



GACE® Economics Assessment

Test at a Glance

Updated June 2017

See the GACE® Economics Assessment Study Companion for practice questions and preparation resources.

Assessment Name	Economics
Grade Level	6–12
Test Code	Test I: 038 Test II: 039 Combined Test I and Test II: 538
Testing Time	Test I: 2 hours Test II: 2 hours Combined Test I and Test II: 4 hours
Test Duration	Test I: 2.5 hours Test II: 2.5 hours Combined Test I and Test II: 5 hours
Test Format	Computer delivered
Number of Selected-response Questions	Test I: 80 Test II: 80 Combined Test I and Test II: 160
Question Format	The test consists of a variety of short-answer questions such as selected-response questions, where you select one answer choice or multiple answer choices (depending on what the question asks for), questions where you enter your answer in a text box, and other types of questions. You can review the possible question types in the <i>Guide to Taking a GACE Computer-delivered Test</i> .
Number of Constructed-response Questions	Test I: 0 Test II: 0 Combined Test I and Test II: 0

About this Assessment

The GACE Agricultural Education assessment is designed to measure the professional knowledge of prospective teachers of secondary school Agricultural Education in the state of Georgia.

This assessment includes two tests. You may take either test individually or the full assessment in a single session. The testing time is the amount of time you will have to answer the questions on the test. Test duration includes time for tutorials and directional screens that may be included in the test.

The questions in this assessment assess both basic knowledge across content areas and the ability to apply principles.

The total number of questions that are scored is typically smaller than the total number of questions on the test. Most tests that contain selected-response questions also include embedded pretest questions, which are not used in calculating your score. By including pretest questions in the assessment, ETS is able to analyze actual test-taker performance on proposed new questions and determine whether they should be included in future versions of the test.

Content Specifications

Each test in this assessment is organized into content **subareas**. Each subarea is further defined by a set of **objectives** and their **knowledge statements**.

- The objectives broadly define what an entry-level educator in this field in Georgia public schools should know and be able to do.
- The knowledge statements describe in greater detail the knowledge and skills eligible for testing.
- Some tests also include content material at the evidence level. This content serves as descriptors of what each knowledge statement encompasses.

See a breakdown of the subareas and objectives for the tests in this assessment on the following pages.

Test I Subareas

Subarea	Approx. Percentage of Test
I. Fundamental Economic Concepts	20%
II. Microeconomics	80%

Test I Objectives

Subarea I: Fundamental Economic Concepts

Objective 1: Demonstrates an understanding of the fundamental concepts of economics

The beginning Economics teacher:

- A. Understands the concepts of scarcity, choice, and opportunity cost
- B. Identifies and describes the factors of production (e.g., land, labor, physical capital, human capital, entrepreneurship) and gives an example of each
- C. Understands how changes in marginal costs and marginal benefits affect decision making
- D. Understands how the production possibility curve is used to illustrate trade-offs, economic efficiency, economic inefficiency, and economic growth
- E. Understands how specialization increases productivity and results in greater output of goods and services
- F. Understands that both buyers and sellers gain from specialization and voluntary exchange
- G. Compares command, market, and mixed economic systems with regard to ownership and allocation of resources
- H. Understands how each type of system answers the three economic questions of what, how, and for whom goods and services are produced
- I. Understands how each system addresses broad social and economic goals such as growth, equity, and stability

Subarea II: Microeconomics

Objective 1: Demonstrates an understanding of supply and demand and elasticity

The beginning Economics teacher:

- A. Understands how the simple circular-flow model is used to describe how households and businesses interact through the product and factor markets
- B. Understands the law of supply and the law of demand and how they are illustrated, using supply and demand curves
- C. Understands how the supply-and-demand graph is used to determine equilibrium price and quantity in a competitive market
- D. Understands how prices guide the allocation of resources and the production and distribution of goods
- E. Understands how competitive markets eliminate surpluses and shortages
- F. Identifies the determinants of market supply and demand, and understands how changes in the determinants of supply and demand affect the market equilibrium
- G. Understands the distinction between a shift of the supply or demand curves versus a movement along the supply or demand curves
- H. Understands the concepts of consumer and producer surpluses and how they are used to measure the benefits and costs of price changes
- I. Understands how the concepts of total utility and marginal utility are used to explain consumer choices
- J. Defines the price elasticity of supply and the price elasticity of demand, and understands how to calculate them
- K. Understands the different classifications of elasticity such as elastic and inelastic supply and demand curves
- L. Understands the relationship between total revenue and elasticity of demand
- M. Identifies and explains the factors affecting the price elasticity of supply and demand
- N. Understands the concept of income elasticity of demand and how it is used to distinguish between normal and inferior goods
- O. Understands the concept of cross-price elasticity of demand and how it is used to identify whether two goods are substitutes or complements

