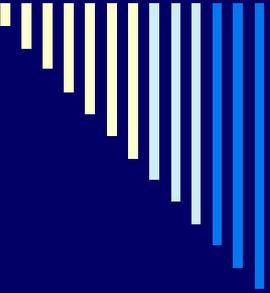


Free Market Economy

ch 2.2



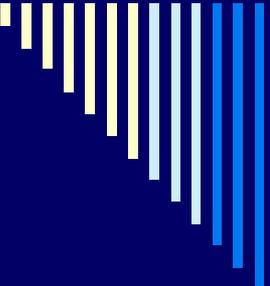


Self-Sufficient

To be self-sufficient means to be able to provide all of your own needs and wants.

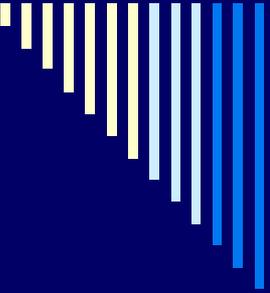
Discussion:

- Has the United States been self-sufficient?
 - Are we self-sufficient now?
 - Should we be self-sufficient?
-



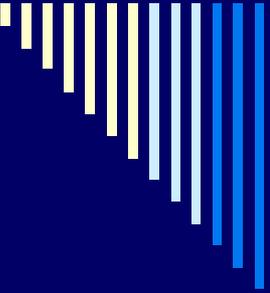
Specialization

- Most people specialize. Specialization is the concentration of the productive efforts of individuals and firms on a limited number of activities. People tend to focus on making or doing one thing.
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The Market

- Market: the place where an arrangement exists that allows buyers and sellers to exchange things.
 - Markets exist because no one is self-sufficient.
-

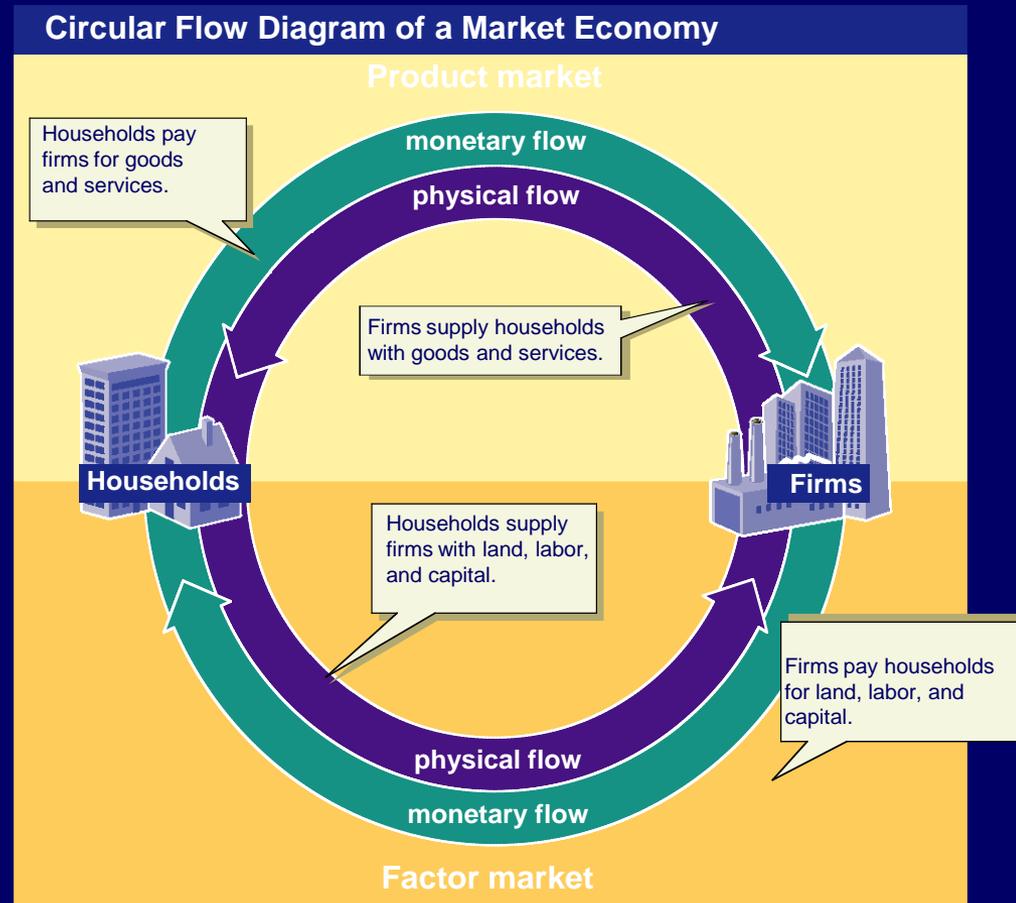


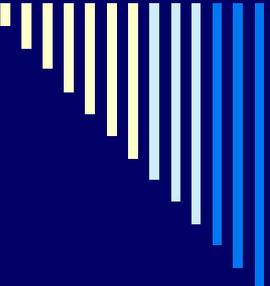
The Free Market Economy

- ❑ Two players in the free market: households and firms
 - ❑ households: individuals or a small group of people living in the same residence
 - ❑ firms: an organization that uses resources to produce a product which it then sells; a business.
 - ❑ Firms number one goal is to make a profit which is a financial gain made in a transaction
-

