

## Unit III

### CHARACTERISTICS OF A MARKET ECONOMY

Name \_\_\_\_\_

#### LIMITED GOVERNMENT

A competitive market economy promotes the efficient use of its resources. As a self-regulating and self-adjusting economy, no significant economic role for government is necessary. However, a number of limitations and undesirable outcomes associated with the market system result in an active, but limited economic role for government. Roles include protection of people and property and enforcement of contracts.

**6 Word Summary:** \_\_\_\_\_

#### PRIVATE PROPERTY

Labor resources, natural resources, capital resources (e.g., equipment and buildings), and the goods and services produced in the economy are largely owned by private individuals and private institutions rather than by government. This private ownership combined with the freedom to negotiate legally binding contracts permits people, within very broad limits, to obtain and use resources as they choose. People have the right to acquire, use, and dispose of their property.

**6 Word Summary:** \_\_\_\_\_

#### FREEDOM OF ENTERPRISE AND CHOICE

Private entrepreneurs are free to obtain and organize resources in the production of goods and services and to sell them in markets of their choices. Consumers are at liberty to buy that collection of goods and services that best satisfies their economic wants. Workers are free to seek any jobs for which they are qualified.

**6 Word Summary:** \_\_\_\_\_

#### MOTIVE OF SELF-INTEREST

The "Invisible Hand" that is the driving force in a market economy is each individual promoting his or her self-interest. Consumers aim to get the greatest satisfaction from their budgets; entrepreneurs try to achieve the highest profits for their firms; workers want the highest possible wages and salaries; and owners of property resources attempt to get the highest possible prices from the rent and sale of their resources.

**6 Word Summary:** \_\_\_\_\_

#### COMPETITION

Economic rivalry means that buyers and sellers are free to enter or leave any market and that there are buyers and sellers acting independently in the marketplace. It is competition, not government regulation, that diffuses economic power and limits the potential abuse of that power by one economic unit against another as each attempts to further its own self-interest.

**6 Word Summary:** \_\_\_\_\_

## **SYSTEM OF MARKETS AND PRICES**

Markets are the basic coordinating mechanisms in our type of economy, not central planning by government. A market brings buyers and sellers of a particular good or service into contact with one another. The preferences of sellers and buyers are registered on the supply and demand sides of various markets, and the outcome of these choices is a system of product and resource prices. These prices are guideposts on which participants in markets make and revise their free choices in furthering their self-interests.

**6 Word Summary:** \_\_\_\_\_

### **Economic Roles of Government**

#### **Maintaining Legal and Social Framework**

*Example: Create laws and provide courts, provide information and services to help economy function better, establish a monetary system, define and enforce property rights, enforce contracts.*

#### **Maintaining Competition**

*Example: Create and enforce antitrust laws; regulate natural monopolies.*

#### **Providing Public Goods and Services**

*Example: Provide goods and services that markets are unable or unwilling to provide, such as national defense.*

#### **Redistributing (rearranging) Income**

*Example: Higher income tax rates for rich than for poor, provide social security, and aid to dependent children, Medicare, Medicaid.*

#### **Correcting for Externalities**

*Example: Taxes to reduce negative externalities, such as environmental pollution; subsidies to encourage positive externalities, such as education. Externalities exist when some of the costs or benefits associated with the production or consumption of a product "spill over" to third parties other than the direct producer or consumer of the product.*

#### **Stabilizing the Economy**

*Example: Use government's ability to tax, spend and borrow and/or the money supply to promote economic growth, control inflation, and reduce unemployment.*

### **Unit III: The Individual, The Government, and Mix Markets**

#### **Key Understandings:**

1. Both economic relations and political relations represent cooperation on the part of two or more individuals.
2. Voluntarily exchanges have mutual benefits to both parties.
3. All exchanges involve private and social costs and benefits.
4. Collective actions to promote the common good do not benefit all individuals equally nor do they exert the same private cost on each individual.
5. There are no right or wrong solutions to problems, there are only trade-offs. As long as resources are scarce there will have to be trade-offs.
6. The concept of scarcity applies to both the private individual and the government.
7. Collective action through government decisions will have an impact on the market.

#### **Scan Pages 182-190**

#### **Read pages 191-201 and answer the following questions**

1. Define Private Cost, External Cost, and Social Cost
2. Define Private Benefit, External Benefit, Social Benefit
3. What does marginalism mean? Example marginal cost or marginal benefit
4. Define market failure and government failure.
5. What is a mixed market?
6. Why are limited governments an essential part of economic success?
7. Do you agree with John Stuart Mill views on the rightful purpose of government? (page 198) explain why or why not
8. How as the government shutdown impacted our nation economically? Find current examples and be prepared to speak about them in class.