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Understanding Economics

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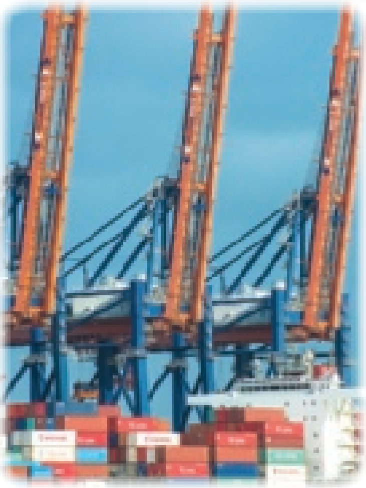

Wants and needs

Global economy

Selling goods

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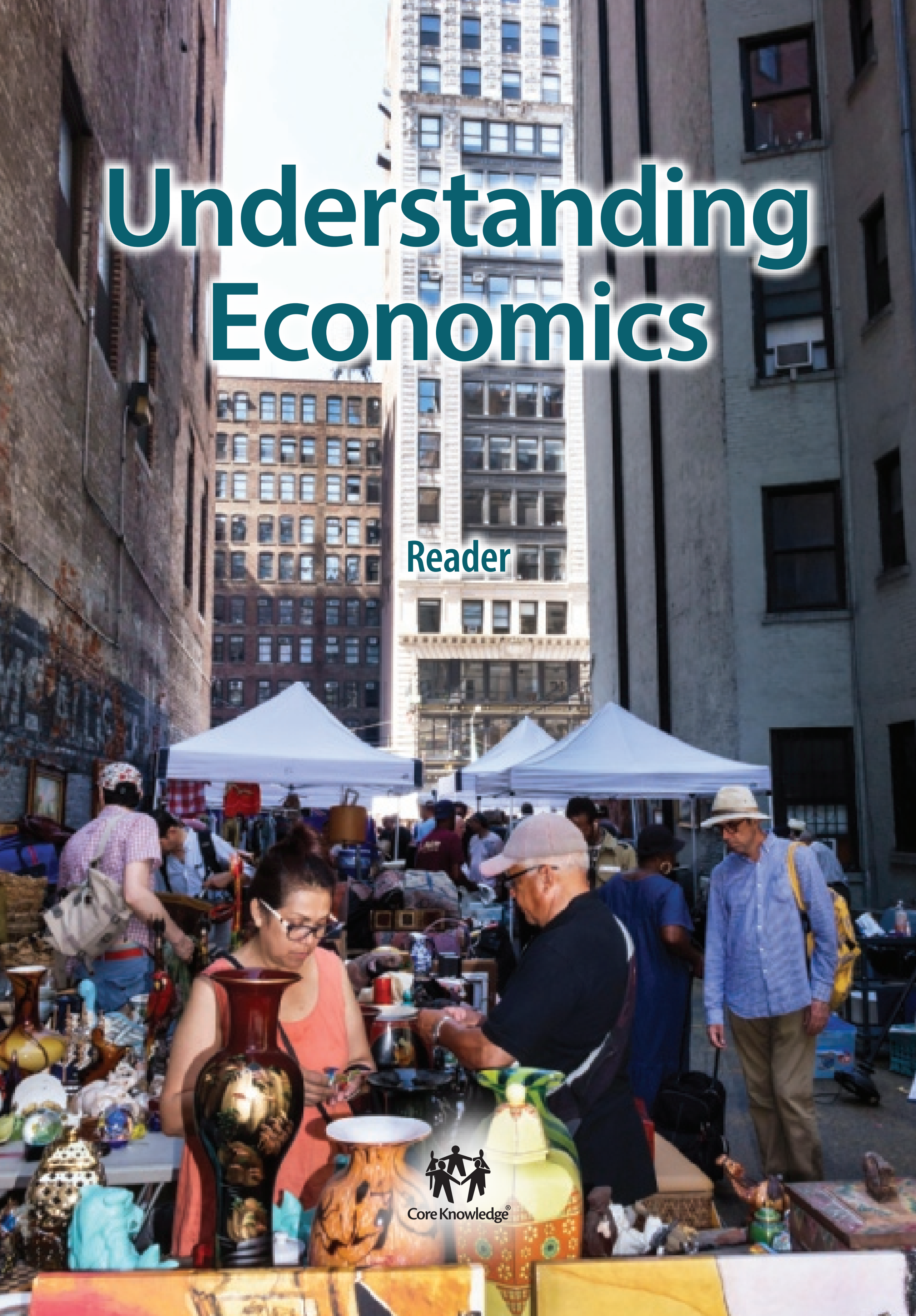

Core Knowledge®

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Understanding Economics

Table of Contents

Chapter 1
What Is an Economy?

> **The Big Question**
>
> How do communities meet their needs and wants?

Needs and Wants When was the last time you went to a store and bought something? Did you really need what you bought? Or did you buy something simply because you wanted to have it? People buy all kinds of things every day, but every purchase they make can be placed in one of two categories: items they need and items they want.

A need is something we require to survive. Food, shelter, and clothing have always been considered the most pressing needs. Over time, education has come to be considered a need because it improves a person's quality of life. Healthcare is also a need. It also improves a person's quality of life and can provide lifesaving treatment.

Most other items are wants. Wants are items that people enjoy having but are not essential to their survival. While basic survival needs are the same for everyone, wants vary among people, cultures, and locations. Together, needs and wants determine the items and services that drive an **economy**.

> **Vocabulary**
>
> **economy**, n. the way a country manages its money and resources to produce, buy, and sell goods and services

Everyone needs food to live.

It can be easy to categorize needs and wants incorrectly. Needs and wants vary not only according to the individual but also over the course of a person's lifetime. There are also wants that a person becomes so accustomed to that they seem like needs. These might include cable television or a yearly vacation. In order to pay for our needs, we must have money. We need money to pay rent or a **mortgage**; for the cost of **commuting** to work, whether in a car or on public transportation; for buying or growing food; and for access to healthcare providers and medication. Wants are things that we can live without, such as a gym membership, going out to eat, or the newest phone.

Vocabulary

mortgage, n. a legal agreement in which a person borrows money to buy a house and pays back the money over time

commute, v. to travel regularly to and from a place of work

capital, n. the money needed to pay for a workforce, machinery, and other equipment to support the development and growth of a business

Resources

All needs and wants are produced using resources. Resources are a stock or supply of something used to create a new product or service that meets human needs and wants. There are different types of resources, including natural, human, and **capital** resources.

