

National Standards for Social Studies

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[NSS-EC.9-12.1 SCARCITY](#)

Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- Choices made by individuals, firms, or government officials often have long run unintended consequences that can partially or entirely offset the initial effects of the decision.

[\[SOURCE\]](#)

[NSS-EC.9-12.2 MARGINAL COST/BENEFIT](#)

Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something: few choices are "all or nothing" decisions.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- Marginal benefit is the change in total benefit resulting from an action.

- Marginal cost is the change in total cost resulting from an action.
- As long as the marginal benefit of an activity exceeds the marginal cost, people are better off doing more of it; when the marginal cost exceeds the marginal benefit, they are better off doing less of it.
 - To produce the profit-maximizing level of output and hire the optimal number of workers, and other resources, producers must compare the marginal benefits and marginal costs of producing a little more with the marginal benefits and marginal costs of producing a little less.
 - To determine the optimal level of a public policy program, voters and government officials must compare the marginal benefits and marginal costs of providing a little more of a little less of the program's services.

[\[SOURCE\]](#)

NSS-EC.9-12.3 ALLOCATION OF GOODS AND SERVICES

Different methods can be used to allocate goods and services. People acting individually or collectively through government, must choose which methods to use to allocate different kinds of goods and services.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- Comparing the benefits and costs of different allocation methods in order to choose the method that is most appropriate for some specific problem can result in more effective allocations and a more effective overall allocation system.

[\[SOURCE\]](#)

NSS-EC.9-12.4 ROLE OF INCENTIVES

People respond predictably to positive and negative incentives.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- Acting as consumers, producers, workers, savers, investors, and citizens, people respond to incentives in order to allocate their scarce resources in ways that provide the highest possible returns to them.
- USmall and large firms, labor unions and educational, and other not-for-profit organizations have different goals and face different rules and constraints. These goals, rules, and constraints influence the benefits and costs of those who work with or for those organizations, and, therefore, their behavior.

[\[SOURCE\]](#)

NSS-EC.9-12.5 GAIN FROM TRADE

Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and usually among individuals or organizations in different

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- A nation pays for its imports with its exports.
- When imports are restricted by public policies, consumers pay higher prices and job opportunities and profits in exporting firms decrease.

[\[SOURCE\]](#)

NSS-EC.9-12.6 SPECIALIZATION AND TRADE

When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand

- Two factors that prompt international trade are international differences in the availability of productive resources and differences in relative prices.
- Transaction costs are costs (other than price) that are associated with the purchase of a good or service. When transaction costs decrease, trade increases.
- Individuals and nations have a comparative advantage in the production of goods or services if they can produce a product at a lower opportunity cost than other individuals or nations.
- Comparative advantages change over time because of changes in factor endowments, resource prices, and events that occur in other nations.

[\[SOURCE\]](#)

NSS-EC.9-12.7 MARKETS -- PRICE AND QUANTITY DETERMINATION

Markets exist when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- A shortage occurs when buyers want to purchase more than producers want to sell at the prevailing price.
- A surplus occurs when producers want to sell more than buyers want to purchase at the prevailing price.
- Shortages of a product usually result in price increases in a market economy; surpluses usually result in price decreases.
- When the exchange rate between two currencies changes, the relative prices of the goods and services traded among countries using those currencies change; as a result, some groups gain and others lose.

[\[SOURCE\]](#)

NSS-EC.9-12.8 ROLE OF PRICE IN MARKET SYSTEM

Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- Demand for a product changes when there is a change in consumers' incomes or preferences, or in the prices of related goods or services, or in the number of consumers in a market.
- Supply of a product changes when there are changes in either the prices of the productive resources used to make the good or service, the technology used to make the good or service, the profit opportunities available to producers by selling other goods or services, or the number of sellers in a market.
- Changes in supply or demand cause relative prices to change; in turn, buyers and sellers adjust their purchase and sales decisions.
- Government-enforced price ceilings set below the market-clearing price and government-enforced price floors set above the market-clearing price distort price signals and incentives to producers and consumers. The price ceilings cause persistent shortages, while the price floors cause persistent surpluses.

