Three Basic Questions

- What Should Be Produced?
- How Should It Be Produced?
- For Whom Should It Be Produced?
Types of Economic Systems

- Traditional Economy
- Command Economy
- Market Economy
- Mixed Economy
Traditional Economy

- Based on the way it has always been done
- Father a fisherman, you become a fisherman
- Oldest type of economy
Command Economy

- Government makes the decisions
- China and North Korea
Market Economy

- individuals own the factors of production and make economic decisions through free interaction while looking out for their own interests
- Uses System of voluntary exchange
Mixed Economy

- Combination of traditional, command, and/or market economy
- Most Common Form
CHAPTER 2
SECTION 2

Characteristics of the American Economy
6 Characteristics of a Pure Market Economy

1. Limited Role of Government
2. Freedom of Enterprise
3. Freedom of Choice
4. Profit Incentive
5. Private Property
6. Competition
Limited Role of Government

- Capitalism: economic system in which private individuals own the factors of production.
- Laissez-faire: economic system in which the government minimizes its interference with the economy. Details include:
  - “Hand off”/“Let it be”
Freedom of Enterprise

- Free Enterprise System: economic system in which individuals own the factors of production and decide how to use them with legal limits
  - Business need to get licenses
  - Zoning Regulations
Freedom of Choice

- Buyers make the decisions of what should be produced
- If people like it, more is made
- If not, production is slowed or stopped
Profit Incentive

- Profit: money left after all the costs of production have been paid
- Profit Incentive: desire to make money that motivates people to produce and sell goods and services
Private Property

- Whatever is owned by individuals rather than government
Competition

- Rivalry among producers or sellers of similar goods and services to win more business
Adam Smith

- Considered to be the founder of classical economics
- Argued that the “invisible hand” would best benefit society
  - Belief that people, seeking profits, would be best for economy rather than government intervention