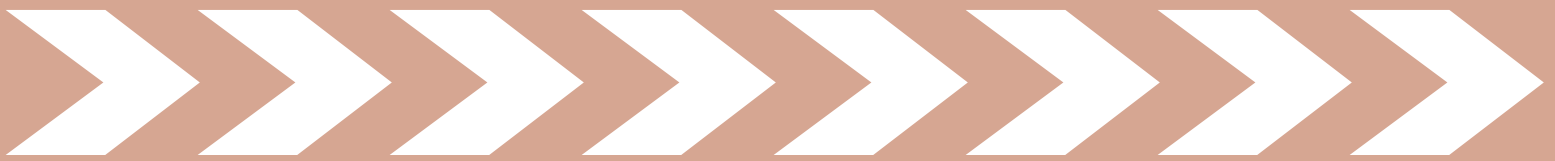




# ARIZONA EDUCATOR PROFICIENCY ASSESSMENTS™



## STUDY GUIDE

### 35 Economics

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## **PART 1: GENERAL INFORMATION ABOUT THE AEPA™ AND TEST PREPARATION**

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Part 1 of this study guide is contained in a separate PDF file. Click the link below to view or print this section:

[General Information About the AEPA and Test Preparation](#)



## PART 2: FIELD-SPECIFIC INFORMATION

### Field 35: Economics

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#### INTRODUCTION

This section includes a list of the test objectives, practice questions, and an answer key for the selected-response questions.

**Test objectives.** As noted earlier, the test objectives are broad, conceptual statements that reflect the knowledge, skills, and understanding an entry-level educator needs to practice effectively in Arizona schools. The list of test objectives for each test field is the *only* source of information about what a specific test will cover and therefore should be studied carefully.

**Practice questions.** The practice selected-response questions and practice performance assignments included in this section are designed to give you an introduction to the nature of the questions included in the AEPA tests. The practice questions represent the various types of questions you may expect to see on an actual test; however, they are *not* designed to provide diagnostic information to help you identify specific areas of individual strengths and weaknesses or to predict your performance on the test as a whole.

When you answer the practice questions, you may wish to use the sample answer sheet and sample Written Response Booklet provided in Part 1 to acquaint yourself with these materials. Use the answer key located after the practice questions to check your answers. Sample responses are provided immediately following each written performance assignment. The sample responses in this guide are for illustrative purposes only. Your written response should be your original work, written in your own words, and not copied or paraphrased from some other work.

To help you identify how the test objectives are measured, the objective statement to which the question corresponds is listed in the answer key. When you are finished with the practice questions, you may wish to go back and review the entire list of test objectives and descriptive statements for your test field.

# TEST OBJECTIVES

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## Field 35: Economics

### SUBAREAS:

1. Basic Economic Concepts and Microeconomics
2. Macroeconomics, Economic Theories, and International Economics
3. Economic Inquiry Skills
4. Consumer Economics

### BASIC ECONOMIC CONCEPTS AND MICROECONOMICS

#### 0001 Understand basic economic concepts and terms.

For example: defining economics and applying basic economic concepts (e.g., scarcity, opportunity cost, rational self-interest, production possibilities, voluntary exchange, circular flow); describing the factors of production and analyzing how they are used; and recognizing how traditional, market, command, and mixed economic systems answer the three basic economic questions: what to produce, how to produce, and for whom to produce.

#### 0002 Understand basic principles of microeconomics.

For example: recognizing the difference between demand and quantity demanded; recognizing the difference between supply and quantity supplied; recognizing the effects of changes in the determinants of supply and demand; demonstrating knowledge of how producers and consumers make decisions by analyzing anticipated marginal benefits and marginal costs; using the supply and demand model to analyze product markets and factor/resource markets; examining how market prices are determined (e.g., price elasticity of demand and supply); and examining how price ceilings and floors cause shortages or surpluses.

#### 0003 Understand concepts, issues, and principles related to how businesses use resources and interact with the marketplace.

