Chapter 11

The Role of Government in Our Economy

Chapter Objectives

After completing this chapter, you will be able to:

- **Section 11.1  Government as Regulator**
  - Name four ways in which government regulates business.

- **Section 11.2  Government as Provider**
  - Name five aspects of the government’s role in society.
  - Name three items that the national government provides and three items that local governments provide.
  - Explain how government can stimulate or restrict economic activities.

**Ask**

STANDARD &POOR’S

**Q:** I think I understand the differences between stocks and bonds, but what are mutual funds and REITs? What about options and futures contracts?

**A:** Stocks represent equity, or ownership, in a company. Bonds represent debt. When you buy bonds, it’s as if you are the bank, and you’re lending money to the company. Shares of mutual funds, bond funds, and REITs are securities that sell like stocks; you can buy them on an exchange. A mutual fund is a pool of money invested by an expert manager in a variety of stocks with a specific investment goal in mind. Bond funds and REITs are similar. Bond funds are invested in bonds, and REITs are invested in real estate. Options and futures contracts offer sophisticated investors ways to gamble on future changes in the prices of securities or offset risks in their existing portfolios.

**Mathematics** Frank and his wife Mara have separate investment accounts. Frank’s account has $7,680 invested in stocks and $2,560 in bonds. Mara’s total investment in stocks and bonds is $4,000 split in the same proportion as her husband’s. Write and solve a proportion to calculate how much Mara has invested in bonds.

**Concept** Proportions A proportion is an equation with equivalent ratios on each side. When one of the four numbers in a proportion is unknown, the proportion may be solved by using cross products to find the unknown number. Question marks or letters are frequently used in place of the unknown number.
Government Roles

Governments play important roles in our economy. How is the federal government’s role different from that of a state government?
Government as Regulator

Read to Learn

- Name four ways in which government regulates business.

The Main Idea

Our government’s role is to foster success in the economy. One way it does this is by creating rules and regulations that organizations and consumers must follow. Laws cover aspects of the economy. They protect competition. They protect business agreements and creative properties. They are also used to regulate the production process.

Key Concept

- How the Government Regulates Business

Vocabulary

Key Terms

interstate commerce, contract
intrastate commerce, breach of contract
monopoly, copyright
oligopoly, patent
trust, trademark
antitrust laws

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

federal, symbol
enables, registered

Graphic Organizer

In a figure like the one below, write notes about government’s role in the economy.

<table>
<thead>
<tr>
<th>Protecting Competition</th>
<th>Protecting Business Agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protecting Creative Properties</td>
<td>Regulating the Production Process</td>
</tr>
</tbody>
</table>

Academic Standards

English Language Arts

NCTE 1 Read texts to acquire new information
NCTE 4 Use written language to communicate effectively

Mathematics

Number and Operations Understand numbers, ways of representing numbers, relationships between numbers, and number systems
How Government Regulates Business

One of government’s roles is to foster economic success. It also tries to aid in the quality of life of its citizens. In a market economy, a country’s economic health depends on businesses doing well. In some cases, government helps people so that they are not abused by businesses. To fulfill these duties, local, state, and national governments pass laws to protect and regulate business.

There are three levels of government: federal, state, and local. The federal government runs the country. State governments run their state. Local governments run counties, townships, cities, and towns. The federal government oversees interstate commerce. Interstate commerce is business that takes place between states. State governments oversee intrastate commerce. Intrastate commerce is business that takes place within states.

Laws govern the workings of the economy. These laws regulate the production process and protect competition, business agreements, and creative properties.

Companies that break the law can be fined, sued, or forced to close. People who do not follow the rules also face penalties.

How China Controls the Internet

Nicholas Bequelin of Human Rights Watch in Hong Kong explains, and he says U.S. companies need to take a stand against Beijing.