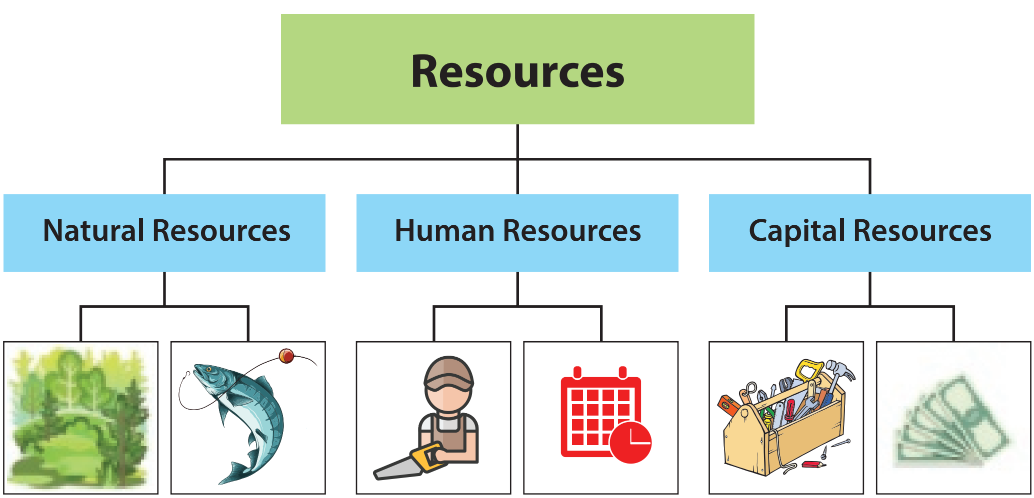
Natural resources are those that come from nature. They cannot be produced by humans. Water, air, fish, and wood are examples of natural resources. Fish, wood, and sunlight are examples of renewable natural resources, meaning that they are capable of being reproduced or replenished so they will not run out. **Raw materials** are natural resources that have to be processed before use. These include minerals, metals, and oil. After oil is removed from underground, for example, it is refined for use as a fuel or to make other products. Minerals and oil are nonrenewable resources. These will eventually run out.

Vocabulary

raw materials, n. substances used in the primary production or manufacture of goods

Human resources are the people who use their skills and experience and put in the time to produce a good or service. In simple terms, human resources are the workforce. Human *capital* is the value of a worker's skills, training, and experience. Human resources are necessary for the development of an economy and its businesses.

Capital resources are those items that are required to create goods or provide services. Capital resources include money, tools, machinery, workplaces, and equipment.



Types of resources include natural, human, and capital.

It's important to remember that resources are not evenly distributed around the world. For example, some places are rich in mineral or oil deposits. Others have access to large bodies of water where many types of fish live. Some cities or countries are more populated or have highly educated people and thus have a wider range of human resources.

Let's think about resources in terms of building a home. To build a home, you would need capital resources—money to buy materials and tools for building. What materials would you buy? You'd need wood and metal to build the frame of the home. These are natural resources manufactured into boards and beams. Whom would you hire to build the home? Experienced contractors, plumbers, electricians, and carpenters are the human resources who build homes.

Workers like this one are human resources.

Goods and Services

Goods and services are what are produced by an economy using its natural, human, and capital resources. Goods are **tangible** things that can be sold, like a house. Services

> **Vocabulary**
>
> **tangible**, adj. capable of being touched

Bus drivers provide an important service for students.

are processes or tasks carried out by people for customers. Clothes, cars, and food are goods. Laundering clothes, cutting hair, and wiring a new home for appliances are examples of services.

Think about the goods and services that you use every day. You wake up and eat breakfast, which usually consists of goods purchased from the supermarket. You brush your teeth with toothpaste and a toothbrush that were also produced and purchased. Next, you might leave for school on a bus. Driving the bus is a service provided by your driver, which is paid for by either your local or state government. You arrive at school and are taught by teachers, who are also performing a service.

Consumers and Producers

The economy in most communities is based on creating products and services and selling them. Consumers are people who buy

Producers hope to make products that consumers want to purchase.

goods and services that meet their needs and wants. We are all consumers. Producers are those individuals or companies who make goods or provide services. A group of companies that produce a certain type of good or service is called an industry. For example, the fashion industry makes and sells different kinds of clothing. Companies within the fashion industry compete for customers who will buy their products.

In every economy, decisions must be made about what to produce. These decisions are made based on what consumers demand. Do consumers need more heating oil this winter than last? If so, producers and providers of heating oil will need to respond to that increased demand. Do consumers want more of the most popular fashion from last year, or have they moved on to another look? Clothing designers, producers, and sellers will have

Not all purchases make sense for all consumers.

to decide how to respond to what consumers want to buy. After all, producers that spend time and money on goods and services that consumers don't want tend to go out of business.

Decisions about what to produce are also based on the available resources of any given place. As you have learned, resources are not evenly distributed. Some places have limited amounts of certain resources. So the basic problem of every economy boils down to making decisions about what to produce, how to produce it, and for whom to produce it. Ideally, the amount of a product made will match the amount of the product that people want or need.

> **Vocabulary**
>
> **labor**, n. the work needed to create a good or provide a service; the people who perform that work

How to produce something depends on several factors. For example, which raw materials will be used and how? What production processes are most efficient? Where will the goods be produced? How much **labor** is required? How much does the labor cost? How will the final product get to consumers? Most often, producers, like farmers, manufacturers, or food service providers, will choose the method that produces the most goods in the most cost-effective manner. If a good or service does not have a market—a specific group of potential consumers within a community—for its goods, it does not make sense for a producer to provide it.

Many producers play another important role in an economy—they are **entrepreneurs**. This means that they start new businesses. They are responsible for making the decisions that you just read about: what to make, how to make it, and for whom to make it. To that end, they take initiative when it comes to deciding how to use resources. They engage human resources—employees—and decide how these people will spend their time and what they should be paid for their skill sets. Entrepreneurs also make decisions about how to transport their products in the most cost-effective way, as well as how to market their products.

> **Vocabulary**
>
> **entrepreneur**, n. a person who starts a business and is willing to risk loss in order to make money

Sometimes the most cost-effective way to produce is to specialize in a certain product. Specialization is a type of production that focuses on one good or a small number of goods, thereby increasing efficiency. This might occur in a country that makes or grows something easily, like bananas or coffee. Specialization can also occur within a region of a country. In the United States, for example, many midwestern states specialize in growing grains.

Inside and Outside Forces in the Economy

Each part of the economy relies on other parts. This is called **interdependence**. Think about the last time you bought food. You likely went to a grocery store. If you bought fruits and vegetables, they came from farms that sold the produce directly to the store or to a distributor. A distributor is a company that buys goods from a producer and sells them to customers such as grocery stores. If you purchased packaged goods, those came from companies that processed and packaged the food and then sold it to the store or to a distributor.

> **Vocabulary**
>
> **interdependence**, n. the state of being related in such a way that each needs or depends on the other

Finally, the supermarket that sold the food also made money by charging more than it paid for the goods. The supermarket must cover the costs of running a business, which include paying staff. What's left over after all expenses are paid is referred to as **profit**. When lots of people buy food, the producers, processors, distributors, and grocery stores have the means to keep operating and keep shelves stocked for consumers. Because of interdependence, the prices of goods on store shelves can change over time. An increase in the price of raw materials, for example, will force a producer or distributor to increase the price of a product.

