



# Chapter 2: Economic Systems Section 4

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# **ECONOMICS**

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# Objectives

1. **Explain** the rise of mixed economic systems.
2. **Interpret** a circular flow model of a mixed economy.
3. **Compare** the mixed economies of various nations along a continuum between centrally planned and free market systems.
4. **Describe** the role of free enterprise in the United States economy.



# Key Terms

- **laissez faire:** the doctrine that government generally should not intervene in the marketplace
- **private property:** property that is owned by individuals or companies, not by the government or people as a whole
- **mixed economy:** a market-based economic system in which the government is involved to some extent



# Key Terms, cont.

- **economic transition:** a period of change in which a nation moves from one economic system to another
- **privatization:** the process of selling businesses or services operated by the government to individual investors, and then allowing them to compete in the marketplace
- **free enterprise system:** an economic system in which investments in firms are made in a free market by private decision rather than by state control





- What are the characteristics of a mixed economy?
  - A mixed economy is characterized by:
    - A market-based economy with some government intervention
    - Government helps societies meet needs that would be too difficult for them to meet under a totally free market economy, such as education
    - Government protects property rights and ensures that exchanges in the marketplace are fair



# The Rise of Free Markets

- Even free market thinkers like Adam Smith recognized the need for a limited degree of government involvement in the economic marketplace.
- In a mixed economy, the market is free but has a certain degree of government control.

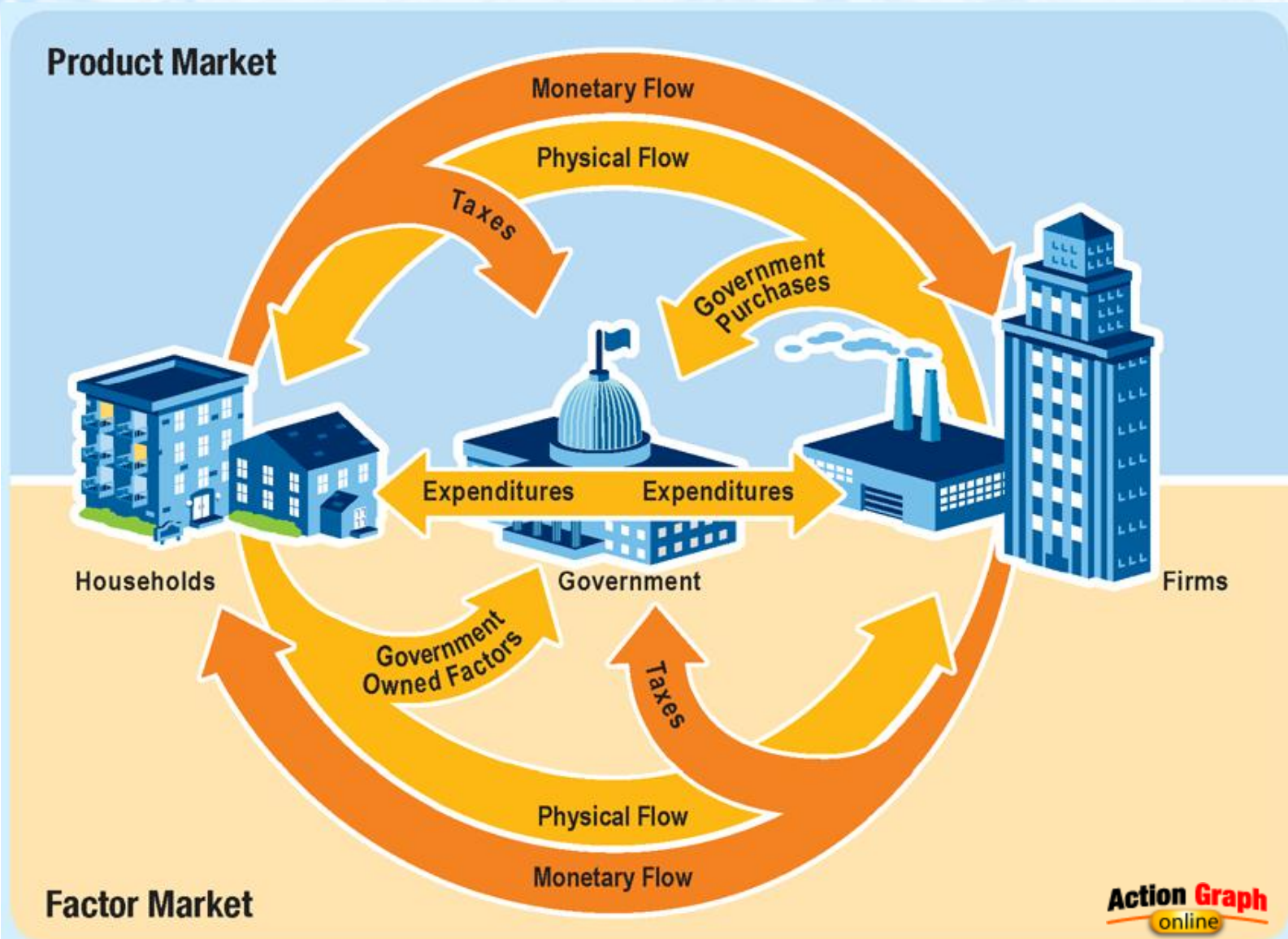


# The Rise of Free Markets, cont.

- Checkpoint: What is one reason the government plays a role in the economy?
- The government:
  - Provides national defense and public education
  - Protects private property
  - Ensures fair exchanges in the marketplace