The Free Market Economy

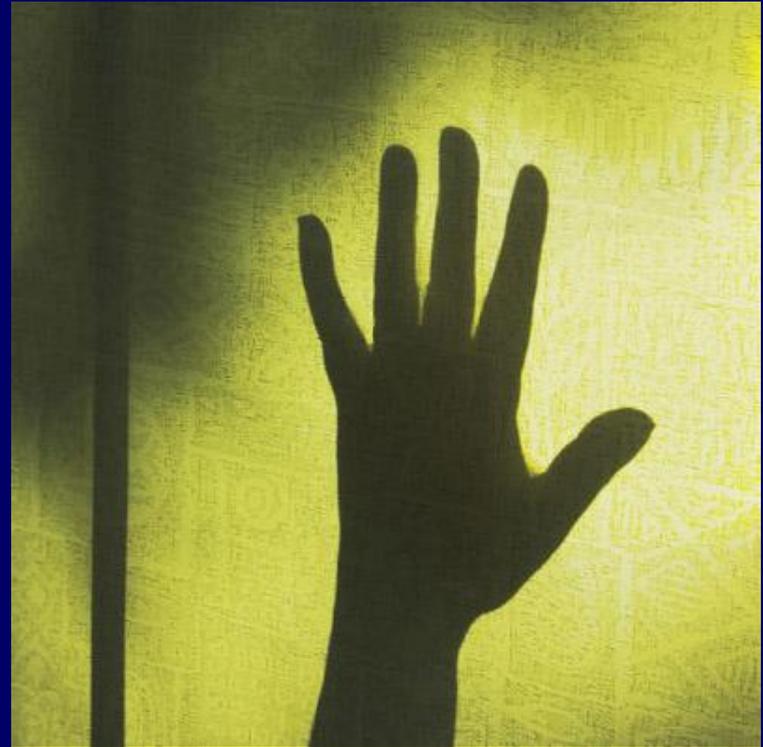
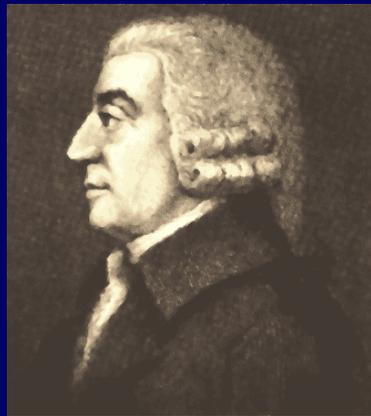
- In a free market economy, households and businesses (firms) use markets to exchange money and products. Households own the factors of production and consume goods and services.