[\[SOURCE\]](#)

NSS-EC.9-12.9 ROLE OF COMPETITION

Competition among sellers lowers costs and prices, and encourages producers to produce more of what consumers are willing and able to buy. Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- The pursuit of self-interest in competitive markets generally leads to choices and behavior that also promote the national level of economic well-being.
- The level of competition in an industry is affected by the ease with which new producers can enter the industry and by consumers' information about the availability, price and quantity of substitute goods and services.
- Collusion among buyers or sellers reduces the level of competition in a market. Collusion is more difficult in markets with large numbers of buyers and sellers.
- The introduction of new products and production methods by entrepreneurs is an important form of competition and is a source of technological progress and economic growth.

[\[SOURCE\]](#)

NSS-EC.9-12.10 ROLE OF MARKET INSTITUTIONS

Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- Property rights, contract enforcement, standards for weights and measures, and liability rules affect incentives for people to produce and exchange goods and services.
- Incorporation allows firms to accumulate sufficient financial capital to make large-scale investments and achieve economies of scale. Incorporation also reduces the risk to investors by limiting stockholders' liability to their share of ownership of the corporation.

[\[SOURCE\]](#)

NSS-EC.9-12.11 ROLE OF MONEY

Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- The basic money supply in the United States consists of currency, coins, and checking account deposits.
- In many economies, when banks make loans, the money supply increases; when loans are paid off, the money supply decreases.
- In many economies, when banks make loans, the money supply increases; when loans are paid off, the money supply decreases.

[\[SOURCE\]](#)

NSS-EC.9-12.12 ROLE OF INTEREST RATES

Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses.

At the completion of Grade 12, students will understand:

- An interest rate is a price of money that is borrowed or saved.
- Like other prices, interest rates are determined by the forces of supply and demand.
- The real interest rate is the nominal or current market interest rate minus the expected rate of inflation.
- Higher real interest rates provide incentives for people to save more and borrow less. Lower real interest rates provide incentives for people to save less and borrow more.
- Real interest rates normally are positive because people must be

compensated for deferring the use of resources from the present into the future.

- Riskier loans command higher interest rates than safer loans because of the greater chance of default on the repayment of the risky loan. Higher interest rates reduce business investment spending and consumer spending on housing, cars, and other major purchases. Policies that raise interest rates can be used to reduce these kinds of spending, while policies that decrease interest rates can be used to increase these kinds of spending.

[\[SOURCE\]](#)

NSS-EC.9-12.13 ROLE OF RESOURCES IN DETERMINING INCOME

Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand

- Changes in the structure of the economy, the level of gross domestic product, technology, government policies, and discrimination can influence personal income.
- In a labor market, in the absence of other changes, if wage or salary payments increase, workers will increase the quantity of labor they supply and firms will decrease the quantity of labor they demand.
- Changes in the prices for productive resources affect the incomes of the owners of those productive resources and the combination of those resources used by firms.
- Changes in demand for specific goods and services often affect the incomes of the workers who make those goods and services.
- Two methods for classifying how income is distributed in a nation the personal distribution of income and the functional distribution reflect, respectively, the distribution of income among different groups of households and the distribution of income among different businesses and occupations in the economy.

[\[SOURCE\]](#)

NSS-EC.9-12.14 PROFIT AND THE ENTREPRENEUR

Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- Entrepreneurial decisions affect job opportunities for other workers.
- Entrepreneurial decisions are influenced by government tax and regulatory policies.