Objective 2: Demonstrates an understanding of the impacts of government intervention in markets

The beginning Economics teacher:

- A. Understands how the graph of supply and demand is used to analyze the impact of price floors or price ceilings
- B. Understands how the graph of supply and demand is used to analyze the effects of taxes and subsidies on the equilibrium market price and quantity
- C. Understands how the existence of public goods, externalities, and income distribution causes market failure
- D. Understands how the government attempts to remedy market failure to improve the allocation of resources
- E. Understands why government protects property rights
- F. Gives examples of government regulation and deregulation and their effects on consumers and producers
- G. Understands the meaning of progressive, regressive, and proportional taxes and their effects on household income

Objective 3: Demonstrates an understanding of the concepts of production, cost, and market structures

The beginning Economics teacher:

- A. Identifies and compares the three forms of business organization
- B. Understands the role of profit as an incentive for entrepreneurs
- C. Understands the relationship among revenues, costs, and profits
- D. Understands the difference between explicit and implicit costs
- E. Understands the relationships between inputs and outputs (production function, total product, and marginal product)
- F. Understands the distinction between the short run and the long run
- G. Understands the law of diminishing marginal returns
- H. Understands the relationships among the various cost measures; e.g. total cost, total variable cost, total fixed cost, average total cost, average variable cost, average fixed cost, and marginal cost
- I. Understands long-run costs and the concept of economies of scale
- J. Understands the concept of derived demand for a factor of production, such as labor
- K. Understands how equilibrium wages and employment are determined in a competitive labor market

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- L. Understands how changes in labor demand and labor supply affect equilibrium wages and employment
 - M. Understands and illustrates on a graph how firms choose the profit-maximizing price and output using the marginal cost and marginal revenue analysis
 - N. Identifies the characteristics of perfect competition, and understands and illustrates on a graph how individual firms determine output to maximize profit
 - O. Identifies the characteristics and sources of monopolies, and understands and illustrates on a graph how a monopoly determines output and price to maximize profit
 - P. Compares a monopoly to a perfectly competitive market with respect to price, output, and allocative efficiency
 - Q. Identifies the characteristics of monopolistic competition and compares them to other market structures
 - R. Identifies the characteristics of an oligopoly and compares them to other market structures
 - S. Understands the role of profits in motivating entry into or exit from a market in the long run

Test II Subareas

Subarea	Approx. Percentage of Test
I. Macroeconomics	64%
II. International Economics	20%
III. Personal Finance	16%

Test II Objectives

Subarea I: Macroeconomics

Objective 1: Demonstrates an understanding of the measures of economic performance

The beginning Economics teacher:

- A. Understands how the expanded circular flow model is used to describe the economic transactions that occur among the major sectors of the economy — households, businesses, government, and the rest of the world — as they interact through the product markets, factor markets, and financial markets
- B. Understands the macroeconomic goals for an economy, including economic growth, full employment, and price stability
- C. Understands how gross domestic product (GDP) is defined and the different approaches used to measure GDP
- D. Understands the shortcomings of GDP as a measure of output and standard of living
- E. Understands the components of GDP, including consumption, investment, government purchases, and net exports
- F. Understands the distinction between nominal and real GDP
- G. Defines inflation and understands how it is measured using the consumer price index (CPI)
- H. Understands the distinction between nominal and real values for variables such as wages and interest rates
- I. Understands how inflation may benefit or hurt various groups of people
- J. Defines unemployment and understands how it is measured
- K. Understands the distinction among various types of unemployment; e.g., structural, cyclical, and frictional
- L. Understands the concept of the natural rate of unemployment
- M. Defines the business cycle and explains the phases of the cycle
- N. Defines the aggregate demand curve and its components, and understands the factors that shift the aggregate demand curve

