

1 **Answering the Three Economic Questions**

- What key economic questions must every society answer?
- What basic economic goals do societies have?
- What types of economic systems exist today?

2 **The Three Economic Questions**

- Every society must answer three questions:
 - What goods and services should be produced?
 - How should these goods and services be produced?
 - Who consumes these goods and services?

3 **Economic Goals**

- Societies answer the three economic questions based on their values.

4 **Four Economic Systems**

5 **Section 1 Assessment**

1. Each society determines who will consume what is produced based on
 - (a) its unique combination of social values and goals.
 - (b) the amount of factor payments.
 - (c) its needs and wants.
 - (d) economic equity.
2. To improve its standard of living, a nation's economy must
 - (a) remain stable.
 - (b) grow through innovation.
 - (c) reach economic equity.
 - (d) allow the central government to make economic decisions.

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7 **The Free Market**

- How do free markets operate?
- How can markets regulate themselves?
- What are the advantages of a free market economy?

8 **Why Do Markets Exist?**

Markets exist because none of us produces all the goods and services we require to satisfy our needs and wants.

9 **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.

10 **The Market's Self-Regulating Nature**

- In every transaction, the buyer and seller consider only their self-interest, or their own personal gain. Self-interest is the motivating force in the free market.
- Producers in a free market struggle for the dollars of consumers. This is known as competition, and is the regulating force of the free market.

- The interaction of buyers and sellers, motivated by self-interest and regulated by competition, all happens without a central plan. This phenomenon is called “the invisible hand of the marketplace.”

11  **Advantages of the Free Market**

① Economic Efficiency

- As a self-regulating system, a free market economy is efficient.

Economic Growth

- Because competition encourages innovation, free markets encourage growth.

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② Economic Freedom

- Free market economies have the highest degree of economic freedom of any economic system.

Additional Goals

- Free markets offer a wider variety of goods and services than any other economic system.

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12  **Section 2 Assessment**

1. Why do people need to buy and sell goods or services?
 - (a) People need to buy and sell goods to make a profit.
 - (b) People buy and sell to maintain a competitive society.
 - (c) No one is self-sufficient.
 - (d) People need to provide the market with goods and services.
2. What factors create the phenomenon of the “invisible hand”?
 - (a) incentives and efficiency
 - (b) specialization and efficiency
 - (c) competition between firms
 - (d) competition and self-interest

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14  **Centrally Planned Economies**

- How are centrally planned economies organized?
- How did the centrally planned economy of the former Soviet Union function?
- What problems exist within centrally planned economies?

15  **Organization of Centrally Planned Economies**

In a centrally planned economy, the government owns both land and capital. The government decides what to produce, how much to produce, and how much to charge.

16  **The Former Soviet Union**

- Soviet Agriculture

- In the Soviet Union, the government created large state-owned farms and collectives for most of the country’s agricultural production.
- Soviet Industry
 - Soviet planners favored heavy-industry production (such as steel and machinery), over the production of consumer goods.
- Soviet Consumers
 - Consumer goods in the Soviet Union were scarce and usually of poor quality.

17 **Problems of a Centrally Planned Economy**

Centrally planned economies face problems of poor-quality goods, shortages, and diminishing production.

18 **Section 3 Assessment**

1. In a socialist country,
 - (a) central planning is unnecessary.
 - (b) the government often owns major industries, such as utilities.
 - (c) an authoritarian government controls the economy.
 - (d) economic equality is not important.
2. Which of the following is an advantage of a centrally planned economy?
 - (a) the system’s bureaucracies are small and flexible
 - (b) the system can work quickly to accomplish specific goals
 - (c) innovation is well rewarded
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20 **Modern Economies**

- Why are many modern economies mixed economies?
- What role does the government play in a mixed economy?
- How do mixed economies in different countries compare?
- What role does free enterprise play in the United States economy?

21 **The Rise of Mixed Economies**

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

22 **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.

23 **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.

24 **Section 4 Assessment**

1. The United States economy is a mixed economy

- (a) based on the principle of a traditional economy, but allows some government intervention.
 - (b) based on the principles of a centrally planned economy, with limited government intervention.
 - (c) based on the principles of the free market, and allows no government intervention.
 - (d) based on the principles of the free market, but allows some government intervention.
2. Government intervention in a modern economy is useful because
- (a) the needs and wants of modern society are always met by the marketplace.
 - (b) the marketplace has many incentives to create public goods such as parks and libraries.
 - (c) governments are able to provide some goods and services that the marketplace has no incentive to produce.
 - (d) the marketplace provides all of its own laws.

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