

# National Standards

## [Standard 1 : Scarcity](#)

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

**Related concepts:** Capital Resources, Choice, Consumer Economics, Consumers, Goods, Human Resources, Natural Resources, Opportunity Cost, Producers, Production, Productive Resources, Scarcity, Services, Wants, Entrepreneurship, Inventors, Entrepreneur, Factors of Production

## [Standard 2 : Decision Making](#)

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

**Related concepts:** Decision Making, Profit Motive, Benefit, Costs, Marginal Analysis, Profit, Profit Maximization, Cost/Benefit Analysis

## [Standard 3 : Allocation](#)

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

**Related concepts:** Economic Systems, Market Structure, Supply, Command Economy, Market Economy, Traditional Economy

## [Standard 4 : Incentives](#)

People usually respond predictably to positive and negative incentives.

**Related concepts:** Choice, Incentive

### [Standard 5 : 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 among individuals or organizations in different nations.

**Related concepts:** Barriers to Trade, Barter, Exports, Imports, Voluntary Exchange, Exchange, Exchange Rate

### [Standard 6 : Specialization](#)

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.

**Related concepts:** Division of Labor, Production, Productive Resources, Specialization, Factor Endowments, Gains from Trade, Relative Price, Transaction Costs, Factors of Production, Full Employment

### [Standard 7 : Markets and Prices](#)

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

**Related concepts:** Market Structure, Markets, Price Floor, Price Stability, Quantity Demanded, Quantity Supplied, Relative Price, Exchange Rate

### [Standard 8 : Role of Prices](#)

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

**Related concepts:** Non-price Determinants, Price Floor, Price Stability, Supply, Determinants of Demand, Determinants of Supply, Law of Demand, Law of Supply, Price Ceiling, Substitute Good, Price

### [Standard 9 : Competition and Market Structure](#)

Competition among sellers lowers costs and prices, and encourages producers to produce 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.

**Related concepts:** Market Structure, Non-price Competition, Levels of Competition

### [Standard 10 : Institutions](#)

Institutions evolve and are created to help individuals and groups accomplish their goals. Banks, labor unions, markets, 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.

**Related concepts:** Legal and Social Framework, Mortgage, Borrower, Interest, Labor Union, Legal Forms of Business, Legal Foundations of a Market Economy, Nonprofit Organization, Property Rights, Banking

### [Standard 11 : Money and Inflation](#)

Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services. The amount of money in the economy affects the overall price level. Inflation is an increase in the overall price level that reduces the value of money.

**Related concepts:** Exchange, Money Management, Money Supply, Currency, Definition of Money, Money, Characteristics of Money, Functions of Money

### [Standard 12 : 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.

**Related concepts:** Interest Rate, Monetary Policy, Real vs. Nominal, Risk, Investing, Savers, Savings

### Standard 13 : Income

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

**Related concepts:** Human Resources, Derived Demand, Functional Distribution of Income, Labor, Labor Market, Marginal Resource Product, Personal Distribution of Income, Wage, Aggregate Demand (AD), Aggregate Supply (AS), Demand, Prices of Inputs, Functional Distribution

### Standard 14 : Entrepreneurship

Entrepreneurs take on the calculated risk of starting new businesses, either by embarking on new ventures similar to existing ones or by introducing new innovations. Entrepreneurial innovation is an important source of economic growth.

**Related concepts:** Taxation, Costs, Costs of Production, Entrepreneur, Risk, Taxes, Cost/Benefit Analysis, Innovation, Entrepreneurship, Inventors

### Standard 15 : Economic Growth

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

**Related concepts:** Incentive, Interest Rate, Opportunity Cost, Production, Technological Changes, Trade-off, Trade-offs among goals, Human Capital, Intensive Growth, Investment, Physical Capital, Productivity, Risk, Standard of Living, Economic Efficiency, Economic Equity, Economic Freedom, Economic Growth, Economic Security, Investing, Business, Businesses and Households, Factors of Production, Health and Nutrition, Savers, Savings, Stock Market

### [Standard 16 : Role of Government and Market Failure](#)

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 have direct or indirect effects on peoples' incomes.

**Related concepts:** Externalities, Income, Natural Monopoly, Redistribution of Income, Role of Government, Taxation, Transfer Payments, Bonds, Distribution of Income, Income Tax, Maintaining Competition, Monopolies, Negative Externality, Non-clearing Markets, Positive Externality, Property Rights, Public Goods, Maintaining Regulation, Taxes, Regulation, Government Expenditures, Government Revenues

### [Standard 17 : Government Failure](#)

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.

**Related concepts:** Cost/Benefit Analysis, Benefit, Costs, Special Interest Group, Barriers to Trade

### [Standard 18 : Economic Fluctuations](#)

Fluctuations in 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. Recessions occur when overall levels of income and employment decline.

**Related concepts:** Gross Domestic Product (GDP), Macroeconomic Indicators, Nominal Gross Domestic Product (GDP), Per Capita Gross Domestic Product (GDP), Potential Gross Domestic Product (GDP), Real Gross Domestic Product (GDP), Circular Flow

### Standard 19 : Unemployment and Inflation

Unemployment imposes costs on individuals and the overall economy. Inflation, both expected and unexpected, also imposes costs on individuals and the overall economy. Unemployment increases during recessions and decreases during recoveries.

**Related concepts:** Types of Unemployment, Causes of inflation, Consumer Price Index (CPI), Deflation, Labor Force, Unemployment,

### Standard 20 : Fiscal and Monetary Policy

Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

**Related concepts:** Inflation, National Debt, Tools of the Federal Reserve, Discount Rate, Federal Budget, Fiscal Policy, Monetary Policy, Open Market Operations, Reserve Requirements, Budget, Budget Deficit, Central Banking System, Budget Surplus, Causes of inflation