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- O. Understands the distinction between short-run and long-run aggregate supply and explains their determinants
 - P. Understands how the aggregate supply and aggregate demand model is used to determine equilibrium price level and output in the short run and in the long run
 - Q. Understands how employment is related to real GDP
 - R. Understands how inflationary and recessionary gaps are defined in the context of the aggregate supply and aggregate demand model

Objective 2: Demonstrates an understanding of fiscal policy, monetary policy, and economic growth

The beginning Economics teacher:

- A. Identifies the major sources of revenue for the federal government and the major categories of government spending
- B. Understands the concept of marginal propensity to consume and how it is used to calculate the spending multiplier and the tax multiplier
- C. Defines fiscal policy and understands how changes in government spending and taxes are used to promote price stability, full employment, and economic growth
- D. Understands the distinction between expansionary and contractionary fiscal policies and the mechanism by which each can affect price level, output, and employment
- E. Understands the distinction between discretionary fiscal policy and automatic stabilization
- F. Understands the distinction between the national debt and government deficits
- G. Understands the structure and composition of the financial system
- H. Understands the structure and the functions of the Federal Reserve System
- I. Understands the definition and the functions of money
- J. Understands the different measures of the money supply
- K. Understands how banks create money and the concept of money multiplier
- L. Understands how equilibrium is determined in the money market
- M. Defines monetary policy and understands how the Federal Reserve Bank uses the tools of monetary policy to promote price stability, full employment, and economic growth
- N. Understands the distinction between expansionary and contractionary monetary policies and the mechanism by which each can affect price level, output, and employment
- O. Understands the meaning of productivity
- P. Understands the concept of economic growth and explains the determinants of economic growth

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- Q. Understands the relationship among savings, investment, and economic growth
 - R. Understands government policies designed to promote economic growth

Subarea II: International Economics

Objective 1: Demonstrates an understanding of the fundamental concepts of international trade and capital flows

The beginning Economics teacher:

- A. Understands the distinction between absolute advantage and comparative advantage
- B. Understands how opportunity costs are used to determine comparative advantage given production possibility curves for different countries
- C. Understands how comparative advantage is used to determine specialization and the direction of trade among countries
- D. Understands how specialization and trade lead to gains and interdependence
- E. Understands the difference between trade deficits and trade surpluses
- F. Understands how a country uses trade barriers to restrict free trade; e.g., tariffs, quotas, embargoes, and standards
- G. Understands the costs and benefits of trade barriers
- H. Understands the arguments for and against free trade
- I. Understands why trading blocs exist, and give examples of them; e.g., the EU, NAFTA, and ASEAN
- J. Understands the roles of international organizations; e.g., World Bank, IMF, and WTO
- K. Understands how a country's balance of payments is used to record its international transactions in trade and finance
- L. Understands the relationship between the current account balance and financial account balance in a country's balance of payments
- M. Defines the exchange rate of a currency and understands how it is determined under a fixed exchange-rate system and a flexible exchange-rate system
- N. Understands how to calculate an exchange rate from a set of data and determine whether the currency has appreciated or depreciated
- O. Understands the effect of currency appreciation or depreciation on a country's exports, imports, and trade balance
- P. Understands the causes of financial capital inflows and outflows
- Q. Understands who gains and who loses from currency appreciation or depreciation

Subarea III: Personal Finance

Objective 1: Demonstrates an understanding of the fundamentals of household spending, saving, and investment behavior

The beginning Economics teacher:

- A. Understands the impact of investment in education, training, and skill development on an individual's earnings
- B. Understands how people respond to incentives with respect to saving, investing, and spending decisions
- C. Understands how changes in fiscal and monetary policies affect an individual's income and spending and saving choices
- D. Understands how an increase in sales tax affects different income groups
- E. Understands the roles of different types of financial institutions in saving and financial investment
- F. Understands the role of a bank as a financial intermediary between savers and investors.
- G. Understands the relationship between risk and return
- H. Understands the difference between savings and financial investment instruments, including stocks, bonds, and mutual funds
- I. Understands how insurance and other risk-management strategies protect against financial losses
- J. Understands the factors that affect credit worthiness
- K. Understands the difference between simple and compound interest rates
- L. Understands the concept of the time value of money; e.g., present value and future value
- M. Compares the advantages and disadvantages of variable and fixed interest-rate loans