The news that Microsoft shut down a Chinese blogger’s site at the request of Beijing officials is bringing a renewed focus on the role U.S. companies play in helping China control the Internet. It’s no secret that Western businesses that want to enter the Internet market in China have to do some unsavory things. The Chinese government, determined to prevent dissidents from using the Net to promote taboo subjects such as the Falun Gong religious movement, formal independence for Taiwan, or an end to Communist Party rule, pressures providers to play by Chinese rules and control the content that’s available for local Net surfers.

When companies do restrict what their Chinese users send or read on the Net, however, they face howls of criticism from activists, bloggers, and ordinary folks abroad who think that multinationals should not be helping Beijing police the Net.

Case Study Go to the Introduction to Business Online Learning Center through glencoe.com for the BusinessWeek Reader Case Study.

Active Learning

The Internet is a powerful source of information—but it offers a tremendous amount of misinformation as well. Research what information is appropriate to include in a bibliography. Present a PowerPoint presentation to your class about the proper way to reference online content in a bibliography. Include reasons a Web site might not be reliable enough to reference in a research paper.
Protecting Competition

A **monopoly** occurs when a company controls an industry or is the only one to offer a product or service. An **oligopoly** occurs when a small number of companies control an industry. Monopolies are problematic for several reasons. One is that monopolies do not compete with other firms. This enables them to charge any price they want for products or services. Also, quality may not be their biggest concern. Both monopolies and oligopolies limit choice.

Companies can also form a monopoly by establishing a trust. A **trust** is a group of companies that band together to form a monopoly and cut out competition. The U.S. government passed antitrust laws to promote competition. **Antitrust laws** allow the federal government to break up monopolies, regulate them, or take control of them. These laws have not always stopped firms from competing unfairly. The government formed the Federal Trade Commission (FTC) to enforce antitrust laws. For example, in the 1940s, the government sued a group of studios for trying to take over the film industry. The FTC also regulates interstate trade. It keeps competition between U.S. businesses free and fair. Its job includes setting standards for honest advertising.

Protecting Business Agreements

One of the most basic ways government protects business is by enforcing contracts. A **contract** is a legally enforceable agreement between two or more parties. It can be written, verbal, or even formed over a handshake. A rental agreement, a car-repair order, and the warranty on a CD player are all types of contracts.

**Critical Reading**

Life is full of important decisions. Think about the kinds of decisions that you make as you read the question.

You own a clothing shop in a state that has a low sales tax on consumer goods; neighboring states have higher sales taxes. When an in-state customer buys clothing, you add the state tax. When an out-of-state customer buys clothing at your shop, you don’t add any tax. The customer is supposed to report the purchase and pay the appropriate tax to his or her state government. Many out-of-staters from nearby towns shop at your store, and you don’t know if they pay the tax they’re supposed to pay.

**Decision Making**

Knowing that some people don’t pay their state sales taxes, is it appropriate for you to advertise your shop in nearby out-of-state towns? Explain your answer.

---

**Real World**

**Monopoly, the Board Game**

Lizzie Magie, a young Quaker woman from Virginia, created a game that became *Monopoly* in 1903. It was developed as a way to teach people about the monopoly of land ownership. How do you think a popular game can affect or teach people about an issue?
Breach of contract occurs when one party fails to live up to the terms of a contract. It is easier to prove a breach of contract occurred if there is a written contract. For example, suppose you are in a band that plays at a coffeehouse, and the manager refuses to pay you. It can be very difficult to prove that the manager agreed to pay if the agreement is not written in a contract.

**Protecting Creative Properties**

Laws also protect the right to own creative properties. Creative properties, items such as inventions and art, can be protected with a copyright, a patent, or a trademark.

**Copyrights** A copyright gives artists the legal right to own their creations. Copyrights protect photographs, music, paintings, books, plays, and other written material. Today, a person creating an original work automatically holds the copyright to it. An artist who also registers it with the U.S. Copyright Office in Washington, D.C., gains additional legal protection. If you own the copyright to a story you wrote, others who want to use it must get your permission beforehand. A copyright usually lasts until 70 years after the owner’s death.

**Patents** A patent is a legal grant for the sole right to own an invention. The federal government grants patents. No one can copy a patented product or process without permission for 20 years after the inventor filed his or her application with the U.S. Patent and Trademark Office.