For example: defining and applying concepts related to the costs, revenues, and profits of the individual firm (e.g., marginal product, diminishing returns, average and marginal costs and revenues, short- and long-run costs, economies of scale); recognizing the role of entrepreneurs in a market economy; recognizing the role of profit as an incentive in leading people to become entrepreneurs and in accepting the risks of business failure; recognizing how investment in factories, machinery, new technology, and the health, education, and training of people can increase economic growth; and describing and comparing types and characteristics of market structures (e.g., perfect competition, monopoly, monopolistic competition, oligopoly).

### MACROECONOMICS, ECONOMIC THEORIES, AND INTERNATIONAL ECONOMICS

#### 0004 Understand basic theories of macroeconomics.

For example: recognizing and applying major economic theories (e.g., classical economics of Adam Smith, Keynesianism, monetarism, rational expectations theory, supply-side economics); and examining the relationship between economic theory and public policy.

**0005 Understand principles and concepts related to government decisions on taxation, spending, and regulation.**

For example: recognizing the effects of progressive, proportional, and regressive taxes on different income groups and patterns of economic activity; examining how federal, state, local, and tribal governments establish budgets for goods and services (e.g., to provide national defense and education, address environmental concerns, define and enforce property rights, regulate markets); demonstrating knowledge of how price indices and inflation, unemployment, and real gross domestic product statistics are derived and used in policy decisions; analyzing business cycles; analyzing the effects of inflation, deflation, and unemployment; and examining ways, through aggregate supply and aggregate demand analyses, in which fiscal policy can be applied to solve problems such as unemployment and inflation to generate economic growth.

**0006 Understand principles and concepts of money and banking.**

For example: demonstrating knowledge of the functions of money and the basic elements of the money supply (i.e., M1, M2, and M3); examining the role of financial institutions and securities markets in the U.S. economy; demonstrating knowledge of the structure and functions of the Federal Reserve System and its influence on the economy; recognizing the components of monetary policy (i.e., open market operations, discount rate, and reserve requirements); and analyzing the effects of monetary policy on interest rates, unemployment, inflation, and economic growth.

**0007 Understand principles and components of international economics and trade.**

For example: defining and applying basic concepts related to international economics (e.g., comparative and absolute advantage, specialization, balance of trade, balance of payments); recognizing how people and nations benefit from trade; analyzing how fiscal and monetary policies affect exchange rates; demonstrating knowledge of how exchange rates affect international trade, imports, exports, inflation, and employment; examining the effects of tariffs and quotas on international trade and on foreign and domestic prices; and analyzing economic relationships and interdependence among various countries (e.g., trade agreements, immigration).

**ECONOMIC INQUIRY SKILLS****0008 Apply methods for interpreting, organizing, and presenting economic information.**

For example: using tables, graphs, equations, diagrams, price indices, and charts to interpret economic information (e.g., the inflation rate, unemployment rate, economic growth rate); using production possibilities curves to illustrate opportunity costs and trade-offs; interpreting graphs that demonstrate changes in supply and demand; and applying strategies for organizing and presenting economic information using a variety of formats.

**0009 Apply methods for analyzing economic issues.**

For example: evaluating the economic implications of current events in sources such as magazine articles, newspaper articles, radio and television reports, and Internet sites; formulating hypotheses and posing questions about economic issues; integrating knowledge from other subject areas to analyze economic issues; recognizing various economic perspectives on an economic issue; assessing the reliability of economic information and evaluating arguments related to economic issues; assessing the efficiency and equity of government policies through cost-benefit analysis; and recognizing the role of self-interest in the decisions of voters, elected officials, and public employees.

