

ECON: Chapter 2.4

Modern Economics

- Most economies today are a mixture of economic systems.

I. The Rise of Mixed Economies

- No single economic system has all the answers.

A. The Limits of *Laissez Faire*

(Government should not intervene in the marketplace) **HANDS OFF!!**

1. Some needs are difficult to answer in the marketplace.
 - a. i.e. national defense or highway systems
2. Some needs fall to the government so all can participate.
 - a. i.e. education, health care, mass transit

B. Balancing Control and Freedom

1. Society has to decide what its economic goals are and what they are willing to give up.
Examples: Are you willing to pay taxes to fund the military? To educate all people?

II. A Circular Flow Model of a Mixed Economy

- Need to add “government” to our circular flow of economic activity
- (Show FIG. 2.4)

III. Comparing Mixed Economies

- The “Free-market” is the foundation of the US Economy.
- Free enterprise = an economic system characterized by private or corporate ownership of capital goods.

A. Mixed Economies where Government Intervention Dominates

1. **North Korea**- (one end of the scale) government owns ALL the property and economic output.
Almost all imports are banned.
2. **China**- (toward Centrally Planned but not as extreme as North Korea) economy dominated by the government but 25% of all enterprises are at least partly owned by individuals.
*China is in transition = a period of change in which an economy moves away from Central Planning toward a Market Based economy.

B. Mixed Economies where the Market System dominates

1. **Hong Kong**- (opposite end of scale from North Korea) one of the world’s freest markets. Private Sector rules!

IV. The United States Economy

A. Free Enterprise Economy

1. Government does intervene to keep order, provide vital services, and promote general welfare.
2. Some people argue for more government services, while others say the government already intervenes too much.
3. US enjoys a high level of economic freedom.