**Government as Watchdog** Federal laws limit the amount of waste factories can discharge into the environment. **Why does the government work to curb pollution?**
**Trademarks** A trademark is a name, a symbol, or a characteristic that identifies a product. It is also registered with the government. Only the owner of the trademark can legally use it. Well-known trademarks include Frito-Lay’s Doritos®, Kellogg’s Rice Krispies Treats®, and Visa®. Trademarks are protected from being copied if they are registered appropriately.

**Contrast** What is the difference between a copyright and a patent?

**Regulating the Production Process**

The government also steers economic activity by regulating the production process. It tries to stop companies from polluting by enacting laws. Some laws limit the amount of waste that factories can discharge into the environment. Worker protection laws impose safety requirements and work procedures and regulate the minimum wage. Organized labor, or labor unions, often help to report violations of worker protection regulations.

The Food and Drug Administration (FDA) regulates the manufacture and sale of drugs in the United States. Local and state governments regulate production processes, too.

---

**Section 11.1**

**After You Read**

**Review Key Concepts**

1. What is the difference between interstate and intrastate commerce?
2. What are the ways that the government can deal with a monopoly?
3. What kinds of property are protected by copyrights?

**Academic Skills**

4. **Mathematics** You are an event coordinator. You work from 8:30 A.M. to 5:00 P.M. from your office in Philadelphia. Tomorrow you need to place phone calls to an acrobatic team in New York, a specialty caterer in California, a display designer in Hawaii, and a magician in Colorado. The companies are open from 9:00 A.M. to 5:00 P.M., and the employees take lunch from noon to 1:00 P.M. Taking into account time zone differences, make a list of the times you might call each vendor.

**Math** For math help, go to the Math Appendix.
Government as Provider

Read to Learn
• Name five aspects of the government’s role in society.
• Name three items that the national government provides and three items that local governments provide.
• Explain how government can stimulate or restrict economic activities.

The Main Idea
The different levels of government do more than regulate business activities. One of their main roles is to provide goods and services. These are provided using tax money collected from people and organizations.

Key Concepts
• Government’s Role in Society
• How Government Is Funded
• How Government Allocates Resources

Vocabulary
Key Terms
- revenue
tax
- privatization
tax incentive
- subsidies

Academic Vocabulary
You will find these words in your reading and on your tests. Make sure you know their meanings.
- incentives
- ensure
- welfare
- allocate

Graphic Organizer
In a box like the one below, list and describe five aspects of the government’s role in society.

1. 
2. 
3. 
4. 
5. 

Go to the Introduction to Business Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards
English Language Arts
- NCTE 1 Read texts to acquire new information
- NCTE 7 Conduct research and gather, evaluate, and synthesize data to communicate discoveries

Science
- Content Standard E Students should develop abilities of technological design
- Content Standard G Students should develop understanding of science as a human endeavor, nature of scientific knowledge, and historical perspectives
Government’s Role in Society

The role of government in business is not limited to law making. Government also plays a big role in society. It provides key services to the public. It also gives incentives to businesses and people. Other services include providing jobs and distributing income. These activities occur at every level of government.

Providing Goods and Services

Government is the largest provider of services in the country. Businesses offer goods and services to people to make a profit. However, government provides services to the public as a whole for the good of society.

Highways, bridges, water treatment plants, and national defense are examples of public goods and services. Public goods and services are items provided by government and paid for using tax money. They are different from private goods and services. Private goods and services are items that consumers purchase directly from businesses. They include CDs, clothing, food, and housekeeping services.

Other services promote social welfare. Government provides parks, libraries, museums, and swimming pools. These facilities improve people’s quality of life. The cost of providing all these services is high. Governments pay for them with revenues they receive. Revenue is the income that governments get from all sources. That includes taxes and fees that consumers sometimes must pay to use certain public goods and services. Revenue is also money that comes into a business from the sale of goods and services.