## CONSUMER ECONOMICS

### **0010 Understand how opportunity cost affects personal financial decisions.**

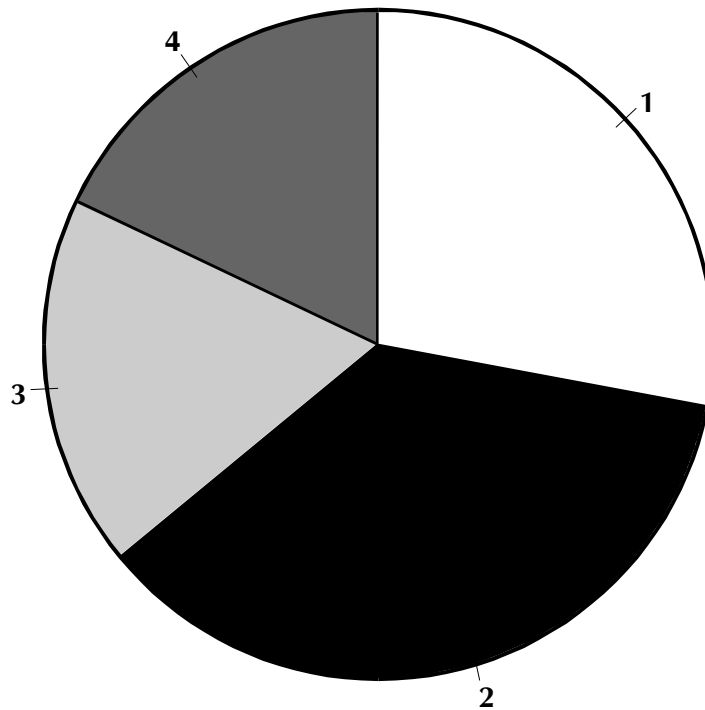
For example: planning and maintaining budgets and developing financial plans and goals; analyzing career opportunities in real-life situations; recognizing how education, career choices, and family obligations affect future income; assessing the advantages and disadvantages of using various forms of credit; applying basic principles of credit management and recognizing how payment performance influences credit history; demonstrating knowledge of the risk, return, and liquidity of short- and long-term saving and investment strategies; and evaluating investment options such as stocks, bonds, mutual funds, and real estate.

### **0011 Understand the opportunity cost involved in the purchase, use, and disposal of goods and services.**

For example: applying consumer skills and analyzing purchase and sale options in real-life situations (e.g., housing, transportation, clothing, insurance, health care); recognizing factors that limit or influence individual economic choices (e.g., budget constraints, incentives, utility); identifying consumer protection laws and agencies; describing types and techniques of consumer marketing and advertising; and examining how advertising influences consumer choices.



**DISTRIBUTION OF SELECTED-RESPONSE ITEMS ON THE TEST FORM**



| Subarea   | Approximate Percentage of Selected-Response Items on Test Form |
|---|--|
| 1. Basic Economic Concepts and Microeconomics                     | 28%  |
| 2. Macroeconomics, Economic Theories, and International Economics | 36%  |
| 3. Economic Inquiry Skills  | 18%  |
| 4. Consumer Economics   | 18%  |

# PRACTICE QUESTIONS

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## Field 35: Economics

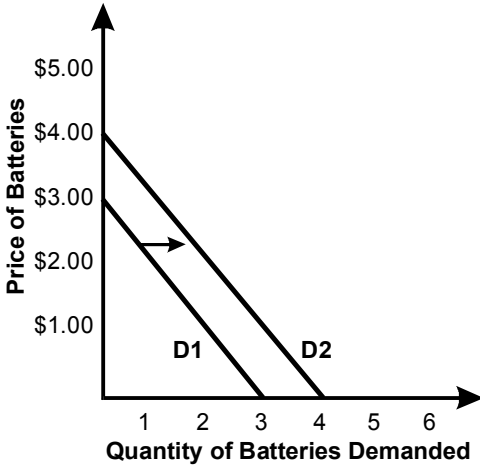
1. The law of scarcity can best be used to explain which of the following?
  - A. why people are willing to accept money as a medium of exchange in commercial transactions
  - B. why most property is privately owned in mixed market economies
  - C. why periods of economic expansion are generally followed by periods of economic contraction
  - D. why consumers have to consider the opportunity costs of the choices they make
  