> **Vocabulary**
>
> **profit**, n. the money that is made by a business once all expenses have been paid

There are also side effects of producing and consuming goods and services that don't affect the direct consumers of the goods and services. These are referred to as **externalities**. Externalities can be either positive or negative. For example, a factory producing goods might pollute the surrounding area. This is a negative externality that creates a cost to the surrounding area. However, this does not impact the producer or the consumer, so the cost of the good remains the same. An example of a positive externality is a colony of bees kept for producing honey that also pollinates surrounding crops, which leads to an increase in seeds and thus more plants.

Beekeeper with a bee colony

> **Vocabulary**
>
> **externality**, n. a consequence of a commercial activity that affects other parties without impacting the cost of the goods

Identifying a Need

Think about your own community. What are some of the most pressing economic issues for residents? Are there senior citizens or veterans who have a hard time meeting their basic needs? Are there refugee families who have been displaced and need stability? Read this case study to learn about one place where people worked to solve a local problem.

A Case Study in Addressing a Need: Nourish + Bloom Market®

Jamie and Jilea Hemmings of Fayetteville, Georgia, saw a problem in their community. The people in Fayetteville had limited access to groceries; the closest supermarket was a fifteen-minute drive away. To solve this problem, Jamie and Jilea Hemmings opened the first Black-owned, "autonomous" supermarket in the world, Nourish + Bloom Market®. An autonomous supermarket is one in which customers create an account on a smartphone app, and when they select items in the store, the app registers their choices. There is no waiting in line or checking out at a cash register. Payment is automatically processed through customers' cell phones. The process is completely automated and even includes robotic delivery for those unable to come to the store.

The Hemmingses identified needs and wants in their local community and then created a way to meet them. Nourish + Bloom® provides an array of healthy, organic food choices in a fast and efficient manner—much faster than driving fifteen minutes to another supermarket.

In an autonomous supermarket, consumers scan purchases with their cell phones.

Chapter 2
Making Economic Choices

Scarcity Have you ever thought about why certain items sell out and others don't? Imagine that you have been saving money for months because you want to buy a new game. You finally have enough money, so you head to the store, only to find that the game you wanted is sold out.

The Big Question

How do people with limited resources make economic choices?

Items sell out when demand, or desire, for a good exceeds the amount of the good that is available. Sometimes this is because the item is considered valuable. Value sometimes depends on where an item is being sold. Do you think warm coats and gloves sell out in South Florida? What about air conditioners during a hot summer? *Scarcity* is the term used in economics for when there are not enough resources to meet people's wants and needs. A surplus is the opposite of scarcity. A surplus means that there is more of an item than people want or need.

At the end of winter, prices for coats drop because people no longer need them.

Remember that resources are limited and not evenly distributed. When an item becomes scarce due to limited resources, the price is often affected. Sometimes a higher price is set for an item that is severely limited in supply, and producers know that consumers will pay the higher price because they want the item. As a result, this scarce item increases in value. Gas is a good example. People are often willing to pay higher prices for gas because they still need to drive to work and to appointments. However, if an item becomes **prohibitively** expensive, some consumers will be unable to buy it. If gas prices increase too much, some people will switch to public transportation, carpool, or try to work from home. They may avoid any unnecessary travel.

Sometimes a government will decide to **import** certain resources that are in low supply, which can help reduce scarcity. Then decisions are made about how to distribute and efficiently use the resources in a way that will maximize profits for companies using the resources.

Vocabulary

prohibitively, adv. done in a way that prevents something from happening

import, v. to bring into one country from another country

Trade-Offs and Opportunity Costs

Making decisions based on scarcity usually involves trade-offs. In economics, a trade-off means that if you choose to purchase something, you are going to have to sacrifice something else. How do you decide if that sacrifice is worth it? When choosing whether or not to give something up, you should consider the **opportunity cost**.

> **Vocabulary**
>
> **opportunity cost**, n. the value of the option that was not chosen whenever a choice is made

For example, imagine you and your older sibling have been offered an opportunity to dog-sit for an evening, and in return, you will be paid. Then your friend invites you to a movie night. You want to make money, but you also want to spend time with your friends. The decision you make requires a trade-off because you cannot do both. You have to decide what to do based on what is more valuable to you. Either decision in this trade-off has an opportunity cost. If you decide to dog-sit, you will earn money, but you will miss out on time with your friends. If you decide to go to the movie, you will lose the opportunity to earn money.

Businesses must make these same types of decisions. An example would be a business that has a greater-than-predicted profit in a particular year. Its leaders need to decide how to invest that profit. Should they buy new equipment? Or should they invest in their employees by providing more training? Either choice involves giving up the benefits of the other choice. In business, making smart trade-offs based on opportunity costs is often the key to having a successful business.

Incentives

An incentive is something that encourages someone to make a trade-off. An economic incentive is one that involves money as a motivation for making a decision, such as a

discount or a coupon for an item. Say you are buying a new pair of jeans. You find a pair that you love, but another pair is on sale for half price. You decide to purchase the half-price jeans because it will save you money. The opportunity cost is the pair of jeans that were not purchased. A basic example of an incentive in the larger economy is a salary for the work you do. A paycheck motivates people to go to work. The opportunity to earn a higher salary might be an incentive to move to another job.

> **Vocabulary**
>
> **discount**, n. an amount taken off a regular price

There are also incentives to buy things based on what is going on around you. Remember the game you wanted to buy? You might have become interested in it because of a good marketing campaign. Or you might have wanted it because your friends were buying it. Still, you might wait to buy it until you see the right incentive, such as a seasonal sale.

Coupons provide incentives to customers to buy certain products.

Discounts and high salaries are positive incentives because they offer something in return. But there are also negative incentives, when a person or business will experience an undesirable outcome unless they take a certain action. An example of a negative incentive is that you may lose your job if you arrive late to work too many times. An everyday example of a negative incentive is having to pay a speeding ticket after driving too fast.

Supply and Demand

Once again, think back to the example of the game you wanted that was sold out. Why did this happen? The supply of a product is the total amount that a producer offers to consumers at one time. The demand is how much want or need exists for that product. A product sells out when the demand for it exceeds its supply. *Supply and demand* is the relationship between how much of something producers make and hope to sell and how much consumers are willing to buy. This relationship determines the prices of goods and services. Typically, the price of a good or service strikes a balance between how much producers want to sell the good for and how much consumers are willing to spend. This is called the **equilibrium price**. When supply and demand are in equilibrium in an economy, the amount of a good or service that producers are supplying is equal to the amount that consumers currently demand.

Vocabulary

equilibrium price, n. in economics, the price at which supply equals demand

A cold cup of lemonade will be in high demand on a hot day.

