------------|----|---|
| 1.1 | _____ | economics | a. | available supply; assets on hand |
| 1.2 | _____ | resources | b. | the use of resources |
| 1.3 | _____ | budget | c. | the study of finances and their responsible uses in society |
| 1.4 | _____ | selection | d. | resources that are at hand, available goods |
| 1.5 | _____ | consumption | e. | plans for the use of income and expenditures for a certain amount of time |
| 1.6 | _____ | supply | f. | the wise choice of available resources |

Complete the following statements.

- 1.7 Proverbs _____ honors the mother who shops carefully (vs. 13 and 16).
- 1.8 The capitalistic system is also called the _____ system.
- 1.9 In a mixed economy, the government has more control over such industries as _____ and _____.
- 1.10 A farmer's market is an example of _____ at work.
- 1.11 In the *Communist Manifesto*, the government takes control of land, communication, transportation, and banking, among other things. The *Manifesto* was written by _____.
- 1.12 Proverbs _____ condemns those who cheat to get wealthy (v. 6 and v. 8) and those who are obsessed with wealth (v. 20), but also compliments the man who works at his job diligently (v. 19).
- 1.13 In the 1700s the Scottish economist _____ wrote of the need for basic economic freedoms which eventually became the building blocks for capitalism.

Answer true or false.

1.14 _____ Cuba is a contemporary example of a communistic economic system.

Match the letter of the correct answer on the blank.

1.15 Economics can be best defined as being the science of producing, distributing, and _____ .
a. marketing of currency
b. creation of coinage
c. consuming goods or products

Mark three types of economic systems.

1.16 a. _____ communism
b. _____ free agency
c. _____ mixed economy
d. _____ subscription
e. _____ capitalistic
f. _____ cable-line
g. _____ currency

Vocabulary

Study these words to enhance your learning success in this section.

consumer A person who makes purchases and uses goods and services.

goods Merchandise or products bought and sold.

inflation Purchasing power of the dollar weakens on a continual basis.

Law of Supply and Demand Price on an item rises with increased demand, and the price falls when the supply increases.

market The business of buying and selling.

monopoly The only seller of a particular good or service in a market.

profit What a business has earned above all costs.

purchases To obtain an item through the use of money or an equivalent currency.

self-employed Where the employer runs his own business and benefits from his own profits.

services A job where work is done for others.

ECONOMIC TERMS

Let's look at some terms which play an important part in the overall study of economics.

Law of Supply and Demand. Let's say that Hartman's Candy Company comes out with a new candy bar called the Chocolate Bomb. The combination of chocolate and peanut butter is so incredibly delicious that it becomes a national hit. When the Chocolate Bomb is first introduced, the original price suggested by the manufacturer is 75 cents a bar. But Lazer Supermarket in Kansas City has people begging for as many Chocolate Bombs as the store has. Therefore, Lazer Supermarkets raises the prices on the available Chocolate Bombs it has left on the shelf. They increase prices from 75 cents to \$1.50 ... and nobody cares. They buy it anyway. This is an example of the Law of Supply and Demand, which states that if other forces do not change, the price of an item will rise with increased demand, and the price will fall when the supply of goods increase. Some real-life examples of high-demand of products when they first entered the market are Bubble Yum®, SnackWells® cookies, and Cabbage Patch Kids® dolls. Prices rose for these products when consumer demand was high. The higher the demand, the higher a price can be put on the item. Think of it; a baseball can be bought for around \$5, but since only one baseball was hit for season home run number 70 by Mark McGwire, the demand for that baseball rose to over 3 million dollars!

On the other hand, if a product has almost no response from the market, the price will drop. Let's say that although Lazer Supermarket in Kansas City sells the Chocolate Bombs all throughout the day, Rocket Supermarkets in Denver cannot sell even one. The manager of the store is forced to lower the price to 40 cents a bar before any are sold. The demand was low; the price went down. This is another example of the Law of Supply and Demand.

Profits are what a business has earned above all costs. If **self-employed** businessman Robert Conwell of Conwell Toys can make a G.I. toy truck for a total cost of \$3 to his small family business while selling it for \$7, his profit is \$4 per toy truck. Profits are what Mr. Conwell's business makes over all of his costs. You may hear of corporations reporting quarterly earnings and profits in the millions of dollars and then find out that they sustained a loss in the very next quarterly report. Investments, risk-taking, expanding, and labor relations all play a significant part in a business's profit earning.

Consumer. A consumer is a person who makes purchases. A consumer uses goods and services. Seventy-year-old Mr. DeWitt Harris purchases a fifty-acre ranch in Arizona. He is a consumer. Five-year-old Bobby Mellore buys a package of gum. He is also a consumer.

You might say that a consumer is like a voter and that each purchase he makes is a vote. Businesses will respond to how the buying public reacts to a new product. The purchases are carefully monitored by companies so that they may know what is popular. Companies will also spend fantastic amounts of money in order to find out what consumers want. In the early 1970s, the Life Savers® Company spent considerable amounts of time and money to discover that many people didn't enjoy the hardness of regular bubble gum. They labored and invested to produce a soft bubble gum called Bubble Yum. This new treat, introduced in 1976, was the first soft bubble gum to hit the market and was an instant success with children and teenagers. The response was so overwhelming and sales of the candy quickly soared to such a level that the company could not keep up. The manufacturer had to cut back advertising in order to slow demand and allow production to keep up with the demand! The consumer "votes" were clear: we like soft bubble gum.

Monopoly. Pretend that a company called TechnoKitchen puts out a new type of a machine called a Freezap which is the opposite of a microwave: instead of heating food quickly, it freezes food within a minute. The demand for the product is amazing. TechnoKitchen sells the Freezap for \$3,000 a unit, since no other company has the **technology** to invent such a machine. TechnoKitchen sells the only type of this machine in the market. Since they are the only seller, we say that a monopoly exists with TechnoKitchen.

Inflation. When prices in a national economy increase on a continual basis, we say that inflation has affected that country. If in a nation the price of gas, milk, meat, paper, and sugar have all doubled, we have a pretty good idea that inflation has hit that country's economy. Mexico has been having a struggle trying to keep inflation under control. Through the decades they have seen the value of the peso rise and fall. As of 1999, a **dollar** could buy 8 Mexican pesos, but in 2017 a dollar could buy as many as 17 pesos. Inflation will hurt a nation's currency strength as it is matched against other currencies of the world.



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