2. Which of the following best describes an advantage of pure market systems?
  - A. efficient allocation of resources
  - B. timely application of built-in stabilizers
  - C. equitable distribution of income
  - D. effective limitation of negative externalities
  
3. Which of the following is most likely to cause a *decline* in market supply?
  - A. an increase in the price of commonly used raw materials
  - B. a decrease in interest rates
  - C. an increase in the ratio of capital to labor in major industries
  - D. a decrease in consumer debt
  
4. Which of the following would most likely occur if government price ceilings forced the price of a given commodity below its market equilibrium price?
  - A. The price of complementary goods used with the commodity would increase.
  - B. New producers would enter the market to meet increased demand for the commodity.
  - C. Shortages would develop as producers reduced output of the commodity.
  - D. Demand for the commodity would decrease as product quality declined.

5. Economies of scale occur when firms are able to:
- A. increase revenue as the quantity of production increases.
  - B. expand output by adding to capital stock.
  - C. reduce costs through multiproduct production.
  - D. reduce unit costs as the quantity of production increases.
6. Antitrust policy in the United States is designed mainly to preserve and promote which of the following features of the U.S. economic system?
- A. property rights and economic efficiency
  - B. private ownership and the profit motive
  - C. competitive markets and consumer sovereignty
  - D. economic incentives and government infrastructure
7. The supply-side policies of the Reagan administration during the 1980s were based primarily on the anticipated effect that:
- A. rising real wages would have on consumers.
  - B. economic incentives would have on producers.
  - C. increased economic freedom would have on consumers.
  - D. competitive pressures would have on producers.
8. Which of the following best describes why U.S. policymakers are more likely to use monetary policy than fiscal policy to combat inflation?
- A. Using monetary policy has fewer political liabilities than using fiscal policy, which requires unpopular actions such as reducing spending and raising taxes.
  - B. Presidents favor policies that can be implemented by private agencies that are independent of the government.
  - C. In an increasingly interdependent global economy, monetary policy provides a more effective way of containing inflation without disrupting world currency markets.
  - D. Fighting inflation through monetary policy is less likely to disturb the operation of securities markets by dampening investor expectations.

9. Which of the following best describes the effect of a regressive tax?
- A. Collection of the tax constricts the production possibilities' frontiers of businesses.
  - B. A larger proportion of the tax burden is placed on lower incomes than on higher incomes.
  - C. The overall tax burden is steadily shifted from consumers to producers.
  - D. Revenue from taxes on businesses is used to finance government transfer payments.
10. Which of the following would likely benefit most from an inflationary price spiral?
- A. a business that has issued long-term, low-interest bonds before the onset of inflationary pressures
  - B. a business with high production costs that makes goods for which there is high elasticity of demand
  - C. a pensioned retiree who relies on annual cost of living adjustments for benefit increases
  - D. a salaried worker who relies on annual employment reviews for any adjustment in compensation
11. Which of the following best describes a major role of the Federal Reserve?
- A. insuring the deposits of savings banks
  - B. serving as the central bank for the federal government
  - C. advising the U.S. Congress on tax policy
  - D. monitoring the nation's balance of payments
12. Which of the following is an important component of monetary policy?
- A. establishing reserve ratios for depository institutions
  - B. conducting audits of commercial banks
  - C. monitoring the investments of financial institutions
  - D. setting margin rates for securities accounts

