

# ECONOMICS

**EFFECTIVE ECONOMIC DECISION** making requires that students have a keen understanding of the ways in which individuals, businesses, governments, and societies make decisions to allocate human capital, physical capital, and natural resources among alternative uses. This economic reasoning process involves the consideration of costs and benefits with the ultimate goal of making decisions that will enable individuals and societies to be as well off as possible. The study of economics provides students with the concepts and tools necessary for an economic way of thinking and helps students understand the interaction of buyers and sellers in markets, workings of the national economy, and interactions within the global marketplace.

Economics is grounded in knowledge about how people choose to use resources. Economic understanding helps individuals, businesses, governments, and societies choose what resources to devote to work, to school, and to leisure; how many dollars to spend, and how many to save; and how to make informed decisions in a wide variety of contexts. Economic reasoning and skillful use of economic tools draw upon a strong base of knowledge about human capital, land, investments, money, income and production, taxes, and government expenditures.

## Economic Decision Making

People make decisions about how to use scarce resources to maximize the well-being of individuals and society. Economic decision making involves setting goals and identifying the resources available to achieve those goals. Alternative ways to use the resources are investigated in terms of their advantages and disadvantages. Since most choices involve a little more of one thing and a little less of something else, economic decision making includes weighing the

additional benefit of an action against the additional cost. Investigating the incentives that motivate people is an essential part of analyzing economic decision making.

*Indicators of Dimension 2—Economic Decision Making—are detailed in the suggested K-12 Pathway for College, Career, and Civic Readiness in Table 12.*

**TABLE 12: Suggested K-12 Pathway for College, Career, and Civic Readiness  
Dimension 2, Economic Decision Making**

BY THE END OF GRADE 2	BY THE END OF GRADE 5	BY THE END OF GRADE 8	BY THE END OF GRADE 12
INDIVIDUALLY AND WITH OTHERS, STUDENTS...			
<b>D2.Eco.1.K-2.</b> Explain how scarcity necessitates decision making.	<b>D2.Eco.1.3-5.</b> Compare the benefits and costs of individual choices.	<b>D2.Eco.1.6-8.</b> Explain how economic decisions affect the well-being of individuals, businesses, and society.	<b>D2.Eco.1.9-12.</b> Analyze how incentives influence choices that may result in policies with a range of costs and benefits for different groups.
<b>D2.Eco.2.K-2.</b> Identify the benefits and costs of making various personal decisions.	<b>D2.Eco.2.3-5.</b> Identify positive and negative incentives that influence the decisions people make.	<b>D2.Eco.2.6-8.</b> Evaluate alternative approaches or solutions to current economic issues in terms of benefits and costs for different groups and society as a whole.	<b>D2.Eco.2.9-12.</b> Use marginal benefits and marginal costs to construct an argument for or against an approach or solution to an economic issue.

## Exchange and Markets

People voluntarily exchange goods and services when both parties expect to gain as a result of the trade. Markets exist to facilitate the exchange of goods and services. When buyers and sellers interact in well-functioning, competitive markets, prices are determined that reflect the relative scarcity of the goods and services in the market. The principles of markets apply to markets for goods and services, labor, credit,

foreign exchange, and others. Comparison of benefits and costs helps identify the circumstances under which government action in markets is in the best interest of society and when it is not.

*Indicators of Dimension 2—Exchange and Markets—are detailed in the suggested K-12 Pathway for College, Career, and Civic Readiness in Table 13.*

**TABLE 13: Suggested K-12 Pathway for College, Career, and Civic Readiness  
Dimension 2, Exchange and Markets**

BY THE END OF GRADE 2	BY THE END OF GRADE 5	BY THE END OF GRADE 8	BY THE END OF GRADE 12
INDIVIDUALLY AND WITH OTHERS, STUDENTS...			
<b>D2.Eco.3.K-2.</b> Describe the skills and knowledge required to produce certain goods and services.	<b>D2.Eco.3.3-5.</b> Identify examples of the variety of resources (human capital, physical capital, and natural resources) that are used to produce goods and services.	<b>D2.Eco.3.6-8.</b> Explain the roles of buyers and sellers in product, labor, and financial markets.	<b>D2.Eco.3.9-12.</b> Analyze the ways in which incentives influence what is produced and distributed in a market system.
<b>D2.Eco.4.K-2.</b> Describe the goods and services that people in the local community produce and those that are produced in other communities.	<b>D2.Eco.4.3-5.</b> Explain why individuals and businesses specialize and trade.	<b>D2.Eco.4.6-8.</b> Describe the role of competition in the determination of prices and wages in a market economy.	<b>D2.Eco.4.9-12.</b> Evaluate the extent to which competition among sellers and among buyers exists in specific markets.
<b>D2.Eco.5.K-2.</b> Identify prices of products in a local market.	<b>D2.Eco.5.3-5.</b> Explain the role of money in making exchange easier.	<b>D2.Eco.5.6-8.</b> Explain ways in which money facilitates exchange by reducing transactional costs.	<b>D2.Eco.5.9-12.</b> Describe the consequences of competition in specific markets.
<b>D2.Eco.6.K-2.</b> Explain how people earn income.	<b>D2.Eco.6.3-5.</b> Explain the relationship between investment in human capital, productivity, and future incomes.	<b>D2.Eco.6.6-8.</b> Explain how changes in supply and demand cause changes in prices and quantities of goods and services, labor, credit, and foreign currencies.	<b>D2.Eco.6.9-12.</b> Generate possible explanations for a government role in markets when market inefficiencies exist.
<b>D2.Eco.7.K-2.</b> Describe examples of costs of production.	<b>D2.Eco.7.3-5.</b> Explain how profits influence sellers in markets.	<b>D2.Eco.7.6-8.</b> Analyze the role of innovation and entrepreneurship in a market economy.	<b>D2.Eco.7.9-12.</b> Use benefits and costs to evaluate the effectiveness of government policies to improve market outcomes.
<i>Begins in grades 3-5</i>	<b>D2.Eco.8.3-5.</b> Identify examples of external benefits and costs.	<b>D2.Eco.8.6-8.</b> Explain how external benefits and costs influence market outcomes.	<b>D2.Eco.8.9-12.</b> Describe the possible consequences, both intended and unintended, of government policies to improve market outcomes.
<b>D2.Eco.9.K-2.</b> Describe the role of banks in an economy.	<b>D2.Eco.9.3-5.</b> Describe the role of other financial institutions in an economy.	<b>D2.Eco.9.6-8.</b> Describe the roles of institutions such as corporations, non-profits, and labor unions in a market economy.	<b>D2.Eco.9.9-12.</b> Describe the roles of institutions such as clearly defined property rights and the rule of law in a market economy.