The price for goods is not always in equilibrium, however. Let's say a raw material for a certain product goes up in price. When that happens, the producer has to increase the price of the end product, such as a dining table. This could result in a decrease in consumer demand because people are making trade-offs based on the amount of money they are willing to spend. In other words, they don't want to spend that much money for the product. As a result, the supply of the product will go up because fewer people are buying it. Conversely, if the price of a product drops, demand may go up because the product is more affordable. This will result in decreased supply.

Now, supply and demand do not always move up and down in perfect proportion. Some demands are **elastic**. The elasticity of a product is the degree to which a change in price affects supply and demand. Other demands are inelastic, meaning that a change in price results in only a small change in the quantity demanded. Inelastic products include basic necessities because it is difficult to go for too long without them. For example, even if the price of food rises, people still need to buy food. Products with high elasticity will have larger changes in demand due to the prices set by producers. A new pool is an example of a product with a high elasticity because it is not a necessity. Most consumers are willing to wait until the price of installing a pool decreases. Many factors can affect elasticity, such as individual income and a consumer's willingness to make a trade-off.

Vocabulary

elastic, adj. able to be changed; flexible

The demand for food is inelastic because food is a need.

People may be able to get a grill for a reduced price after summer.

Tracking supply and demand is important because it helps businesses and economists predict market conditions, and it helps consumers make buying decisions. Let's say your family needs a new grill but can do without one for a while. You know that your local hardware store has a **glut** of grills that it has not sold over the summer season. You might decide to wait until the end of the summer to buy a grill because they will go on sale when the store owner needs to sell their supply of grills.

> **Vocabulary**
>
> **glut**, n. a supply of something that is much more than is needed or wanted
>
> **budget**, n. an amount of money available for spending based on a plan for how it will be spent

Budgets

Paying attention to supply and demand can help us when we are trying to stick to a **budget**. Most people have a limited amount of money they can spend over the course of a week or a month. This is where decision-making and trade-offs come in. People generally make financial decisions based on their personal needs and wants. Some people do not want to spend large amounts of money on material things. They might save their money for college or a dream vacation. Others enjoy spending money on the latest gadget or home improvement. These kinds of decisions vary from person to person. But everyone, no matter how much they have to spend, has to deal with the most basic economic decision: how to satisfy their wants and needs with a limited amount of resources.

Planning your spending can help you save money in the long run.

Chapter 3
Exchange

> **The Big Question**
> How do people purchase goods and services?

Paying for Goods Imagine you're in a store, and you have a list of things you need to buy. As you walk around the store, you make decisions about what you're going to purchase, and you gather your goods. Afterward, you pay for your goods. But how do you pay for them? Do you give the cashier cash? Do you use a bank card? Are the goods purchased digitally through an app on a cell phone? Today, people have several ways to pay for the things they buy.

One way to get goods or services is to barter, or trade. Bartering was a primary means of exchange in earlier history. For example, in the ancient world, people bartered natural resources for other natural resources, handmade goods, and even food.

Bartering requires that both parties agree that the estimated values of the goods or services to be exchanged are equal. In a modern-day example, a plumber might install a new kitchen sink for a friend. In return, that tech-savvy friend might build the plumber a website so that they can advertise their services.

The ancient city of Carthage was located in what is today Tunisia, in North Africa. Because of its location on the Mediterranean, it was a center for the exchange of goods.

Money and Credit

We might not think very much about the actual paper and coins we use to pay for things. Money hasn't always been paper and coins, though. Money is any object that is widely accepted as payment, and it has taken many different forms through the centuries. The first objects used in the Americas as money were those that were rare, such as mother-of-pearl shells. The fact that they were rare meant that **circulation** could be controlled, and they were valuable.

> **Vocabulary**
>
> **circulation**, n. the act of passing something, such as money, from person to person or place to place

Money has a few important features. One is that it is consistently viewed as an accepted form of payment. It also can be stored and keeps a stable value. If you make twenty dollars today for mowing your neighbor's lawn, you can keep it for two weeks and be confident that it will still be worth the same amount. Money is also

U.S. notes and coins are accepted in all fifty states as payment for products and services.

a way to easily measure the value of the products we buy. Because money is widely accepted and every product has a price attached to it, we can quickly understand a product's value in relation to other things. This allows consumers to compare prices and values to make the best buying decisions.

Credit is another way to make purchases. Credit allows you to borrow money from a bank to make purchases. To buy an item, you present a plastic or metal card linked to the bank, or you use a cell phone to access your credit account and pay digitally. If you have enough credit, you can then leave the store with your item.

Paying with credit is convenient, but you must pay back the money you borrowed when you receive your monthly credit card bill. If you do not pay the full amount you owe, you have to pay interest on your purchases. Interest is money you pay the bank for the convenience of having borrowed its money. For example, 10 percent interest on a $100 credit card balance—money you borrowed but have not yet paid back—would be $10. That means you now owe $110 instead of $100. Because of this, credit cards should be used with care to avoid ending up with a large debt.

Determining Value

The value of goods and services is determined by the law of supply and demand. Remember that the supply of goods is how much has been produced, and demand is how much need or want exists for those goods. The value, or price, of an item is determined in part by how much consumers are willing to pay for it. If resources become scarce and the price of the item increases, consumers might be willing to pay more to purchase it. Then the value of the item goes up. When there is more of a product than is needed, the price will often go down to entice consumers. The value of the item has decreased.

Some products' values change cyclically throughout the year. Think about fruit, for example. The **market value** of summer fruits is lower in the summer because there is a high supply of them being grown and harvested. The price, and consequently the value, of summer fruits goes up in the winter because the fruits cannot be grown year-round in many places, and their supply goes down.

Vocabulary

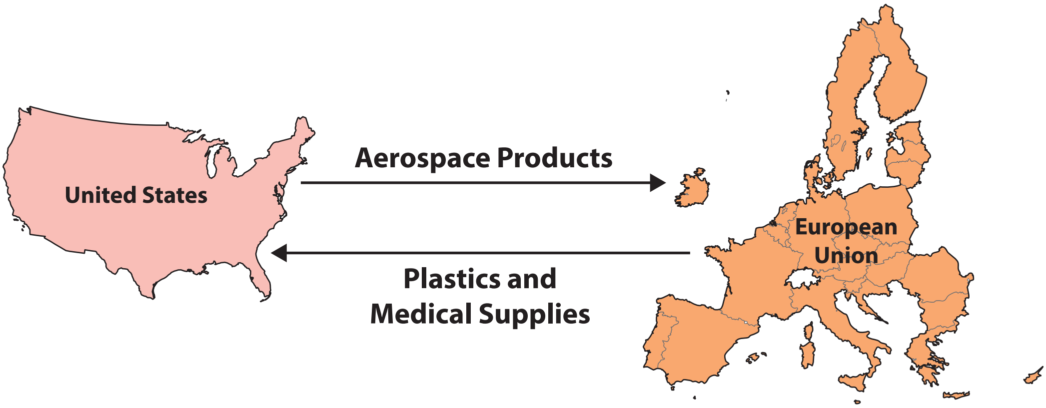
market value, n. the price that consumers are willing to pay for something

Strawberries cannot be grown everywhere all year, so their value fluctuates throughout the year.