13. As a result of a successful marketing campaign sponsored in part by the U.S. Department of Commerce, European demand for U.S.-made products has increased significantly. What is the likely effect of this trend on the foreign exchange rate of the dollar versus the euro?
- A. The value of the dollar will fall as increased demand for U.S. goods causes interest rates to rise.
  - B. The value of the euro will rise as more Europeans use the currency to purchase U.S. goods.
  - C. The value of the dollar will remain steady because an increase in exports has no effect on currency markets.
  - D. The value of the dollar will rise as an increase in exports generates stronger demand for U.S. currency.
14. The globalization of the U.S. economy during the late twentieth century most adversely affected which of the following groups of U.S. workers?
- A. service workers in small- to medium-sized retail establishments
  - B. miners and forestry workers in extractive industries
  - C. production workers in industries that manufacture consumer durables
  - D. drivers and warehouse workers in the trucking industry
15. When examining patterns of economic development, economists often distinguish between developed and developing economies. Which of the following best describes the occupational structure that an economist would likely associate with a developed economy in the twenty-first-century global economy?
- A. agriculture: 21 percent  
industry: 24 percent  
services: 55 percent
  - B. agriculture: 15 percent  
industry: 25 percent  
services: 60 percent
  - C. agriculture: 3 percent  
industry: 27 percent  
services: 70 percent
  - D. agriculture: 1 percent  
industry: 48 percent  
services: 51 percent

16. Use the demand curve for batteries below to answer the question that follows.



Which of the following most likely caused the shift from D1 to D2 shown in the graph above?

- A. an increase in the cost of battery rechargers
- B. a decrease in the number of firms that produce batteries
- C. a decrease in the price of portable game players
- D. the introduction of a new line of longer-lasting batteries

17. Read the excerpt below from a 2003 economic report; then answer the question that follows.

Although consumer demand remained strong throughout the recent recession, many economists are concerned about the future costs. The rapid rise in consumer debt—the main source of much recent consumption—could have negative consequences. Not since the late 1980s have consumers taken on so much debt so quickly. The long-term ramifications are unclear, but historically high consumer debt loads leave many economists very worried.

Which of the following is likely the greatest concern raised by the economic developments described in the excerpt above?

- A. Reduced savings will ignite an inflationary spiral.
- B. Increased consumption will depress real wages.
- C. Reduced savings will restrain business investment.
- D. Increased consumption will prompt stock speculation.

18. Government planners are using cost-benefit analysis to determine the optimum size of a flood-control project. In doing so, they should seek to identify the project size at which:
- A. marginal benefits are most nearly equal to marginal costs.
  - B. total annual costs are lowest.
  - C. marginal benefits are most in excess of marginal costs.
  - D. total annual benefits are greatest.
19. Mr. Lopez wants to start a small restaurant and is considering two options: a privately owned restaurant or the local franchise of a national firm. Which of the following best describes a likely advantage of purchasing the franchise?
- A. benefits of centralized purchasing
  - B. less difficulty obtaining capable staff
  - C. reduced operating expenses
  - D. access to a broader range of menu items
20. Which of the following developments would likely have the greatest effect on a family in the process of buying a home?
- A. enactment of legislation to raise the federal debt ceiling
  - B. adoption of an expansionary fiscal policy by the federal government
  - C. enactment of protectionist trade legislation
  - D. adoption of a tight money policy by the Federal Reserve Board

Below are the directions for the Economics performance assignment.

### **DIRECTIONS FOR THE PERFORMANCE ASSIGNMENT**

This section of the test consists of a performance assignment. **The assignment can be found on the next page.** You are asked to prepare a written response of approximately 2–3 pages on the assigned topic. You should use your time to plan, write, review, and edit your response for the assignment.

Read the assignment carefully before you begin to work. Think about how you will organize your response. You may use any blank space in this test booklet to make notes, write an outline, or otherwise prepare your response. **However, your score will be based solely on the version of your response written in Written Response Booklet B.**

As a whole, your response must demonstrate an understanding of the knowledge and skills of the field. In your response to the assignment, you are expected to demonstrate the depth of your understanding of the content area through your ability to apply your knowledge and skills rather than merely to recite factual information.

Your response will be evaluated based on the following criteria.

