

# 2.4 Modern Economies

# The Rise of Mixed Economies

Market economies, with all their advantages, have certain drawbacks.

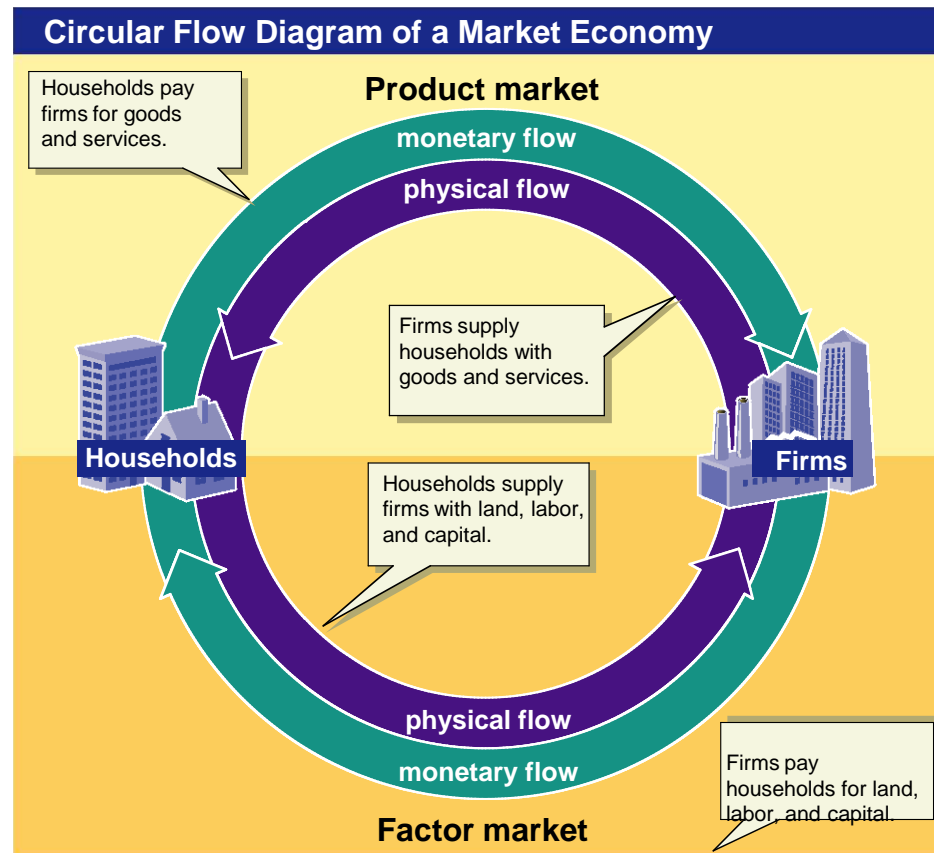
## Limits of Laissez Faire

Laissez faire is the doctrine that government generally should not interfere in the marketplace.

Governments create laws protecting property rights and enforcing contracts. They also encourage innovation through patent laws.