Other factors affect the value of products as well. One such factor is how many people in the country are steadily employed. When people are receiving a reliable income that comfortably covers their needs, they are more likely to make additional purchases based on their wants. High levels of employment are also a factor in what is called consumer confidence. People are more likely to make purchases when they are confident about the national economy in general and about their financial future. High consumer confidence often results in large purchases made on credit. When employment is high and there is a lot of confidence in the economy, people are more willing to spend money. They might sometimes even be willing to spend more than what an item is really worth if it becomes scarce. This will drive up the value of a product.

International Trade

International trade is another aspect of the economy that helps keep prices at market value. International trade is the exchange of goods between countries. Americans have been trading with other countries since colonial times. Trade allows countries to sell products they would not otherwise have access to and thereby expand their markets. This is done by importing goods or raw materials from other places. For example, the United States does not have a good climate for growing coffee. Instead, it imports coffee from other countries. In return, U.S. businesses export their goods and resources to other countries. For example, the United States exports aircraft and automobile parts to other countries. International trade results in lower prices for consumers. If only a handful of countries have access to a product that is highly valued, the price will remain high. But if trade gives global access to a product, it can be more competitively priced.



Countries around the world depend on each other for goods and services.

International trade has resulted in interdependence between countries. This means that there is a relationship among the countries that depend on each other for certain goods and products. For example, the United States–Mexico–Canada Agreement (USMCA) is a trade agreement among these three countries. They depend on each other to import and export the resources, products, and services outlined in the agreement.

Cargo ships carry imports and exports to and from different countries.

The next time you are in a store, pay attention to what you are buying. Was it made in the United States or imported from another country? And how are you paying for your purchase? The way people shop affects supply and demand. As you have read, supply and demand determine a product's value. When the products people need and want are within the price range they are willing and able to pay, they experience consumer confidence. This has a positive effect on the economy.

Lowering Costs

One of the ways that businesses lower costs for consumers is by offshoring production. This is the movement of jobs from one country to another. Typically, jobs are moved from a country with high labor costs, such as the United States, to a country where **wages** are lower. As a result of lower production costs, consumers pay less for goods. Businesses also make more of a profit.

> **Vocabulary**
>
> **wages**, n. the amount of money that workers are paid based on their occupation and the number of hours they work each week

Offshoring is cost-effective for some businesses because of the differences in wages across the globe. The amount people are paid varies by skill, experience, employer, and the tasks they carry out as part of their job. Wages also vary by geographic location. In countries or states with a lower cost of living, employees are paid less than in places where their needs cost more. Many countries around the world, including the United States, have a minimum wage. This is the lowest wage that is allowed by law for a job.

Chapter 4
The Marketplace

Types of Markets It is 1000 CE. You are in a crowded square on a warm morning in a city in Southwest Asia. Around the edges of the square and running through the middle are long rows of tables holding all kinds of items: fruits, vegetables, spices, pots, silks, jewelry, and tools. People shout out prices to the merchants selling goods. Merchants shout back prices to their potential customers. Eventually, the shouting ends, and the customers leave the **marketplace** with what they need for the day.

The Big Question

Where do people buy things?

Vocabulary

marketplace, n. an area where people go to buy, sell, and trade goods

Although there is not as much bargaining in modern shopping, marketplaces like this one still exist. In fact, flea markets in the United States are similar to the markets in Southwest Asia, known as bazaars. Flea markets are usually open-air markets where merchants sell their products directly to customers.

Marketplaces like this flea market in New York City provide a location for people to sell their products.

Today, much in-person shopping happens in places like supermarkets and malls. Since the first online purchase was made in 1994, online shopping has become increasingly popular and convenient, too. Like a mall, online shopping offers many different kinds of products made by different brands. In this way, online marketplaces are similar to the marketplaces that have existed for centuries. But they are different in that consumers can buy whatever they need at any time of day and have it delivered to their homes.

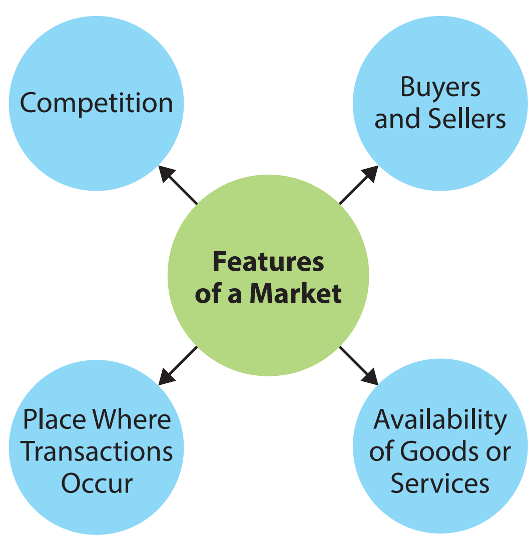
In addition to the literal meaning of *marketplace*, there is a more **abstract** meaning of the word. *Marketplace*, or simply *market*, can refer to the buying and selling of products in an economy. The term *market* can also refer to a specific portion of the economy, such as the housing market or financial market.

Vocabulary

abstract, adj. relating to general ideas or qualities rather than to specific people, objects, or actions

Features of a Market

There are some characteristics that all markets have in common. The first feature is obvious: buyers and sellers. For any market to successfully operate, there have to be people selling and people buying, whether in the same physical space or virtually. Buyers and sellers can be individuals, businesses, or governments.



The availability of goods or services is another feature of a market. A third significant feature of a market is that it provides a place where **transactions** between buyers and sellers occur. This can be a physical or digital space. A market also has competition, which means that a seller tries to convince buyers to purchase goods or services from them and not from others. They may try to attract customers by offering a better product or a lower price.

Vocabulary

transaction, n. an occurrence in which goods, services, or money are passed from one person or group to another

A physical space for transactions between buyer and seller is no longer necessary. Now, people can shop online.

Resources are also exchanged in markets. Businesses find the capital and human resources they need to produce goods or services in different types of markets. Natural resources such as metals that are used to manufacture goods are purchased in markets that specialize in selling these resources.

Government's Role in the Marketplace

Many governments pass laws that people must follow when buying and selling goods, services, and resources in the market. Most businesses that sell food, for example, must ensure that it's safe for people to eat. In the example of the labor market, workers in many countries are not allowed to sell their skills and talents until they reach a certain age. Laws also dictate what can and cannot be sold in a marketplace.

Infrastructure built by a government helps markets function more efficiently. By building roads and laying rail, governments help goods, buyers, and sellers reach their markets. They raise money for this infrastructure by charging **taxes**.