[\[SOURCE\]](#)

NSS-EC.9-12.15 GROWTH

Investment in factories, machinery, new technology, and in the health, education, and training of people can raise future standards of living.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- Economic growth is a sustained rise in a nation's production of goods and services. It results from investments in human and physical capital, research and development, and technological change, and from improved institutional arrangements and incentives.
- Historically, economic growth has been the primary vehicle for alleviating poverty and raising standards of living.
- Economic growth creates new employment and profit opportunities in some industries, but growth reduces opportunities in others.
- Investments in physical and or human capital can increase productivity, but such investments entail opportunity costs and economic risks.
- Investing in new physical or human capital can increase productivity, but such investments entail opportunity costs and economic risks.
- Higher interest rates discourage investment.
- The rate of productivity increase in an economy is strongly affected by the incentives that reward successful innovation and investments (in research and development, and in physical and human capital).

[\[SOURCE\]](#)

NSS-EC.9-12.16 ROLE OF GOVERNMENT

There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- Markets do not allocate resources effectively if: (1) property rights are not clearly defined or enforced, (2) externalities (spillover effects) affecting large numbers of people are associated with the production or consumption of a product; or (3) markets are not competitive.
- An important role for government in the economy is to define, establish, and enforce property rights. A property right to a good or service includes the right to exclude others from using the good or service and the right to transfer the ownership or use of the resource to others.
- Property rights provide incentives for the owners of resources to weigh the value of present uses against the value of conserving the resources for future use.
- Externalities exist when some of the costs and benefits associated

with production and consumption fall on someone other than the producers or consumers of the product.

- When a price fails to reflect all the benefits of a product, too little of the product is produced and consumed. When a price fails to reflect all the costs of a product, too much of it is produced and consumed. Government can use subsidies to help correct for insufficient output; it can use taxes to help correct for excessive output; or it can regulate output directly to correct for over- or under-production or consumption of a product.
- When one producer can supply total output in a market at a cost that is lower than when two or more producers divide production, competition may be impossible. In the absence of competition, government regulations may then be used to try to control price, output, and quality.
- Governments often redistribute income directly when individuals or interest groups are not satisfied with the income distribution resulting from markets; governments also redistribute income indirectly as side-effects of other government actions that affect prices or output levels for various goods and services.
- Governments provide an alternative method to markets for supplying goods and services when it appears that the benefits to society of doing so outweigh the costs to society. Not all individuals will bear the same costs or share the same benefits of those policies.
- A government policy to correct a market imperfection is not justified economically if the cost of implementing it exceeds its expected net benefits.

[\[SOURCE\]](#)

NSS-EC.9-12.17 USING COST/BENEFIT ANALYSIS TO EVALUATE GOVERNMENT PROGRAMS

Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

At the completion of Grade 12, students will understand:

- Citizens, government employees, and elected officials do not always directly bear the costs of their political decisions. This often leads to policies whose costs outweigh their benefits for society.
- Incentives exist for political leaders to implement policies that disperse costs widely over large groups of people and benefit small, and politically powerful groups of people.
- Incentives exist for political leaders to favor programs that entail immediate benefits and deferred costs; few incentives favor programs promising immediate costs and deferred benefits, even though the latter programs are sometimes economically more effective than the former programs.
- Although barriers to international trade usually impose more costs than benefits, they are often advocated by people and groups who expect to gain substantially from them. Because the costs of these barriers are typically spread over a large number of people who each pay only

- a little and may not recognize the cost, policies supporting trade barriers are often adopted through the political process.
- Price controls are often advocated by special interest groups. Price controls reduce the quantity of goods and services produced, thus depriving consumers of some goods and services whose value would exceed their cost.

[\[SOURCE\]](#)

NSS-EC.9-12.18 MACROECONOMY- INCOME/EMPLOYMENT, PRICES

A nation's overall levels of income, employment, and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies, and others in the economy.

