



HANDOUT 1 Wealth and Income

Conduct a search for the term wealth on the Encarta Web site. Use the recovered information to answer the following questions.

1. What is wealth?
2. What is income?
3. What are the components of wealth?
4. What analogy does the author use to distinguish between wealth and income?
5. Define personal wealth.
6. How has the concept of wealth changed over time?
7. What is money?
8. Is *income* money? Is *wealth* money? Explain.
9. In a few sentences, explain how money, income, and wealth are related.

Synthesizing what you have learned: Tell whether the following statements use the terms money, income, and wealth correctly, and explain your answers.

1. Peter earns a lot of wealth from his job.
2. Sheri has a steady income that allows her to add to her wealth.
3. Average incomes in the United States are rising.
4. My money from babysitting is \$10.
5. Claire earns wealth by working 40 hours per week.
6. A person can have a high income and little wealth.

Answer Key for Handout 1

1. The accumulation of goods having economic value at a specific time.
2. The flow (i.e., the change in stock/inventory) of goods and services during a certain period of time.
3. Students may distinguish between producer and consumer goods. Wealth for the producer may include plants, machinery, and unsold inventories. Wealth for the consumer may include clothing, food, homes, cars, stocks, bonds, currency, etc.
4. Wealth is the lake into which streams of income flow.
5. Refers to bank balances, currency, and other household financial assets.
6. Mercantilists believed wealth consisted primarily of precious metals. In the 18th century, physiocrats added farming, fishing, and mining products to the definition, and Adam Smith added manufactured goods. In the 20th century, some economists began incorporating intangibles (e.g., corporate goodwill) in their definitions of wealth.
7. An asset that serves as a medium of exchange, a unit of accounting, and a store of value.
8. No, money is not the same as income. Money is used as a medium of exchange, a way to pay for goods and services. An individual can receive payment (usually in the form of money) for services rendered. Wealth is not always in the form of money, but money is always a form of wealth, as it is a store of value.
9. Money is used as payment, which becomes an individual's income. Money can be saved and added to wealth. Wealth is the accumulation of goods that have value. Money may be part of wealth. Income is the flow of goods and services over time. Money may be part of the goods exchanged.

Statements:

1. Incorrect. Peter earns income.
2. Correct. Income can be added to wealth when saved.
3. Correct. Higher wage rates have led to higher incomes.
4. Incorrect. My income from babysitting is \$10.
5. Incorrect. Claire earns income. She works over a period of time.
6. Correct. The income may be spent and not saved.