Governments also create a means of exchange for buying and selling. They create **currency** in the form of money, which people use to buy and sell goods in the marketplace. Currency helps people reach a common understanding of how much a good or service is worth.

Vocabulary

infrastructure, n. the public works system that includes roads, utility wires, water, public transportation, etc.

tax, n. money that people are required to pay to support the workings of the government

currency, n. a system of money

Governments spend money on infrastructure, which helps keep the economy running.

Climate Change and the Marketplace

A growing threat to the global economy is climate change. Climate change is the increase in Earth's overall temperature as a result of human industrial activity. Depending on location, the effects of climate change include rising sea levels, higher temperatures, and increased or decreased rainfall. These factors may have increasingly negative effects on the infrastructure that helps the economy run so efficiently. Without preventative action, eventual damage to airports along the coasts, bridges, factories, and railway lines could disrupt supply chains and international trade.

These changes could also affect the availability of resources. For example, as places such as the American Midwest experience heavier rain than usual, flooding could negatively impact crops consumed domestically and exported to other countries. As other resources become scarce, raw materials could become more expensive. However, in the United States, and in other parts of the world, governments, businesses, and local communities are working hard to tackle climate-releated problems. New technologies are being developed to manage carbon emissions. Infrastructure systems are being updated and improved upon. There is much that can be done to solve the climate-related problems that we are faced with. You can be part of the solution.

Rescue workers search Houston, Texas, from aircraft for people needing help during the catastrophic floods of 2017.

All over the world there are initiative to plant trees where they are most needed. Planting trees helps to reduce the impact of climate change, including the protection of fertile soil. Planting trees also encourages wildlife to return to certain areas, and improves human food security.

Chapter 5
Economies in American History

> **The Big Question**
>
> How did different economies grow throughout history?

Early American Economies Today, when we have a need, we can go to a store or visit a website to purchase something that meets our need. These conveniences did not exist for earlier civilizations. Still, people found ways to get what they needed. Economies are almost as old as civilization itself. Records have been found showing evidence of sophisticated economies in Egypt, China, and Southwest Asia as far back as 3000 BCE. These societies designed ways to track how livestock, crops, and land were exchanged.

Native Americans also built flourishing civilizations that thrived for thousands of years before the arrival of Europeans. Different groups of Native Americans lived across North America, speaking as many as three hundred different languages, each with their own unique culture. Because they were spread out over the entire continent, different groups had access to different natural resources. As a result, they adapted to use the resources they had. They also traded with other Indigenous groups for other resources.

Dried corn was one of the goods traded by some early Native American cultures.

In the Northeast, Native American cultures developed extensive trading networks based on barter as early as 2000 BCE. Evidence shows that these networks extended into the Great Lakes region to the north and west and all the way south and west to what are now Mississippi, Illinois, and Ohio. The Huron and Haudenosaunee as well as other nations exchanged items such as dried fish and furs for needed supplies, religious objects, and luxury goods such as seashells, copper items, and pearls. The networks provided not only goods but also peaceful ties to other groups.

Evidence shows that these networks even extended into the Great Plains region. Native groups of the Great Plains later established trading sites where members of different nations could gather to exchange goods. Evidence shows that objects from as far as present-day Mexico were among the trade goods.

Trade networks also developed in the Northwest. Many of these were devoted to the exchange of needed goods and supplies. In addition, the eulachon fish was a highly valued luxury good. Its high level of fat allowed it to be used for multiple purposes, including burning for light. The Tsimshian dominated the trade in these fish.

Once Europeans arrived in the Americas, they, too, traded with Native American groups. Early Spanish explorers traded objects such as mirrors and knife blades for food and other supplies. Later, French, English, and Spanish explorers and settlers established sites for trading manufactured goods for furs and hides.

When Europeans arrived in North America, they established trading relationships with Indigenous peoples.

Spanish Claims in the Americas

Europeans first arrived in the Americas due to a desire for valuable trade goods, particularly spices. During the Middle Ages, spices were valuable to Europeans because they not only seasoned food but also preserved it. However, spices were very expensive. The spice trade was dominated by Arab traders, who traveled to various parts of Asia to buy the spices and then sold them to traders from Venice for a huge profit. Venetians then sold the spices throughout Europe for an even greater profit.

The desire for a direct route to the parts of the world that grew spices pushed European monarchs to invest in voyages of exploration to reach the sources of the spices. They wanted to eliminate the Arab and Venetian traders' **monopoly** on the spice trade and to reduce dependence on overland trade routes. By the late 1400s, ships were able to make longer trips, so explorers set out to look for new sea routes.

Vocabulary

monopoly, n. a situation in which one person, country, or company has complete control of the supply of a good or service

The first country to lead the way in exploration for a sea route to Asia was Portugal. Portuguese monarchs sent multiple voyages, which traveled along the coast of Africa, looking for a quick route to Asia. Sailors established new trading posts in Africa and eventually reached India, the East Indies, and the Spice Islands.

In 1492, Spanish monarchs Queen Isabella and King Ferdinand sent Italian explorer Christopher Columbus to look for a faster

Columbus thought he found a western route to Asia when he arrived on an island in the Bahamas.

route to Asia. When he sailed west and hit land, Columbus believed he was in the Indian Ocean and had reached East Asia. In reality, he had landed in the Bahamas, an island chain off the southeast coast of North America. He named the island San Salvador and claimed it for Spain. Columbus traveled three more times to the Americas. Though none of his voyages were very successful, Spain sent additional expeditions to the Americas. Conflict between Spain and its rival, Portugal, led the two nations to sign a treaty giving Spain control of most of the Americas. Portugal eventually claimed Brazil.

Spanish **conquistadors** gradually claimed much of Central and South America for Spain, creating a Spanish **empire**. Spanish explorers and colonists came to find riches such as gold and silver. They dominated the Indigenous peoples, forcing them to work in the mines. When gold mining became less profitable, the Spanish established ranches and **plantations** and used enslaved Indigenous people for labor. Huge numbers of Indigenous people died due to mistreatment and diseases brought by the Spanish. Then the Spanish turned to enslaved people from Africa for forced labor.

Another reason Spanish settlers came to the Americas was to spread Christianity in the form of the Catholic religion. The first Spanish **missions** were built in Florida in the 1500s. The main goal of the missions was to

Vocabulary

conquistador, n. the Spanish word for conqueror

empire, n. a group of countries or territories under the control of one government or ruler

plantation, n. a large farm where cash crops are grown on behalf of the person who owns the land

mission, n. a settlement built for the purpose of converting Indigenous people to Christianity

convert Native Americans to Catholicism. Another goal was to officially claim land in the Americas for Spain and keep rival countries, such as England and France, from colonizing the area. There were eventually one hundred missions in Florida. These served not only as religious centers but also as political and economic centers. Missionaries often forced Indigenous people to labor on mission farms and ranches. The mission system eventually expanded into Texas, New Mexico, Arizona, and California. In California, the missions were strategically placed along the Pacific coast to prevent rival countries from colonizing there.