# Circular Flow Model of a Mixed Economy





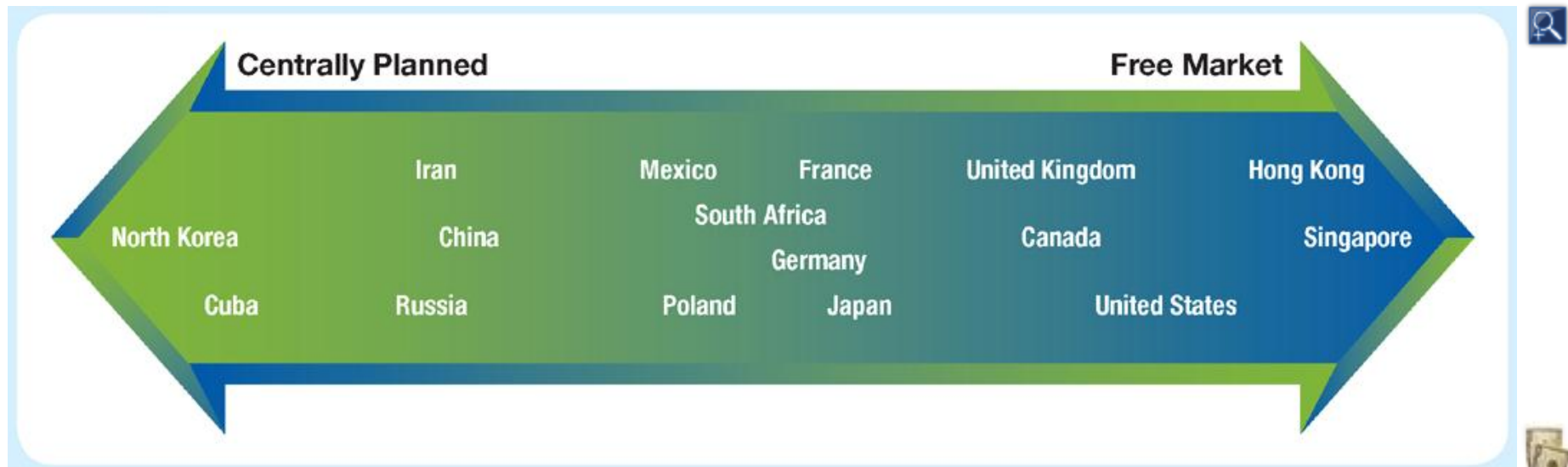
# Government in the Market

- Governments buy labor in the factor market to have employees help run its programs.
- Governments purchase goods and services from firms in the product market.
- Governments also collect taxes from both households and firms.
  - Checkpoint: How are governments involved in the product market?



# Comparing Mixed Economies

- Most modern economies are mixed economies.
  - The figure below shows a continuum of mixed economics in today's world.
  - Why is China a little bit farther to the right on the diagram below than Cuba?



# North Korea and China

- North Korea represents one extreme of the continuum.
  - North Korea's economy is almost totally dominated by the government. The government owns all the property and output equipment.
- China, on the other hand, is closer to the center of the continuum because China is going through an economic transition toward privatization of state-owned firms.



# Hong Kong

- Hong Kong represents one of the world's freest markets.
  - In Hong Kong, the private sector rules.
  - The government protects private property and rarely interferes in the free market, aside from establishing wage and price controls on rent and some public services.





# The United States

- The United States is a mixed economy whose foundation is the free market.
- It is characterized as a free enterprise system.

**Economics & YOU**


### Buying and Selling in a Mixed Economy

You walk into a store, put down your money, and walk away with an MP3 player. *In our free market, you can buy most goods without government interference.*



**Pharmacy**

A druggist can sell only medicines approved by the Food and Drug Administration. Regulations also determine what medicines can be bought only with a doctor's prescription. *In a mixed economy, the government restricts your ability to buy certain goods.*



# Government Intervention

- The American government intervenes in the economy by:
  - Keeping order
  - Providing vital services
  - Promoting general welfare
- Federal and state laws protect private property.
  - The marketplace operates with a limited degree of government regulation.



# American Economic Freedom

- The United States enjoys a high level of economic freedom.
  - Foreign investment and free trade is encouraged
  - The banking industry operates under relatively few restrictions
  - Foreign-owned banks have few additional restrictions



# Review

- Now that you have learned the characteristics of a mixed economy, go back and answer the Chapter Essential Question.
  - How does a society decide who gets what goods and services?

