Benefits of Free Enterprise

- What are the basic principles of the U.S. free enterprise system?
- What role does the consumer play in the system of free enterprise?
- What is the role of the government in the free enterprise system?

The Basic Principles of Free Enterprise

Several key characteristics make up the basic principles of free enterprise.

1. **Profit Motive**

   The drive for the improvement of material well-being.

2. **Open opportunity**

   The ability for anyone to compete in the marketplace.

3. **Legal equality**

   Equal rights to all.

4. **Private property rights**

   The right to control your possessions as you wish.

5. **Free contract**

   The right to decide what agreements in which you want to take part.

6. **Voluntary exchange**

   The right to decide what and when you want to buy and sell a product.

7. **Competition**

   The rivalry among sellers to attract consumers.

The Consumer's Role

A fundamental purpose of the free enterprise system is to give consumers the freedom to make their own economic choices.

Through their economic dealings with producers, consumers make their desires known. When buying products, they indicate to producers what to produce and how much to make.

Consumers can also make their desires known by joining interest groups, which are private organizations that try to persuade public officials to vote according to the interests of the groups' members.

The Government's Role

Americans expect the government to protect them from potential problems that arise from the production of various products or the products themselves.

Public Disclosure Laws

Laws that require companies to provide consumers with important information about their products, such as fuel efficiency of automobiles, side-effects of medication.

Public Interest

Both state and federal governments' involvement in concerns of the public as a whole, such as environmental protection, sanitary food production.

Section 1 Assessment

1. Americans generally favor
   (a) strong government control of the economy.
   (b) limited government intervention in the economy.
   (c) no government intervention in the economy.
   (d) government control of manufacturing only.
2. The basic principles of free enterprise do NOT include
   (a) competition.
   (b) legal equality.
   (c) profit motive.
   (d) checks and balances.

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Promoting Growth and Stability

- How does the government track and seek to influence business cycles?
- How does the government try to promote economic strength?
- Why and how does the government encourage innovation?

Tracking Business Cycles

- **Macroeconomics** is the study of the behavior and decision making of entire economies.
- A **business cycle** is a period of a macroeconomic expansion followed by a period of contraction.
- One measure of a nation's macroeconomy is **gross domestic product (GDP)**. GDP is the total value of all final goods and services produced in a particular economy.

Promoting Economic Strength

Policymakers pursue three main outcomes as they seek to stabilize the economy.

Employment

- One aim of federal economic policy is to provide jobs for everyone who is able to work.

Growth

- For each generation of Americans to do better than previous ones, the economy must grow to provide additional goods and services.

Stability

- Stability gives consumers, producers, and investors confidence in the economy and in our financial institutions, promoting economic freedom and growth.

Encouraging Innovation

The government encourages the development of new technologies in several ways. Technology is the process used to produce a good or service.

- **Federal agencies fund many research and development projects. Also, new technology often evolves out of government research.**
- **A patent gives the inventor of a new product the exclusive right to produce and sell it for 20 years.**

Section 2 Assessment

1. Policymakers encourage all of the following EXCEPT
   (a) stable productivity.
   (b) high employment.
   (c) stable prices.
   (d) steady growth.
2. The government encourages advances in technology and improvements in productivity by
   (a) maintaining steady price controls.
   (b) funding research and development projects at many levels.
   (c) hiring more workers to reduce unemployment.
   (d) regulating banks and other financial institutions.

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Providing Public Goods

- What are public goods?
- What is a market failure?
- How does government manage externalities?

Public Goods

- A **public good** is a shared good or service for which it would be impractical to make consumers pay individually and to exclude nonpayers.
  - Public goods are funded by the **public sector**, the part of the economy that involves transactions of the government.
  - A **free rider** is someone who would not choose to pay for a certain good or service, but who would get the benefits of it anyway if it is provided as a public good.

Market Failures

- **Would the free market ensure that roads are built everywhere they are needed?**
- **It’s doubtful. Neither could individuals afford to pay for a freeway.**

A market failure is a situation in which the market, on its own, does not distribute resources efficiently.

Externalities

- **An externality is an economic side effect of a good or service that generates benefits or costs to someone other than the person deciding how much to produce or consume.**
  - The building of a new dam and creation of a lake generates:
    - Positive Externalities
      - A possible source of hydroelectric power
      - Swimming
      - Boating
      - Fishing
      - Lakefront views
    - Negative Externalities
      - Loss of wildlife habitat due to flooding
      - Disruption of fish migration along the river
      - Overcrowding due to tourism
      - Noise from racing boats and other watercraft

Section 3 Assessment

1. Which of the following is an example of the public sector of the economy?
   (a) consumers purchasing goods from a private company
   (b) laborers working for a private construction company
   (c) government funding for a new national park
   (d) individual donations to charity
2. What is government's role in controlling externalities in the American economy?
   (a) government tries to encourage positive externalities and limit negative externalities
   (b) government tries to limit all externalities because they represent market failure
   (c) government tries to limit positive externalities and encourage negative externalities
   (d) government tries to encourage all externalities so that the market will be competitive

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Providing a Safety Net

- What role does the government play in fighting poverty?
- What government programs attempt to aid those facing poverty?

The Poverty Problem

The poverty threshold is an income level below that which is needed to support families or households.

- **The poverty threshold is determined by the federal government and is adjusted periodically.**
- **Welfare is a general term that refers to government aid to the poor.**

Redistribution Programs

Cash transfers are direct payments of money to eligible people.

Temporary Assistance for Needy Families (TANF)
This program allows individual states to decide how to best use federally provided funds.

Social Security
Social Security provides direct cash transfers of retirement income to the nation's elderly and living expenses to the disabled.

Stability
Unemployment compensation provides money to eligible workers who have lost their jobs.

Workers' Compensation
Workers' compensation provides a cash transfer of state funds to employees injured while on the job.

Other Redistribution Programs

- **Besides cash transfers, other redistribution programs include:**

  In-kind benefits

  - **In-kind benefits are goods and services provided by the government for free or at greatly reduced prices.**

  Medical benefits

  - **Health insurance is provided by the government for the elderly and disabled (Medicare) and for poor people who are unemployed or are not covered by their employer's insurance (Medicaid).**

  Education benefits

  - **Federal, state, and local governments all provide educational opportunities for the poor.**

Section 4 Assessment

1. Welfare includes all of the following EXCEPT
   (a) Temporary Assistance to Needy Families
   (b) Occupational Safety and Health Administration
   (c) Social Security
   (d) Medicaid
2. Education programs make the economy more productive by
   (a) adding to human capital and labor productivity.
   (b) reducing taxes.
   (c) providing more jobs in manufacturing.
   (d) reducing injuries on the job.

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