Vocabulary

convert, v. to change from one belief or religion to another

mercantilism, n. an economic system that aims to increase a country's wealth and power by controlling trade and people

Other Europeans Claim Land in North America

Spanish and Portuguese voyages of exploration led other countries to begin sending explorers west too, hoping to build their own wealth. They also wanted to establish colonies and gain access to new resources. European nations' economies were based on principles of **mercantilism**. Colonies were created to enrich the home country. Colonization of the Americas grew, and many parts of North America were soon under the control of Europeans not only from Spain but also from England, France, and the Netherlands. The impact of colonialism on the Indigenous populations of the Americas was devastating.

Early efforts by England to discover a "northwest passage" to Asia had been unsuccessful. To pay for future expeditions and settlements, the English Crown authorized **joint-stock companies** to establish colonies in the name of the Crown. The first permanent English settlement in North America was Jamestown. Though it struggled initially, Jamestown eventually became very profitable. This brought other English colonists to North America, too. New colonies were established up and down the Atlantic coast. They grew and became prosperous.

> **Vocabulary**
>
> **joint-stock company**, n. a company that raises money by selling shares, or interest in the company, in the form of stock

French expeditions to North America resulted in the French claiming parts of Canada, which they called New France. However, French explorers weren't very interested in settling there. They wanted to pursue the fur trade with Indigenous peoples. The trade became very profitable. In 1682, French explorers claimed the Mississippi River all the way to the Gulf of Mexico for the king of France.

By the late 1500s, the Dutch had gained control of the spice trade in Southeast Asia. Another joint-stock company, the Dutch East India Company, was created to protect the Dutch trade routes across the Indian Ocean. The company grew and thrived throughout the seventeenth century. It set up the Dutch as a powerful commercial empire in the East Indies. The Dutch, however, still wanted to find a shorter route to the region where spices grew. In 1609, the Dutch East India Company hired English explorer Henry Hudson to look for a northwest passage. Hudson sailed to North America and traveled the Atlantic coast until he reached what is now New York. He claimed it for the Netherlands. He never found his passage, but in 1621, Dutch merchants established a new joint-stock company to profit from the land in North America. In 1624, they established New Netherland in the region of what is now New York. They profited from fur trading, but they couldn't convince Dutch settlers to live there. Eventually, the English seized New Netherland as their own, renaming it New York.

The English seized New Netherland from the Dutch in 1664. They renamed the colony New York.

The British Colonies and the Establishment of the United States

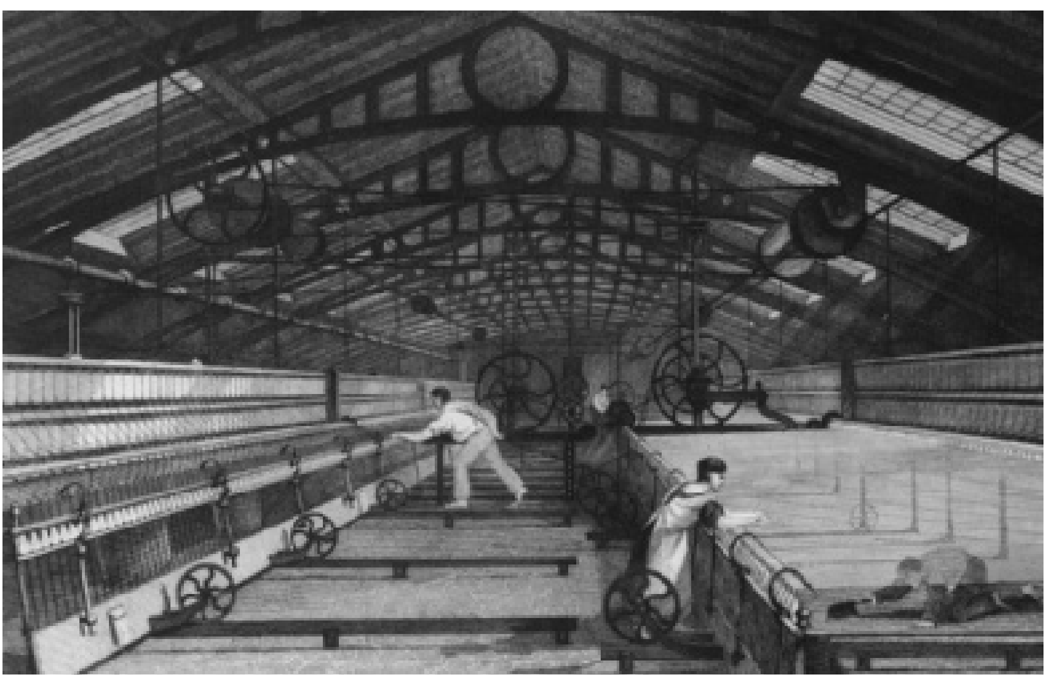
By the 1700s, there were thirteen British colonies in North America. The colonies developed a mixed economy with both mercantilist principles and some free-market features. A free-market economy does not have much government regulation. Instead, prices are set by the law of supply and demand. This creates competition between buyers and sellers to set and pay the lowest prices for goods. Prices in colonial economies, however, were heavily impacted by the policies of the British government. Laws dictated how goods could be bought and sold. In addition, some regions were heavily reliant on enslaved labor for their economic activities.

For a while, the colonies and their young economies grew and thrived. But by the 1770s, colonists were increasingly unhappy with the British government, and much of it had to do with Britain's economic policies. The British colonies were ruled by a king who lived across the ocean. Colonists paid taxes to a government in which they had no representation. By 1774, the British Parliament had passed several laws placing additional taxes on goods the colonists purchased. The Stamp Act, for example, taxed paper goods. The Townshend Acts taxed glass, paint, and tea. The British government had recently fought a war with the French and had enormous debts. Taxing the colonists was how the British government planned to pay its debts.

Colonists were also angry about British regulation of trade. The Navigation Acts had been in place since the 1600s. They were intended to promote the self-sufficiency of the British Empire. Under these acts, all colonial trade had to be conducted on British or colonial ships. This benefited Britain but hurt the colonists and the colonial economy. These restrictive economic laws and policies led to several small colonial uprisings and ultimately to the American Revolution. Once independent, much of the United States implemented free-market economic practices.

The Industrial Revolution

The mid-1700s launched a period of economic change in another way, too. People in different parts of the world began inventing machines to make work easier. The period known as the Industrial Revolution dates from 1760 to 1840. Economies all over the world, including that of the newly independent United States, changed forever. Inventions such as the cotton gin, the spinning jenny, and the power loom made weaving cloth and spinning yarn easier and faster. The steam engine sped up the production of flour, paper, cotton, and iron. Over time, these innovations filled large factories, and work became mechanized and efficient on a large scale.



