**Economics  
Mr. Parker  
Fall 2015**

**Chapter 3 “*American Free Enterprise*” Study Guide**

**YOUR TASK TODAY, BEFORE THE TEST:   
1. Rank your knowledge of each objective 1-5.**(1=”I have no idea/never seen this before”, 5=”I know this well/will get an A on this”) **2. Rank your knowledge of each key term 1-5.**(1=”I have no idea/never seen this before”, 5=”I know this well/will get an A on this”)  
**3.** **Spend time reading, answering, or defining each objective and key term on this study guide (focusing FIRST on those you might not know well).**

**OBJECTIVES (Ch. 3 section 1 “*Benefits of Free Enterprise*”) – p. 51-55**  
- Describe the tradition of Free Enterprise in the United States and the constitutional protections that underlie it.  
- Explain the basic principles of the U.S. free enterprise system.  
- Identify the role of the consumer in the U.S. free enterprise system.  
- Describe the role of the government in the U.S. free enterprise system.

**OBJECTIVES (Ch. 3 section 2 “*Promoting Growth and Stability*”) – p. 57-60**  
- Explain how the government tracks and seeks to influence business cycles.  
- Analyze how the government promotes economic strength.  
- Analyze the effect of technology on productivity.

**OBJECTIVES (Ch. 3 section 3 “*Providing Public Goods*”) – p. 62-66**  
- Identify examples of public goods.  
- Analyze market failures.  
- Identify how the government allocates some resources by managing externalities.

**OBJECTIVES (Ch. 3 section 4 “*Providing a Safety Net*”) – p. 67-70**  
- Summarize the U.S. political debate on ways to fight poverty.  
- Describe the main programs through which the government redistributes income.

**Key Terms:**

1. Profit motive  
2. Open opportunity  
3. Private property rights  
4. Free contract  
5. Voluntary exchange  
6. Competition   
7. Interest groups  
8. Public disclosure laws  
9. Public interest  
10. Macroeconomics  
11. Microeconomics  
12. Gross domestic product (GDP)  
13. Business cycle  
14. Work ethic  
15. Technology  
16. Public good  
17. Public sector  
18. Private sector  
19. Free rider  
20. Market failure  
21. Externality  
22. Poverty threshold  
23. Welfare  
24. Cash transfers  
25. In-kind benefits  
26. Temporary assistance to needy families  
27. Social security  
28. Unemployment compensation  
29. Workers compensation

**\* Re-read: The main ideas in the “Section Focus” for each section (pages 51, 57, 62, and 67).**

**\* Re-read the Chapter Summaries on p. 72 for each section.**

**\* Be able to complete each of the objectives in each section. (*HINT: these will make up most of your test questions!*)**

**\* KNOW the info on the charts on p. 52 (“*Features of Am. Free Enterprise*”) and p. 55 (“*Major Federal Reg. Agencies*”).**

**Chapter Summary**

**Section 1 “Benefits of Free Enterprise” (p. 51-55)**

The benefits of the American free enterprise system are the result of the basic principles of profit motive, voluntary exchanges, private property rights, and competition. These benefits include individual freedom for consumers and producers and a wide variety of goods. To protect economic freedoms, the government intervenes in matters of public interest. Federal agencies monitor and regulate certain types of businesses. Public disclosure laws provide critical information to consumers.

**Section 2 “Promoting Growth and Stability” (p. 57-60)**

Macroeconomics concerns the behavior of whole economies, while microeconomics concerns the behavior of smaller economic units, such as households. While necessary, the government takes action to influence macroeconomic business cycles. It aids the growth of the economy, as measured by GDP. It encourages the creation of new technologies by giving patents and copyrights to entrepreneurs.

**Section 3 “Providing Public Goods” (p. 62-66)**

The government provides public goods, such as roads, when it would be impractical for individuals to pay for them. Providing public goods produces positive and negative externalities.

**Section 4 “Providing a Safety Net” (p. 67-70)**

The government uses tax money to raise the standard of living of people in poverty. The nation’s welfare system includes programs that distribute various benefits, including cash transfers, in-kind payments, and medical benefits.