- **PURPOSE:** the extent to which the response achieves the purpose of the assignment
- **SUBJECT MATTER KNOWLEDGE:** accuracy and appropriateness in the application of subject matter knowledge
- **SUPPORT:** quality and relevance of supporting details
- **RATIONALE:** soundness of argument and degree of understanding of the subject matter

The performance assignment is intended to assess subject knowledge content and skills, not writing ability. However, your response must be communicated clearly enough to permit scorers to make a valid evaluation of your response according to the criteria listed above. Your response should be written for an audience of educators in this field. The final version of your response should conform to the conventions of edited American English. This should be your original work, written in your own words, and not copied or paraphrased from some other work.

Be sure to write about the assigned topic. Please write legibly. You may not use any reference materials during the test. Remember to review your work and make any changes you think will improve your response.



Below is the scoring scale for the Economics performance assignment.

**SUBJECT TESTS—PERFORMANCE ASSIGNMENT SCORING SCALE**

| <b>Score Point</b> | <b>Score Point Description</b>  |
|--------------------|---|
| <b>4</b>           | <p><b>The "4" response reflects a thorough knowledge and understanding of the subject matter.</b></p> <ul style="list-style-type: none"> <li>• The purpose of the assignment is fully achieved.</li> <li>• There is a substantial, accurate, and appropriate application of subject matter knowledge.</li> <li>• The supporting evidence is sound; there are high-quality, relevant examples.</li> <li>• The response reflects an ably reasoned, comprehensive understanding of the topic.</li> </ul> |
| <b>3</b>           | <p><b>The "3" response reflects an adequate knowledge and understanding of the subject matter.</b></p> <ul style="list-style-type: none"> <li>• The purpose of the assignment is largely achieved.</li> <li>• There is a generally accurate and appropriate application of subject matter knowledge.</li> <li>• The supporting evidence is adequate; there are some acceptable, relevant examples.</li> <li>• The response reflects an adequately reasoned understanding of the topic.</li> </ul>     |
| <b>2</b>           | <p><b>The "2" response reflects a limited knowledge and understanding of the subject matter.</b></p> <ul style="list-style-type: none"> <li>• The purpose of the assignment is partially achieved.</li> <li>• There is a limited, possibly inaccurate or inappropriate, application of subject matter knowledge.</li> <li>• The supporting evidence is limited; there are few relevant examples.</li> <li>• The response reflects a limited, poorly reasoned understanding of the topic.</li> </ul>   |
| <b>1</b>           | <p><b>The "1" response reflects a weak knowledge and understanding of the subject matter.</b></p> <ul style="list-style-type: none"> <li>• The purpose of the assignment is not achieved.</li> <li>• There is little or no appropriate or accurate application of subject matter knowledge.</li> <li>• The supporting evidence, if present, is weak; there are few or no relevant examples.</li> <li>• The response reflects little or no reasoning about or understanding of the topic.</li> </ul>   |
| <b>U</b>           | <p><b>The response is unrelated to the assigned topic, illegible, primarily in a language other than English, not of sufficient length to score, or merely a repetition of the assignment.</b></p>  |
| <b>B</b>           | <p><b>There is no response to the assignment.</b></p>   |

## Practice Performance Assignment

21. **Read the information below; then complete the exercise that follows.**

In modern societies, economic theory is often an important determinant of public policy. Since World War II, for example, Keynesian, monetarist, and supply-side theories have at various times strongly influenced major policy decisions in the United States.

Using your knowledge of economics, prepare a response in which you:

- describe the basic principles of one of the economic theories listed above (Keynesianism, monetarism, or supply-side economics); and
- describe how this theory would address the need to expand employment, reduce inflation, and stimulate economic growth.

**Sample Performance Assignment Response: Score Point 4**

Supply-side economic theories have strongly influenced major policy decisions in the United States, particularly since the early 1980's. The basic principles of supply-side theory are relatively simple, but the effects of implementing changes are complex and cause for much discussion and disagreement. Supply-side economics focus on the effect of marginal tax rates on the incentive to work, save, and produce and use resources efficiently. An increase in marginal tax rates negatively affects earners and output. Conversely, a reduction in the marginal tax rate, especially in the higher income brackets, has a very positive effect on the economy.