## The National Economy

Changes in the amounts and qualities of human capital, physical capital, and natural resources influence current and future economic conditions and standards of living. All markets working together influence economic growth and fluctuations in well-being. Monetary and fiscal policies are often designed and used in attempts to moderate fluctuations and encourage growth under a wide variety of circumstances. Policies changing the growth in the money supply and overall levels of spending in the economy are aimed

at reducing inflationary or deflationary pressures; increasing employment or decreasing unemployment levels; and increasing economic growth over time. Policies designed to achieve alternative goals often have unintended effects on levels of inflation, employment, and growth.

*Indicators of Dimension 2—The National Economy—are detailed in the suggested K-12 Pathway for College, Career, and Civic Readiness in Table 14.*

**TABLE 14: Suggested K-12 Pathway for College, Career, and Civic Readiness  
Dimension 2, The National Economy**

BY THE END OF GRADE 2	BY THE END OF GRADE 5	BY THE END OF GRADE 8	BY THE END OF GRADE 12
INDIVIDUALLY AND WITH OTHERS, STUDENTS...			
<b>D2.Eco.10.K-2.</b> Explain why people save.	<b>D2.Eco.10.3-5.</b> Explain what interest rates are.	<b>D2.Eco.10.6-8.</b> Explain the influence of changes in interest rates on borrowing and investing.	<b>D2.Eco.10.9-12.</b> Use current data to explain the influence of changes in spending, production, and the money supply on various economic conditions.
<i>Begins in grades 3–5</i>	<b>D2.Eco.11.3-5.</b> Explain the meaning of inflation, deflation, and unemployment.	<b>D2.Eco.11.6-8.</b> Use appropriate data to evaluate the state of employment, unemployment, inflation, total production, income, and economic growth in the economy.	<b>D2.Eco.11.9-12.</b> Use economic indicators to analyze the current and future state of the economy.
<b>D2.Eco.12.K-2.</b> Describe examples of the goods and services that governments provide.	<b>D2.Eco.12.3-5.</b> Explain the ways in which the government pays for the goods and services it provides.	<b>D2.Eco.12.6-8.</b> Explain how inflation, deflation, and unemployment affect different groups.	<b>D2.Eco.12.9-12.</b> Evaluate the selection of monetary and fiscal policies in a variety of economic conditions.
<b>D2.Eco.13.K-2.</b> Describe examples of capital goods and human capital.	<b>D2.Eco.13.3-5.</b> Describe ways people can increase productivity by using improved capital goods and improving their human capital.	<b>D2.Eco.13.6-8.</b> Explain why standards of living increase as productivity improves.	<b>D2.Eco.13.9-12.</b> Explain why advancements in technology and investments in capital goods and human capital increase economic growth and standards of living.

## The Global Economy

Economic globalization occurs with cross-border movement of goods, services, technology, information, and human, physical, and financial capital. Understanding why people specialize and trade, and how that leads to increased economic interdependence, are fundamental steps in understanding how the world economy functions. While trade provides significant benefits, it is not without costs. Comparing

those benefits and costs is essential in evaluating policies to influence trade among individuals and businesses in different countries.

*Indicators of Dimension 2—The Global Economy—are detailed in the suggested K-12 Pathway for College, Career, and Civic Readiness in Table 15.*

**TABLE 15: Suggested K-12 Pathway for College, Career, and Civic Readiness Dimension 2, The Global Economy**

BY THE END OF GRADE 2	BY THE END OF GRADE 5	BY THE END OF GRADE 8	BY THE END OF GRADE 12
INDIVIDUALLY AND WITH OTHERS, STUDENTS...			
<b>D2.Eco.14.K-2.</b> Describe why people in one country trade goods and services with people in other countries.	<b>D2.Eco.14.3-5.</b> Explain how trade leads to increasing economic interdependence among nations.	<b>D2.Eco.14.6-8.</b> Explain barriers to trade and how those barriers influence trade among nations.	<b>D2.Eco.14.9-12.</b> Analyze the role of comparative advantage in international trade of goods and services.
<b>D2.Eco.15.K-2.</b> Describe products that are produced abroad and sold domestically and products that are produced domestically and sold abroad.	<b>D2.Eco.15.3-5.</b> Explain the effects of increasing economic interdependence on different groups within participating nations.	<b>D2.Eco.15.6-8.</b> Explain the benefits and the costs of trade policies to individuals, businesses, and society.	<b>D2.Eco.15.9-12.</b> Explain how current globalization trends and policies affect economic growth, labor markets, rights of citizens, the environment, and resource and income distribution in different nations.