In some cases, a business may provide a public good or service. Privatization occurs when a business offers a public good or service. The government body that pays for it oversees the business. For example, most cafés in government buildings are run by private businesses, not the government.

Aiding Citizens Through Transfer Payments

People’s well-being is another concern of government. To improve their quality of life, the federal government provides transfer payments. A transfer payment is a government expense that is provided to help people. These payments ensure that people have money when they need it. Unemployment, Social Security, and veterans’ benefits are forms of transfer payments.

Providing Employment

The government is the largest employer in the United States. More than 3 million people work for the federal government. State and local governments also employ millions of people. Mayors, firefighters, and the U.S. president are all public workers.
Consuming Goods and Services

Government is also the largest consumer of goods and services. It has to buy computers, furniture, and supplies for schools and government offices. To maintain the military, it has to buy uniforms, food, ships, aircraft, and weapons. Government buys most of its equipment directly from businesses or has equipment specially made. It also hires businesses to build aircraft, courthouses, schools, and roads.

Supporting Business

The government is involved in many activities that support business. The Small Business Administration (SBA) is a U.S. agency that encourages the development of small businesses. The SBA offers loans and advice to people who want to open small businesses.

The U.S. government helps some businesses compete internationally by providing subsidies. Subsidies are monetary grants given to producers or consumers to encourage certain behaviors. They are usually given to firms that are considered to benefit the public. Agriculture and steel are two industries that have historically received subsidies.

Commercial Space Travel

The space shuttle looks like an airplane because it has to travel through Earth’s atmosphere just like an airplane. However, the space industry has not developed in the same way that the aviation industry developed over the course of the 20th century. Aviation was largely developed by inventors and entrepreneurs, although government and the military played important roles. In the case of the space industry, however, governments in the United States, Europe, and Japan established monopolies to open the space frontier on behalf of the public. Today, with growing interest in commercial space travel, the role of government in the space industry is changing. The innovations that come from public sector space travel research help scientists and create new opportunities for business.

WebQuest

Go to the Introduction to Business Online Learning Center through glencoe.com for links to Web sites where you can find information on commercial space travel. What will it take to fly adventurers and commuters to the edge of space? Give a talk to your class about the future of commercial space travel. Use presentation software and include pictures taken from a spacecraft or space telescope.
How Government Is Funded

A tax is an amount of money people and businesses pay governments to help run the nation, state, county, city, or town. For some goods, such as gasoline, taxes are included in the purchase price. If you have a job, income taxes are deducted from your wages. Your income tax revenue helps pay for public goods and services and provide money for transfer payments.

The purpose of taxes is to pay for public goods and services by spreading the cost among many people. Figure 11.1 provides a glimpse of the amount of time it takes for taxpayers in some states to work to pay their taxes. However, some people may not receive direct benefits from all the taxes they pay. For instance, some people may never need to call a fire department. However, the fire department is important to everyone in a community.

Each level of government collects taxes for different kinds of services. For example, federal income tax pays for national highways and defense. State taxes pay for state police and motor vehicle departments. Local taxes pay for streets and parks. All three levels of government pay for public education.

Analyze Why are taxes necessary?

Figure 11.1  Working to Pay Taxes

Tax Freedom Day Tax Freedom Day is the first day of the year when the average person has earned enough to pay all of his or her annual federal, state, and local taxes. Why does it take residents of Connecticut longer to pay all of their taxes?
Providing Incentives

The government provides many incentives to businesses and consumers. A **tax incentive** is a temporary reduction or elimination of a tax that is meant to encourage or discourage an activity. A **tax break** is a special tax benefit given to promote specific economic or social objectives. Tax deductions for mortgage interest and property tax expenses encourage home ownership.

Government also tries to discourage certain behaviors. For example, taxes on cigarettes have increased dramatically. The reasoning is that some people may stop smoking if they decide it is too expensive to smoke.

How Government Allocates Resources

Governments **allocate** resources by deciding the best ways to spend tax revenues. They determine which projects are priorities for funding. For example, the government may decide to pay more for projects in rural areas than projects in urban ones. Such a decision can help the economies in rural areas.