Spinning machines in textile factories made work easier and faster.

Another new technique that changed how people worked was the **smelting** of iron ore with coal. Smelting was cheaper than previously used processing techniques and made a higher-quality product. As a result, iron and steel production increased. This led to the growth of the railroad industry, which launched the Second Industrial Revolution (c. 1870–1914). Together, these innovations increased the demand for coal, which was needed to run machines in factories and power the trains and steamships that transported finished goods. Steam power allowed miners to go deeper into the earth and extract more coal.

> **Vocabulary**
>
> **smelting**, n. the process of extracting metal from its ore through heating and melting
>
> **boom**, n. a period of sudden rapid growth

The Industrial Revolution changed not only how people worked but also where they lived. As factories were built in large cities along the coasts, people moved from rural places to urban centers, especially in the Northeast. There, men, women, and children—sometimes as young as ten years old—found steady work in factories. This fueled the rapid growth of cities such as New York, Boston, Philadelphia, and Baltimore.

The U.S. economy experienced a **boom** in 1848 when gold was discovered in California. As news spread across the country, thousands of people poured into California hoping to find gold. Within a few years, the portion of California's population that was not Native American grew from about fifteen thousand people to one hundred thousand, and it continued to grow. About $2 billion worth of gold was mined there during the gold rush.

By the beginning of the twentieth century, the Second Industrial Revolution was well underway. The United States had transitioned from a mostly agricultural economy to a more urbanized, industrial one. Soon, the United States would become the world's leading industrial nation.

A Global Economy

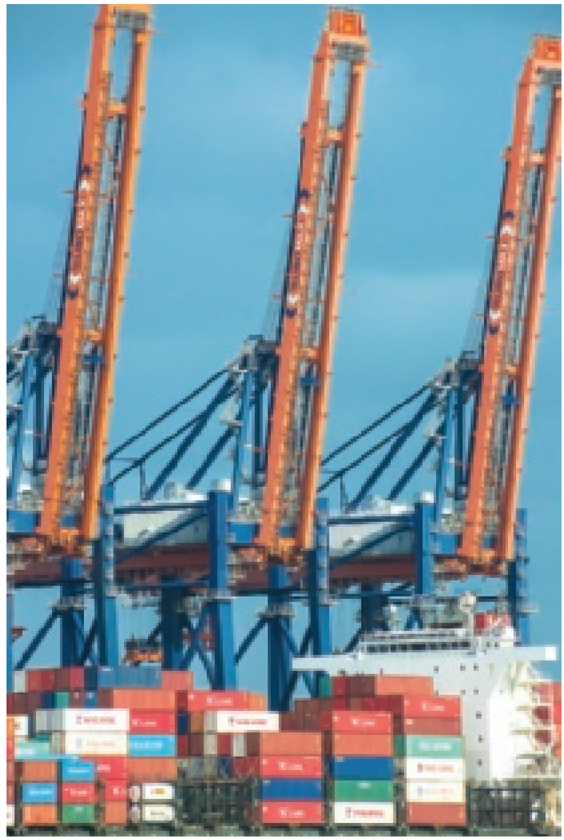
Today, the United States generates more than 20 percent of the world's income. The U.S. economy is the world's largest, and the nation is a leader in global trade. Top U.S. exports include petroleum (oil) and cars. Top imports include cars and computers.

Pursuing international trade began in earnest after World War II and has played a major role in the growth of the global economy.

The U.S. president works with other world leaders to solve economic problems and establish goals. Pictured here is former president Barack Obama (center) with the leaders, or former leaders of Britain, Germany, and other countries.

As you have read, trade strengthens an economy by providing access to more resources and increases competition by offering additional choices for consumers. The United States' top three trading partners are Canada, Mexico, and China.

Although much has changed, the earliest economies shared the same basic means and ends as modern economies: providing the goods and services consumers want and need. By taking full advantage of advancements and innovations over time, the United States now plays a central role in the global economy, along with other economically influential countries.



Every day, containers filled with goods from different parts of the world arrive in the United States. Containers are also shipped out of the United States to other places.

Glossary

A

abstract, adj. relating to general ideas or qualities rather than to specific people, objects, or actions (36)

B

boom, n. a period of sudden rapid growth (52)

budget, n. an amount of money available for spending based on a plan for how it will be spent (24)

C

capital, n. the money needed to pay for a workforce, machinery, and other equipment to support the development and growth of a business (6)

circulation, n. the act of passing something, such as money, from person to person or place to place (28)

commute, v. to travel regularly to and from a place of work (6)

conquistador, n. the Spanish word for conqueror (46)

convert, v. to change from one belief or religion to another (47)

currency, n. a system of money (38)

D

discount, n. an amount taken off a regular price (20)

E

economy, n. the way a country manages its money and resources to produce, buy, and sell goods and services (4)

elastic, adj. able to be changed; flexible (23)

empire, n. a group of countries or territories under the control of one government or ruler (46)

entrepreneur, a person who starts a business and is willing to risk loss in order to make money (12)

equilibrium price, n. the price at which supply equals demand (21)

externality, n. a consequence of a commercial activity that affects other parties without impacting the cost of the goods (14)

G

glut, n. a supply of something that is much more than is needed or wanted (24)

I

import, v. to bring into one country from another country (18)

infrastructure, n. the public works system that includes roads, utility wires, water, public transportation, etc. (38)

interdependence, n. the state of being related in such a way that each needs or depends on the other (13)

J

joint-stock company, n. a company that raises money by selling shares, or interest in the company, in the form of stock (48)

L

labor, n. the work needed to create a good or provide a service; the people who perform that work (11)

M

market value, n. the price that consumers are willing to pay for something (30)

marketplace, n. an area where people go to buy, sell, and trade goods (34)

mercantilism, n. an economic system that aims to increase a country's wealth and power by controlling trade and people (47)

mission, n. a settlement built for the purpose of converting Indigenous people to Christianity (46)

monopoly, n. a situation in which one person, country, or company has complete control of the supply of a good or service (45)

mortgage, n. a legal agreement in which a person borrows money to buy a house and pays back the money over time (6)

O

opportunity cost, n. the value of the option that was not chosen whenever a choice is made (19)

P

plantation, n. a large farm where cash crops are grown on behalf of the person who owns the land (46)

profit, n. the money that is made by a business once all expenses have been paid (13)

prohibitively, adv. done in a way that prevents something from happening (18)

R

raw materials, n. substances used in the primary production or manufacture of goods (7)

S

smelting, n. the process of extracting metal from its ore through heating and melting (52)

T

tangible, adj. capable of being touched (8)

tax, n. money that people are required to pay to support the workings of the government (38)

transaction, n. an occurrence in which goods, services, or money are passed from one person or group to another (37)

W

wages, n. the amount of money that workers are paid based on their occupation and the number of hours they work each week (33)

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