**Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Economics**

**Chapter 3 Notes and Guided Practice**

**American Free Enterprise**

* **Chapter 3-1: Benefits of Free Enterprise**
* I. Basic Principles of Free Enterprise
  + The United States… commonly called the “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_”
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ unincorporated businesses in the US today
  + Most started by small \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Why is the US so successful?
  + A. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Drives individuals and businesses to make decisions that improve their material well-being
    - In business, this means we make decisions that increase profit
    - This encourages \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + B. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - The principle that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can compete in the marketplace
    - Success will vary, but everyone has a chance
    - This allows for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + C. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - The principle that everyone has the same legal rights
    - Maximized the use of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + D. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – give people the right to control their possessions and use them as they wish
    - Provides an incentive for property owners to use their property wisely and conserve resources
  + E. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Allows people to decide what agreements they want to enter in to
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Allows people to decide what, when, and how they want to buy and sell
    - This encourages \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* II. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – consumers make their own decisions
  + Also send signal when they do not buy something
  + Can also join \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - These try to persuade public officials to make policies that benefit their interests
* III. Economic Freedom and the Constitution
  + Main factor in our \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (love for our country)
  + Our economic rights are provided by the Constitution
  + A. Property Rights
    - Most governments can seize anyone’s property
    - Our constitution protects us from this
    - \_\_\_\_th and \_\_\_\_th Amendments
    - Private property cannot be taken without \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - The government does hold “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_” or the right to take property, but it must provide compensation
  + B. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Government can only tax in ways the constitution allows
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – taxes taken from each state must be based on the number of people in that state
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Right for the federal government to collect direct taxes based on income
  + C. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Right to make contracts is guaranteed by the Constitution
    - People cannot use the political process to get excused from a contract and the legislature cannot change the terms of a contract
* IV. The Role of Government in the Marketplace
  + A. Information and Free Enterprise
    - Consumers cannot make informed choices if they do not have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ about the product they are buying
    - Gov’t is responsible that consumers are given info
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      * Also require that the info be honest and clear
  + B. Protecting Public Health, Safety, and Well-Being
    - Gov’t limits the action of businesses in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - A variety of government agencies regulate businesses for this purpose
      * Example: \_\_\_\_\_\_\_\_\_\_\_\_\_
    - Both producers and consumers are subject to these laws
  + C. Negative Effects of Regulation
    - Rules can be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to implement
    - Regulations can stifle \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, creating unnecessarily high prices
    - Also increases \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* **Chapter 3-2: Promoting Growth and Stability**
* I. Tracking Business Cycles
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the study of economic decision making and behavior in the Nation’s economy
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the study of economic behavior and decision making in small units
  + A. GDP and the Business Cycle
    - GDP = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Total value of all goods and services produced within a country in a year
    - Goes through periods of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      * This is called the Business Cycle
  + B. Making Predictions
    - Changes in the business cycle take place because of the decisions of individuals and businesses
    - These changes can be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Washington’s economists track this closely and try to predict how the economy going to shift.
* II. Promoting Economic Strength
  + A. Employment
    - Government aims to ensure jobs for all
    - Unemployment from \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is healthy
    - Steps to encourage growth are taken if its rises above this
  + B. Economic Growth
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – a better standard of living for each generation
    - Requires increased goods and services… this also grows the GDP
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ often stimulate growth
  + C. Stability and Security
    - This creates \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for consumers, producers, and investors
    - This can be indicated by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Sudden dramatic shifts are troublesome
    - The security of financial institutions is also an indicator
    - Gov’t closely monitors these institutions
  + D. Economic Citizenship
    - Economic policy is made by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are responsible for putting them in office
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – proposed laws submitted directly to the public
* III. Technology and Productivity
  + A. Technological Progress
    - Improved technology is key in boosting \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - The US has seen great success in this area
    - Innovation leads to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, where older products become “out of date”
  + B. The Government’s Role
    - Promote \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Fund research projects at universities
    - The government also has its own research facilities
      * Ex. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – exclusive rights to a product’s inventor for 20 years
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – grants an author exclusive rights to a published work
  + C. The American Work Ethic
    - There is no economic growth without individual effort
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – commitment to the value of work
      * Working hard and caring about the quality of one’s work
    - This has been a key ingredient in our nation’s economic success
* **Section 3 – Providing Public Goods**
* I. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + - a good or service that it would be inefficient or impractical to…
    - Make consumers pay for individually
    - Exclude those who did not pay
  + A. Characteristics of Public Goods
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      * Would it make sense for the government to bill you each time a new space shuttle is launched?
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      * Imagine if drivers were only allowed to use the streets that they chose to pay taxes for…
    - For most, it is not \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for the private sector to provide these services
    - More consumers does not mean lesser benefits
    - Financed by the public sector, little incentive for the private sector to be involved
  + B. Costs and Benefits
    - Increased \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Two major criteria
      * Benefit is less than cost if provided privately
      * Total benefits to society are greater than cost
    - These determine if the government will \_\_\_\_\_\_\_\_\_\_\_\_\_ the project
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ bring down the cost per person who benefits
  + C. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Problem
    - Someone who will not pay, but gains the benefit
      * Ex. Driving in a state you do not pay taxes in
      * Ex. Fire fighters are not selective. What if one person did not want to pay for fire emergency services?
    - What would happen if the government collected voluntary donations instead of taxes?
* II. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + The free market, operating on its own, does not distribute resources efficiently
  + Again, what would the US look like if government did not provide any services?
* III. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + - an economic side effect that creates extra costs or benefits
  + A. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Externalities
    - A computer company trains workers who are later hired by another company
    - A person buys a run down house in a decent neighborhood and fixes it up
    - An animal on the brink of extinction is saved and its population increased
  + B. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Externalities
    - A factory dumps waste into a river. A nearby town has to install new filter systems to protect its citizens
    - Your neighbor starts a rock band and practices in his garage. They practice all night and keep you awake
  + C. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Goals
    - Externalities show failures in a market. The government’s role can be seen in this
    - Governments take action to create positive externalities
    - Government aims to limit negative externalities
  + D. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ or \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Solutions?
    - Which one produces better externalities?
      * Are government regulations the best way to protect the environment?
      * Should the firms have more say in how this happens?
* **3-4: Providing a Safety Net**
* I. The Poverty Problem
  + Wealth is spread \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in society
  + Often leaves people below the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + In 2006 the threshold for a 4 person family with 2 children was $20,444
  + This number is set by the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + It is adjusted yearly
* A. The Government’s Role
  + - Society recognizes responsibility to the young, old, sick, poor, and disabled
    - Government offers them \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - These aim to raise their \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* B. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ System
  + Started in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Government collects taxes and redistributes the funds
  + This began during the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ under \_\_\_\_\_\_\_\_\_\_
  + Greatly expanded in the 1960’s as a part of Lyndon Johnson’s War on Poverty
  + The programs found great criticism during the 1980s
* II. Redistribution Programs
  + A. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Direct payments to the poor, disabled, or retired
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – Temporary Assistance for Needy Families
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* B. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Goods and services provided for free or at greatly reduced prices
    - Example – food stamps – subsidized housing – legal aid
* C. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Health insurance for the elderly, disabled, and poor
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – for people over 65
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – for the poor
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – State Children’s Health Insurance Program
* D. Education
  + Federal, State, and Local governments provide educational opportunities to those in need
* III. Encouraging Private Action
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for charitable donations
  + In 2006, there were $295 billion given in the US
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – financial awards given by the government to an individual or group for complete a specific task
  + 2001 – George Bush established the Office of Faith-Based and Community Initiatives

Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Economics and Government**

Economics Chapter 3 Section 1 Guided Practice

**Directions:** Define and identify the following key terms from Ch 3 Sec 1.

1. Profit Motive
2. Open Opportunity
3. Legal Equality
4. Private Property Rights
5. Free Contract
6. Voluntary Exchange
7. Interest Group
8. Patriotism
9. Eminent Domain
10. Public Interest
11. Public Disclosure Laws

**Directions:** Answer the following questions based on the material in Ch3 Sec 1 as well as the material discussed in class.

1. How can inequality or discrimination hurt and economy’s ability to maximize its human capital? Give two examples
2. How do the decisions you make as a consumer affect the economy?
3. What do you think might happen in the government passed a law saying it could overturn the terms of an existing contract between companies?

Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Economics and Government**

Economics Chapter 3 Section 2 Guided Practice

**Directions:** Define and identify the following key terms from Ch 3 Sec 2.

1. Macroeconomics
2. Microeconomics
3. Gross Domestic Product
4. Business Cycle
5. Referendum
6. Obsolescence
7. Patent
8. Copyright
9. Work Ethic

**Directions:** Answer the following questions based on the material in Ch3 Sec 2 as well as the material discussed in class.

1. Suppose you had a job that you did not like. If the economy was in the downward part of the business cycle, would you be more or less likely to quit your job and look for a better one? Why?
2. Suppose that Congress passed a bill funding research into alternative sources of energy. Which goals of governmental action in the economy would this funding meet?
3. Identify three individual qualities and actions that you think demonstrate a strong work ethic. Explain why you chose each one.

Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Economics and Government**

Economics Chapter 3 Section 3 Guided Practice

**Directions:** Define and identify the following key terms from Ch 3 Sec 3.

1. Public Good
2. Public Sector
3. Private Sector
4. Infrastructure
5. Free Rider
6. Market Failure
7. Externality

**Directions:** Answer the following questions based on the material in Ch3 Sec 3 as well as the material discussed in class.

1. Why is national defense an example of the free rider problem?
2. What are the characteristics of a public good?
3. Give an example of a positive and a negative effect of externality.
4. Because of the interstate highway system, transportation costs are lower. How is this an example of positive externalities?

Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Economics and Government**

Economics Chapter 3 Section 4 Guided Practice

**Directions:** Define and identify the following key terms from Ch 3 Sec 4.

1. Poverty Threshold
2. Welfare
3. Cash Transfers
4. In-Kind Benefits
5. Grant

**Directions:** Answer the following questions based on the material in Ch3 Sec 3 as well as the material discussed in class.

1. Why does the poverty threshold vary according to how many people are in a household?
2. Give three examples of cash transfers.
3. How are unemployment insurance and worker’s compensation alike?
4. Do you think that tax incentives are necessary to encourage charitable giving? Explain.