Government spending also affects the distribution of income. For example, people who receive transfer payments such as unemployment pay can see their income rise or fall if the government raises or lowers the amount of their payments.
**Government as Regulator** There are three levels of government: federal, state, and local. The federal government runs the country. A state government runs each state. Local governments run counties, cities, towns, and townships. Each level of government oversees a different level of business. One of government’s roles is to foster success in our market economy. It does this by enacting laws for organizations and people to follow. Laws protect competition, business agreements, and creative rights. They also help the government to regulate the production process. In some cases, government must approve an item before it can be produced.

**Government as Provider** Government is the largest provider of services in the country. It provides goods and services that are not easy for consumers to buy on their own and for the good of society. Individuals cannot buy highways, bridges, or national defense. These public goods and services are provided by the government and paid for with tax revenues. Government provides incentives to businesses to encourage or discourage certain activities. Since governments do not have unlimited resources, they must choose how their limited resources should be used. Their decisions can affect the economic health of an area.

### Vocabulary Review

1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

<table>
<thead>
<tr>
<th>Key Terms</th>
<th>Academic Vocabulary</th>
</tr>
</thead>
<tbody>
<tr>
<td>interstate commerce</td>
<td>federal</td>
</tr>
<tr>
<td>intrastate commerce</td>
<td>enables</td>
</tr>
<tr>
<td>monopoly</td>
<td>trademark</td>
</tr>
<tr>
<td>oligopoly</td>
<td>symbol</td>
</tr>
<tr>
<td>trust</td>
<td>registered</td>
</tr>
<tr>
<td>antitrust laws</td>
<td>privatization</td>
</tr>
<tr>
<td>contract</td>
<td>subsidies</td>
</tr>
<tr>
<td>breach of contract</td>
<td>tax</td>
</tr>
<tr>
<td></td>
<td>tax incentive</td>
</tr>
</tbody>
</table>

### Review Key Concepts

2. Name four ways in which government regulates business.

3. Name five aspects of the government’s role in society.

4. Name three items that the national government provides and three items that local governments provide.

5. Explain how governments can stimulate or restrict economic activities.
6. Why does our government want businesses to succeed?

7. How is competition a form of consumer protection?

8. Suppose a business is required by U.S. law to install pollution-control equipment. Who ultimately pays for the cost of the equipment and in what way?

9. Do you think patent protection can lead to monopolies over a patented good? Is that a good or a bad thing?

10. How do people in a democracy acknowledge their social wants so that the government can help satisfy them?

11. Why are many public goods and services being offered through privatization?

12. Are transfer payments good for society? Why or why not?

13. Imagine that you run a coffee shop in an area where there is a military base. The government decides to close the military operation. Will that have an effect on your coffee shop? Explain.

14. Attend a city council or county board meeting in your area. Write a one-page article describing what took place. What decisions were made that might affect you and your community? Be sure to include residents’ comments.

15. Write a one-page essay discussing whether you believe the federal government looks out for the well-being of all people in the country.

16. Make a list of people in your community who help pay for the cost of public goods and services but do not directly use them. In two or more paragraphs, state why you think it is right for them to contribute to the cost of these services.

17. In two or more paragraphs, discuss your opinion of high taxes on cigarettes.

18. Write a one-page letter to the mayor of your city or town expressing a problem that you would like solved. Indicate why the problem should be addressed.

19. In at least one page, argue for or against the value of government giving tax incentives to business.

Technology Applications

Internet Research

20. Research three laws that the government has created to protect individuals. Include one law in each of the following categories: environmental protection, consumer protection, and employee protection. Investigate the costs and benefits of the laws to citizens as well as their effects on business. Prepare a presentation about the role of the legal system in business and how these laws impact society.

Business Ethics

Should You “Bid” This Project Farewell?