One reason that higher marginal rates have a negative impact is that they remove the incentive from working harder/smarter to increase income. When every dollar earned brings a higher tax rate, people may move in the opposite direction, shunning overtime, taking more time off, or even leaving the workforce if that is an option. Investors may pass up potentially profitable but risky business opportunities. These decisions result in reductions in resources and slow down output.

A second reason is that high marginal tax rates encourage tax avoidance. People tend to seek out tax shelter investments rather than opportunities based on profitability. Their purchasing may concentrate on tax-deductible goods like luxury items rather than more desired non-deductible goods. Again, these choices lead to waste and an inefficient use of resources.

The application of these principles to public policy has been obvious since the early Eighties. Under supply-side theories, the best way to address the needs of increased employment, reduced inflation, and economic growth is to cut the marginal tax rates, especially at the top of the rate structure. Theoretically, the lower rates would free up more income for investment resulting in more business opportunities, economic growth and more available jobs. The increased business income would offset the reduction in tax rates resulting in little, if any, loss of tax revenue.

Although the supply-side effect is much less pronounced at the lower income levels, the key to its success is the top few percent of high-income taxpayers. At this level, the difference in tax rates is large enough to enable the type of investment and resource utilization that does stimulate economic growth. Money that was previously parked in a tax shelter is now working to create new jobs and expand businesses. This economic growth would in turn create more supply in the marketplace. Increased supply eventually leads to lower prices due to competition and inflation is kept in check.

There are many additional factors at work in the economy that make it difficult to implement any single theory and judge its true effect. Monetarists and Keynesians would certainly have their own explanations for results/consequences of the application of supply-side theories, but the central principles are clear. By cutting marginal tax rates, the incentive to invest and grow the economy is increased. Higher rates decrease the incentive and result in lower production and wasted resources. Even though the largest effect is seen in the highest income brackets, all levels of income will benefit from the result of increased employment, lower prices and a growing economy.

# ANSWER KEY

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## Field 35: Economics

| Question Number | Correct Response | Objective  |
|-----------------|------------------|--|
| 1.              | <b>D</b>         | Understand basic economic concepts and terms.  |
| 2.              | <b>A</b>         | Understand basic economic concepts and terms.  |
| 3.              | <b>A</b>         | Understand basic principles of microeconomics.   |
| 4.              | <b>C</b>         | Understand basic principles of microeconomics.   |
| 5.              | <b>D</b>         | Understand concepts, issues, and principles related to how businesses use resources and interact with the marketplace. |
| 6.              | <b>C</b>         | Understand concepts, issues, and principles related to how businesses use resources and interact with the marketplace. |
| 7.              | <b>B</b>         | Understand basic theories of macroeconomics.   |
| 8.              | <b>A</b>         | Understand basic theories of macroeconomics.   |
| 9.              | <b>B</b>         | Understand principles and concepts related to government decisions on taxation, spending, and regulation.              |
| 10.             | <b>A</b>         | Understand principles and concepts related to government decisions on taxation, spending, and regulation.              |
| 11.             | <b>B</b>         | Understand principles and concepts of money and banking.   |
| 12.             | <b>A</b>         | Understand principles and concepts of money and banking.   |
| 13.             | <b>D</b>         | Understand principles and components of international economics and trade.   |
| 14.             | <b>C</b>         | Understand principles and components of international economics and trade.   |
| 15.             | <b>C</b>         | Apply methods for interpreting, organizing, and presenting economic information.                                       |
| 16.             | <b>C</b>         | Apply methods for interpreting, organizing, and presenting economic information.                                       |
| 17.             | <b>C</b>         | Apply methods for analyzing economic issues.   |
| 18.             | <b>A</b>         | Apply methods for analyzing economic issues.   |
| 19.             | <b>A</b>         | Understand how opportunity cost affects personal financial decisions.  |
| 20.             | <b>D</b>         | Understand the opportunity cost involved in the purchase, use, and disposal of goods and services.                     |