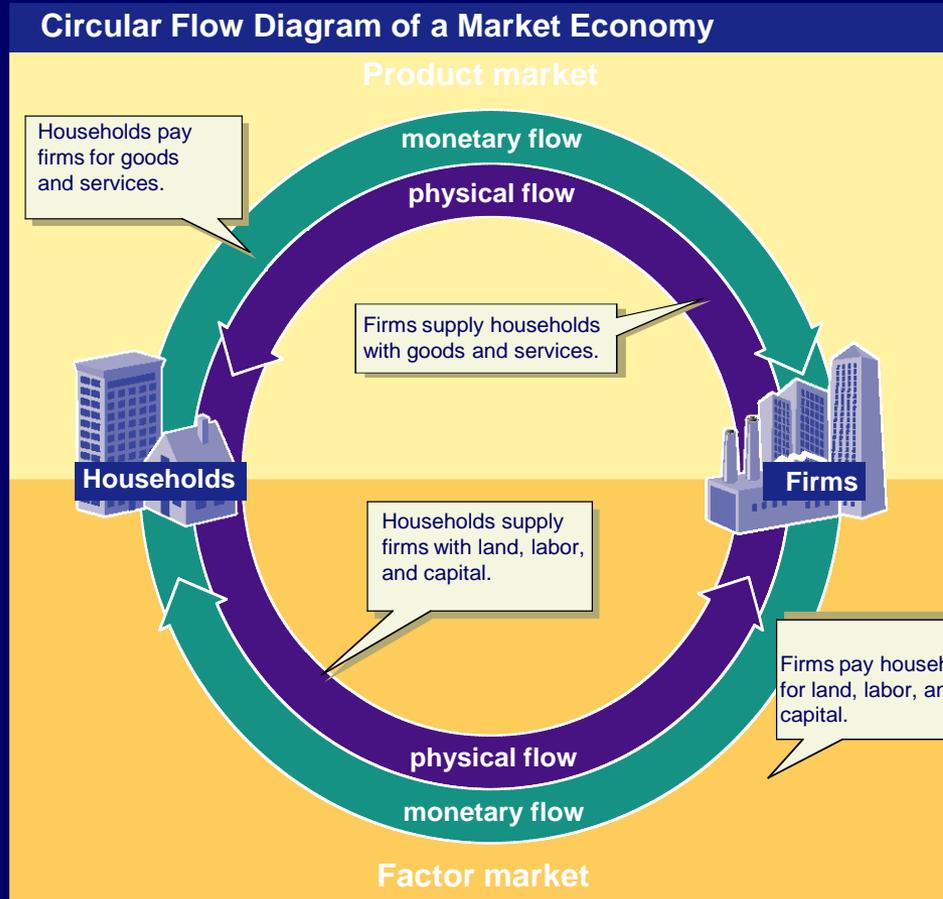


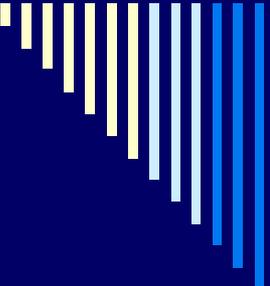
Why does the free market work?

□ Adam Smith's Invisible Hand



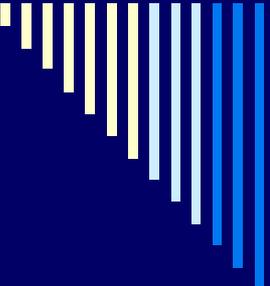
The Free Market Economy





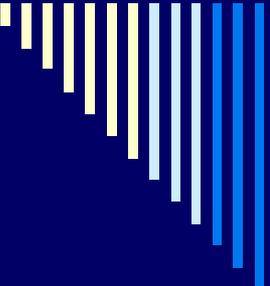
What regulates the free market economy?

- ❑ 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 planning. This phenomenon is called “the invisible hand of the marketplace.”
-



More on Competition

- Consumer sovereignty: the power of consumers to decide what gets produced
 - Competition stops firms from taking advantage of the households. If one business raises their prices too high then another business will take their customers.
 - Also the competition encourages growth and innovation.
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Incentives

- incentive: a means of urging people to do more of a good thing and less of a bad thing.
 - people have incentives to look for personal gain.
-

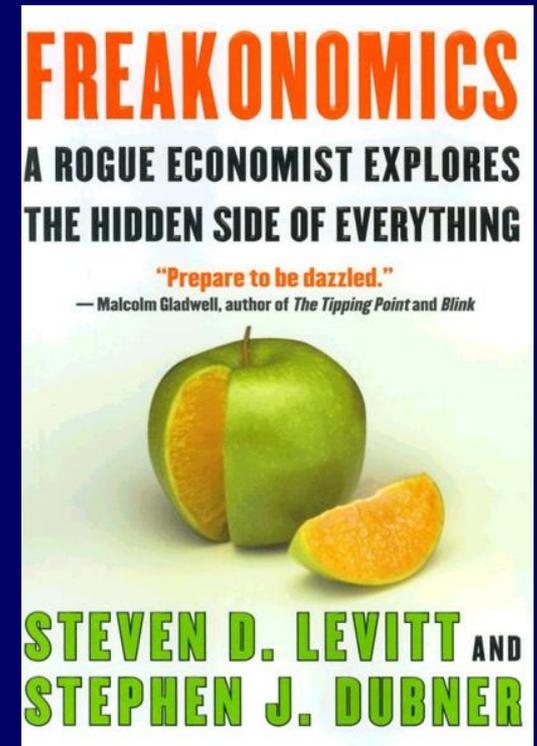
Three Types of Incentives

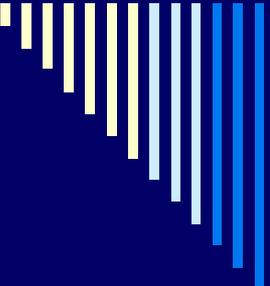
- From the book *Freakonomics* by Steven Levitt and Stephen Dubner

1. Economic

2. Social

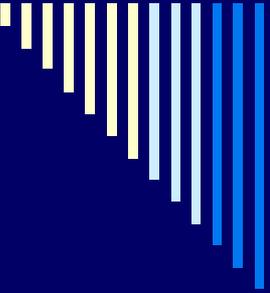
3. Moral





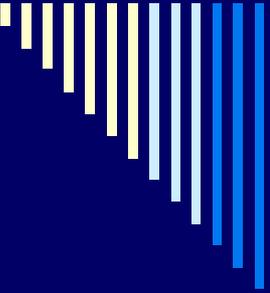
Economic Incentives

- Decisions are made because of a cost involved. Based on money factors
-



Moral Incentives

- Decisions are made because it is the “right” thing to do.
-



Social Incentives

- Decisions are made because other people are doing it that way. Sort of like peer pressure.
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