

**DIRECTIONS:** Based on the reading below, answer questions 1 - 4.

## LOOKING AT ECONOMICS

In this chapter, you will learn how America matured as an industrial society. To better understand the influence of economic change on American life, let's look briefly at what an economy is and how the American market economy works.

We all have wants and needs. Unfortunately, our wants are unlimited and can never be fully satisfied because we have limited resources. A society can never meet everyone's wants and needs with its existing resources. This is the **problem of scarcity**. Because of the problem of scarcity, every society must make choices in answering three basic economic questions:

1  
What should  
be produced?

2  
How should it  
be produced?

3  
Who gets what  
is produced?

**Economics** is the study of how societies use their limited resources to satisfy these unlimited wants. Societies answer these basic economic questions in different ways. Each way is referred to as an **economic system**.

In a *traditional economy*, the basic economic questions are answered by following past customs and traditions.

In a *command economy*, the basic economic questions are answered by government leaders.

In a *market economy*, people are free to produce whatever they wish and to buy whatever they can afford.

## HOW THE FREE MARKET WORKS

In a market economy, also known as **capitalism**, the profit motive provides an incentive for people to risk their money to produce goods and to provide services. The forces of supply and demand set the price for a product and how much of it is made. **Supply** refers to how much of a product producers make available. **Demand** is how much of a product consumers are willing to buy.

- ★ When demand is high and supply is low, the price goes up. ↑
- ★ When demand is low and supply is high, the price goes down. ↓

Producers who charge too much lose customers to those who produce goods and services more efficiently. Inefficient producers eventually go out of business.

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1. Since our wants are unlimited and endless but we only have access to limited and scarce resources, people have to make economic choices. What are the three main economic questions that every society must make?

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2. Define key characteristics of Capitalism / Free-Enterprise:

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**Free Market:**

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**Supply:**

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**Demand:**

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**Scarcity:**

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3. Describe the main difference between a free market economy and a command economy. Who makes the economic choices in a free market economy? Who makes the economic choices in a command economy?

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4. In a command economy, the government owns the **means of production**. The **means of production** refers to all the things that go into producing a good or product, including factories, machines, tools, investments, land, and raw materials. In a free-enterprise (or free market) economy, the means of production are owned by private individuals and companies and NOT the government. Based on this information, answer the following question:

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*Multiple Choice: Choose the best answer*

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**A feature that is unique to a free-enterprise economic system is:**

- a. Government ownership of most companies
  - b. Strict government regulation of business
  - c. Private ownership of the means of production
  - d. Wages and prices set by the government
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