21. Suppose you own a small business that makes nuts and bolts for machines. You would like to compete for a bid to make nuts and bolts for the U.S. military. You could submit a low bid to beat your competitors’ proposals. However, you know that your costs will be higher than what is shown on your bid. Is this ethical? Explain your answer.
Chapter 11  Review and Activities

Applying Academics to Business

English Language Arts
22. Use a dictionary or other resource to find out more about the prefixes in the following word pairs. Write a phrase or sentence giving the meanings of the prefixes and list other words that use them.

- monopoly
- oligopoly
- interstate
- intrastate

Mathematics
23. You recently moved to a city with a lower sales tax. The sales tax where you used to live was 5.75%, and the new tax rate is a quarter percent less. Explain two different ways you could calculate how much less you would pay for a $12 CD in your new city than your old, and then solve the problem.

CONCEPT  Percent A percent is a ratio that compares a number to 100. A percent can be converted to a decimal by dividing the percent number by 100.

24. Copyrights, patents, and trademarks protect creative properties. This legal protection extends to trade dress and trade secrets. Research the meanings of these terms, and write a sentence or two explaining each.

25. You work for a lumber yard and a customer orders 25 pieces of plywood cut to 60 cm × 90 cm. You must cut them from larger sheets that measure 4 ft. by 8 ft. What is the fewest number of sheets of plywood you need to fill the customer’s order?

CONCEPT  Geometry and Measurement
You can convert metric and U.S. customary measurements using tables found in math books, reference books, and other online resources. For example, use the formulas 1 in. = 2.54 cm, and 12 in. = 1 ft. Then use the problem-solving strategy “draw a diagram” to solve the problem.

Active Learning

Analyze Student Government
26. Write a report about your school’s student government. What is its role in the school? How are officials chosen? How does your school’s government look out for students’ common welfare? What kind of rules and regulations does it enact, and how are they enforced? How is the government funded? How are spending decisions made?

Business in the Real World

Workplace Safety
27. Form a group and choose a local business owner or manager to interview. Ask how he or she works to avoid work-related accidents. Which rules regarding job safety apply most in this type of business? Compare your findings with those of other groups. Then as a class, list the safety rules that were discussed.
**Real Life Skills**

**Developing Skills in Business Law**
28. Interview someone involved in the legal field. Possible contacts include lawyers, judges, legal assistants, teachers, or job counselors. Ask the professional about career opportunities in business law. What kinds of skills are important in this field? How can you develop them? Write a report of at least one page. Share your findings with the class.

**Cool Business Careers**

**Find Your Dream Job**
29. Go to the Introduction to Business Online Learning Center through [glencoe.com](http://glencoe.com) for a link to the Occupational Outlook Handbook Web site. Click on the “OOH Search/A-Z Index” link and enter the job category of “state and local government, excluding education and hospitals.” Then write a one-page report about this area of occupation. Conclude your report with a list of things you could do now to prepare yourself to pursue this occupation.

**A Case for or Against Public Goods or Services**
30. **Situation** Imagine that you are a lawyer who is asked to justify a position on a public good or service to the mayor.

**Activity** Choose an existing public good or service in your community. Prepare an argument explaining why it should either continue to be provided as a public good or service or should instead be provided by the private sector.

**Evaluation** You will be evaluated on how well you meet the following performance indicators:
- Demonstrate an understanding of the difference between private and public goods and services.
- Give reasons why the good or service should be provided in the public or private sector.
- Deliver your presentation in a logical sequence.
- Use correct grammar and project your voice.

---

**Standardized Test Practice**

**Directions** Choose the letter of the best answer. Write the letter for the answer on a separate piece of paper.

1. Which word is spelled correctly and completes the sentence?
   
   A Supreme Court decision about antitrust laws sets an important _____________.
   
   A president
   B presedent
   C precedant
   D precedent

**Test-Taking Tip** Taking tests can be stressful. Stay relaxed. If you begin to get nervous, take a few deep breaths slowly to relax yourself. Then get back to work.

---

**Reading** Go to the Introduction to Business Online Learning Center through [glencoe.com](http://glencoe.com) for a list of outside reading suggestions.