At the completion of Grade 12, students will know the Grade 8 benchmarks for this standard, and also understand:

- Nominal GDP is measured in current dollars; thus, an increase in GDP may reflect not only increases in the production of goods and services, but also increases in prices. GDP adjusted for price changes is called "real GDP." Real GDP per capita is a measure that permits comparisons of material living standards over time and among different nations.
- The potential level of real GDP for a nation is determined by the quantity and quality of its natural resources, the size and skills of its labor force, and the size and quality of its stock of capital resources.
- One person's spending is other people's income. Consequently, an initial change in spending (consumption, investment, government, or net exports) usually results in a larger change in national levels of income, spending, and output.
- When desired expenditures for consumption, investment, government spending, and net exports are greater than the value of a nation's output of final goods and services, GDP rises, and inflation occurs and/or employment rises.
- When desired expenditures for consumption, investment, government spending, and net exports are less than the value of a nation's output of final goods and services, GDP decreases and inflation and/or employment decreases.

[\[SOURCE\]](#)

NSS-EC.9-12.19 UNEMPLOYMENT AND INFLATION

Unemployment imposes costs on individuals and nations. Unexpected inflation imposes costs on many people and benefits some others because it arbitrarily redistributes purchasing power. Inflation can reduce the rate of growth of national living standards because individuals and organizations use resources to protect themselves against the uncertainty of future prices.

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also understand:

- The unemployment rate is the percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for work.
- The unemployment rate is an imperfect measure of unemployment because it does not: (1) include workers whose job prospects are so poor that they are discouraged from seeking jobs, (2) reflect part-time workers who are looking for full-time work.
- Unemployment rates differ for people of different ages, races, and sexes. This reflects differences in work experience, education, training, and skills, as well as discrimination.
- Unemployment can be caused by people changing jobs, by seasonal fluctuations in demand, by changes in the skills needed by employers, or by cyclical fluctuations in the level of national spending.
- Explain why some people are unemployed when the economy is said to be functioning at full employment.
- The consumer price index (CPI) is the most commonly used measure of price-level changes. It can be used to compare the price level in one year with price levels in earlier or later periods.
- Expectations of inflation may lead to higher interest rates.
- The costs of inflation are different for different groups of people. Unexpected inflation hurts savers and people on fixed incomes; it helps people who have borrowed money at a fixed rate of interest.
- Inflation imposes costs on people beyond its effects on wealth distribution because people devote resources to protect themselves from expected inflation.

[\[SOURCE\]](#)

NSS-EC.9-12.20 MONETARY AND FISCAL POLICY

Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices. At the completion of Grade 12, students will understand:

- Fiscal policies are decisions to change spending and tax levels by the federal government. These decisions are adopted to influence national levels of output, employment, and prices.
- In the short run, increasing federal spending and/or reducing taxes can promote more employment and output, but these policies also put upward pressure on the price level and interest rates. Decreased federal spending and/or increased taxes tend to lower price levels and interest rates, but they reduce employment and output levels in the short run.
- In the long run, the interest-rate effects of fiscal policies lead to changes in private investment spending by businesses and individuals that partially, if not entirely, offset the output and employment effects of fiscal policy.
- The federal government's annual budget is balanced when its revenues from taxes and user fees equal its expenditures. The government runs a budget deficit when its expenditures exceed its revenues. The government runs a surplus when its revenues exceed its expenditures.
- When the government runs a budget deficit, it must borrow from individuals, corporations, or financial institutions to finance that deficit.

- The national debt is the total amount of money the federal government owes. This is the accumulated sum of its annual deficits and surpluses. The government pays interest on the money it borrows to finance the national debt.
- In the long-run, inflation results from increases in a nation's money supply that exceed increases in its output of goods and services.
- Monetary policies are decisions by the Federal Reserve System that lead to changes in the supply of money and the availability of credit. Changes in the money supply can influence overall levels of spending, employment, and prices in the economy by inducing changes in interest rates charged for credit, and by affecting the levels of personal and business investment spending.
- The major monetary policy tool that the Federal Reserve System uses is open market purchases or sales of government securities. Other policy tools used by the Federal Reserve System include increasing or decreasing the discount rate charged on loans it makes to commercial banks and raising or lowering reserve requirements for commercial banks.