Economy in Action

Trace how key institutions connect within a national economy.

SS.7.E.2 "Understand the fundamental concepts relevant to the institutions, structure, and functions of a national economy."

NAME ______________________ DATE ____________

1 READ AND MARK

Read it twice

YOUR JOB Underline each economic institution named in the passage. Circle the words that explain what each institution does, so you can trace how the national economy works.

Connected Economic Choices

1 In a national economy, millions of households, businesses, banks, and government agencies make connected choices. Households earn income by supplying labor and use that income to buy goods and services. Businesses combine workers, tools, and materials to produce what people want. Markets bring buyers and sellers together, so prices help signal what is scarce or in demand. A bakery, for example, pays employees, buys flour, and sells bread. Its payments become income for other households and businesses.

2 Financial institutions help money move through the economy. A bank can accept deposits from savers and lend some of that money to a business that wants to expand. In return, borrowers repay loans, often with interest. Government also affects the economy by collecting taxes and using public funds for services such as roads, schools, and national defense. Government agencies set and enforce rules that protect workers, consumers, and competition. These institutions do different jobs, but each can affect production, spending, and employment.

3 Economists use measures to describe how the national economy is performing. Gross domestic product, or GDP, is the value of final goods and services produced within a country during a certain period. The unemployment rate shows the share of people in the labor force who are seeking work but do not have jobs. Inflation is a general rise in prices over time. Leaders, businesses, and households use such information when planning, but one measure alone cannot tell the whole economic story.

2 ANSWER WITH EVIDENCE

Use the passage

1. How do households and businesses depend on each other in the economy?

2. What two jobs can a bank do with money, according to the passage?

3. Give two ways government affects the national economy.

4. What does GDP measure, and why should people avoid using only one economic measure to judge the economy?

3 YOUR TURN

Your own words

Choose a business and explain how it connects with households, a bank, a market, and government. Write 5 sentences, and include one economic measure the business owner might watch when planning.

PART 1 · READ AND MARK

Underline each economic institution named in the passage. Circle the words that explain what each institution does, so you can trace how the national economy works. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How do households and businesses depend on each other in the economy?	**Households supply labor and receive income. They use income to buy goods and services that businesses produce.**
2	What two jobs can a bank do with money, according to the passage?	**A bank accepts deposits from savers and lends money to businesses or other borrowers.**
3	Give two ways government affects the national economy.	**Government collects taxes and funds public services. It also sets and enforces rules that protect workers, consumers, and competition.**
4	What does GDP measure, and why should people avoid using only one economic measure to judge the economy?	**GDP measures the value of final goods and services produced within a country during a certain period. One measure alone cannot tell the whole economic story.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

A bicycle repair shop hires a worker from a household and pays the worker income. The household uses income to buy goods and services, including repairs. A bank lends the shop money to buy tools, and the owner repays the loan with interest. In the market, customers and the shop respond to repair prices and demand. The government collects taxes and enforces consumer rules, while the owner watches inflation when setting prices.

Accept any accurate explanation showing connected roles for households, businesses, banks, markets, and government. For the open task, accept a valid economic measure such as GDP, unemployment rate, or inflation when it is used appropriately.