SECTION
4

READING STUDY GUIDE WITH ADDITIONAL SUPPORT
The Economist's Toolbox

Before You Learned
Economists study economic choices using simplified models, such as the production possibilities curve (PPC).

Now You Will Learn
Economists work with a variety of data, making sense of this data by applying microeconomics, macroeconomics, positive economics, and normative economics to it

Economic Terms
- **macroeconomics:** The study of the economy as a whole and how major sectors of the economy interact
- **microeconomics:** The study of how individuals, families, and businesses interact economically
- **positive economics:** The study of economic behavior as it is
- **normative economics:** A way of describing and explaining what economic behavior ought to be

As You Read
Take notes to help you understand how economists display data and which types of data are collected in the different branches of economics.

Concepts	Similarities	Differences
Charts & tables vs. Graphs		
Micro vs. Macro		
Positive vs. Normative		

THE ECONOMIST'S TOOLBOX, *CONTINUED*

Working with Data

Economists collect numerical data, also called statistics, to look for patterns in economic activity. They develop economic models to help explain and predict economic behavior. They use a variety of forms to display data. They use charts and tables, which organize data in rows and columns. They use graphs to give a visual representation of numerical data. Bar graphs make it easy to compare numerical data. Pie graphs make easy to understand the relationships among parts and a whole. Line graphs show how things change over time or how they change with respect to one another.

1. What kind of graph would be best to use to show how the government allocates funds in its yearly budget? Why?

_____

_____

_____

Microeconomics and Macroeconomics

Micro- means "small." Microeconomics is the study of the economic behavior of individuals, families, and businesses. People interested in microeconomics collect data on prices, costs, markets, profits, competition, and how consumers and producers behave in specific situations. Macro- means "large." Macroeconomics is the study of the economy as a whole. People interested in macroeconomics collect data on sectors, or portions, of the economy. They study the consumer sector, the business sector, and the public, or government, sector. They gather statistics on banking and finance, taxing and government spending, employment and unemployment, inflation, and international trade.

2. Contrast how a microeconomist and a macroeconomist would each study price changes.

_____

_____

Positive Economics and Normative Economics

Positive economics is a scientific way of explaining the economic behavior of people, businesses, and governments. Normative economics, on the other hand, includes not only facts, but also judgments of whether such economic behavior is good for society. The judgments made in normative economics vary because such judgments are based upon different ethical values.

3. Write questions that a positive economist and a normative economist might raise about establishing a lottery to fund education.

_____

_____

_____

THE ECONOMIST'S TOOLBOX, *CONTINUED*

Adam Smith: Founder of Modern Economics

Adam Smith was a Scottish philosopher who established the foundations for modern economic theory. He published his ideas in 1776 in a book commonly called *The Wealth of Nations*. One of his most influential ideas is that people are guided by an "invisible hand" to act rationally to satisfy their economic self-interest. For example, producers price their products to allow them to make a profit and consumers spend what they feel they can afford on different products. In other words, in a free market both producers and consumers benefit from each economic transaction.

4. According to Smith, how does the "invisible hand" guide people in a free market?

_____

_____

_____

APPLICATION

Mark It Up!
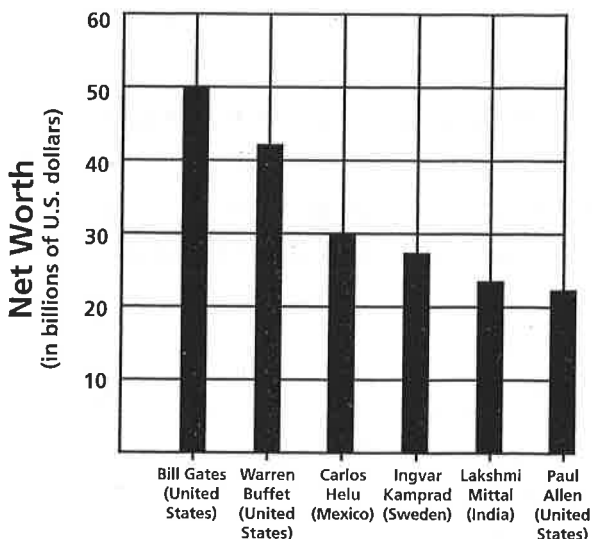
5. Reread your notes on "Working with Data." **Highlight** information on how economists present economic data and when they use each of the different forms.

6. Identify the main purpose of this bar graph.

7. Identify who was wealthier in 2006, Bill Gates or Ingvar Kamprad.

_____

_____

_____

_____

8. In 2002, Morocco's gross national income was about $35 billion U.S. dollars. **Name** the individuals on the bar graph who had more wealth than Morocco in 2002.

_____

_____

_____

_____