

Chapter 2

Free Enterprise in the United States

The Four Pillars of Free Enterprise

- *Private Property*
- *Price System*
- *Competition*
- *Entrepreneurship*

Private Property

- *The capital and other resources owned by individuals or businesses rather than governments.*

Price System

- *The use of prices to allocate scarce resources.*
- *When buyers and sellers make exchanges in markets, they establish prices for goods, services, and resources.*
- *Profit is what remains after the costs of doing business have been met.*

Market Competition

- *The rivalry among buyers and sellers in the purchase and sale of resources and products.*
- *Provides incentives to use resources wisely and produce goods and services people want and will pay for.*
- *Incentives are reasons for doing something - this may mean profit, interest, wages, etc.*

Entrepreneurship

- *Seeing opportunities and acting on them to introduce new or better goods and services to the market.*
- *Risk-takers*
- *In a free enterprise (market) economy; this type of behavior is fostered.*

Economic Systems

Economic Systems are a way for countries to produce goods and services and to provide a means for distribution.

- *Free Enterprise (MARKET) Economy*

- *Command Economy*

- *Traditional Economy*

- *Mixed System Economy*

Market Economy

- *Also known as a Free Enterprise or Capitalism.*
- *Economic decisions are based on the actions of buyers and sellers; the market produces what people are willing to buy.*
- *Regulation by government is minimal.*
- *United States and Japan are examples.*

Command Economy

- *Economic decisions are influenced or made by the central authority made up of one person or a small group who controls others in the society.*
- *Government holds most property rights.*
- *Until recently, good examples were Russia and other Eastern European nations.*

Traditional Economy

- *Economy in which people do things the way they have always been done.*
- *Little to no change from year to year.*
- *Same methods of production and distribution are used.*
- *Methods are based on habit, custom, and religious belief.*
- *Less common today; used to be that you could find this type in parts of Africa or Middle East.*

Mixed Economy

- *An economic system that is made up of parts of several other economic systems.*
- *No country has an economy based totally on any of the aforementioned economic systems.*

Circular Flow Model

- *Illustrates the basic elements of a free enterprise economy.*
- *Shows the voluntary exchanges between households and businesses.*
- *See Charts 2-1 & 2-2 on pages 15-16.*

Households

- *Include everyone in the U.S. Their economic roles are:*
 - ✦ *CONSUMERS - they use the goods and services that businesses produce.*
 - ✦ *RESOURCE OWNERS - they own all the economy's resources.*

Markets

Goods & Services Markets

Voluntary exchanges between consumers and businesses.

Resource Markets

Voluntary exchanges between resource owners and businesses.

Three Functions of Money

- 1. Medium of Exchange*
- 2. A Store of Value*
- 3. A Measure of Value*
- 4. Money makes exchange of products and resources easier.
We used to have a system based on bartering.*

Goals of the U.S. Economic System

- *Full Employment*
- *Economic Growth*
- *Price Stability*
- *Economic Freedom*
- *Economic Security*
- *Equity*
- *Efficiency*