# The Free Market Economy

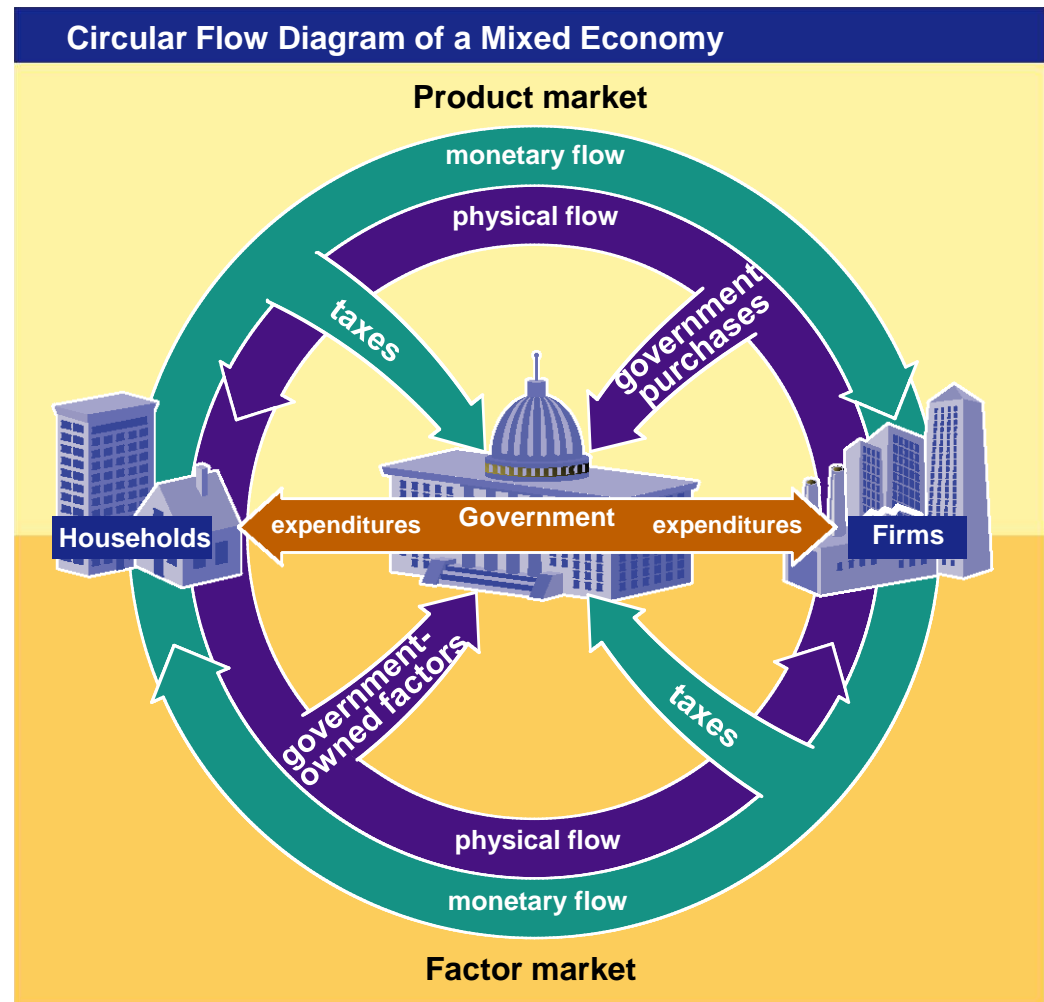
- In a free market economy, households and business firms use markets to exchange money and products. Households own the factors of production and consume goods and services.



# Government's Role in a Mixed Economy

In a mixed economy,

- The government purchases land, labor, and capital from households in the factor market, and
- Purchases goods and services in the product market.



# Comparing Mixed Economies

- An economic system that permits the conduct of business with minimal government intervention is called **free enterprise**. The degree of government involvement in the economy varies among nations.

## Continuum of Mixed Economies

Centrally planned

Free market



Source: 1999 *Index of Economic Freedom*, Bryan T. Johnson, Kim R. Holmes, and Melanie Kirkpatrick

**Presentation Pro**

# Free Enterprise

*If there is a fork in the road take it because it's always good to have more silverware.*

•The purpose of a Free Enterprise is to give consumers freedom to make economic choices. The basic characteristics are:

•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.

# Consumers

**Consumers: the buyers in the market**

**Basic Roles:**

- 1. Make economic choices**
- 2. Join interest groups.**



# Government

**The government should always act in a way to promote the public interest.**

## **Basic Roles:**

- 1. Public disclosure laws**
- 2. Environmental Protection**
- 3. Consumer Protection**
- 4. Impose regulations**

# Video Questions: Eminent Domain

- **Questions:**
  - 1. Is this an appropriate way for government to intervene in the marketplace?**
  - 2. Which features of free enterprise does this practice violate?**

# More Vocabulary

- **market failures** – a situation which goods are not fairly distributed.
- **poverty threshold** – income level below which a family can't support themselves
- **Externality** – an **outside influence that causes economic side effects**
- **positive externality** – get something you didn't pay for: like a kid using a park, like a neighbor planting a rose garden in their front yard.
- **negative externality**– not getting something for what you paid for, like schools for single people with no kids, parks not used