



So What



Sam wants to make a little extra money for her whitewater-rafting trip this summer. Graduation is coming soon, and many of her friends and classmates are working on their senior scrapbooks. Sam is a realistic talker and has offered to make a book page for a few dollars a week.

Sam's business venture is an example of what can happen in a private enterprise system. She had the freedom to offer a product or service and to profit from it. This might seem reasonable to you, but not all economic systems allow such freedoms. Read on to find out more about how private enterprise systems work!

Objectives:

- A** Discuss the characteristics of a private enterprise system.
- B** Describe the economic freedoms that exist in a private enterprise system.

Private Enterprise

Every society develops a system for making decisions about how it will use its resources to meet the needs and wants of its people. Each of these **economic systems** must answer these three basic questions:

1. What goods and services will be produced?
2. How will these goods and services be produced?
3. How will these goods and services be distributed to consumers?



In a **private enterprise** economic system, these questions are answered by individuals and businesses, not by the government. Individuals and groups (rather than government) own or control the economic resources—human and natural resources and capital goods—used to produce goods and services.

Throughout the history of the United States, private enterprise has enabled the nation to produce more goods and services than any other single country. This success is due to the characteristics of the private enterprise system. Let's take a look at each of these characteristics.

Freedom in the marketplace

While you may think of a "marketplace" as a specific location, in economic terms it refers to any place where the buying and/or selling of goods and services occur. Private enterprise is often called a **market economy**, or a **market system**, because markets answer the economic questions of what, how, and for whom to produce.



Also, poverty has not been eliminated. There are still many people in the United States and in other countries with private enterprise systems who are not able to afford the basic necessities of life.

Property and income are not distributed equally in a private enterprise system. Some people own a great deal of property while others own little or none because they do not have the money to buy it. This unequal distribution of income exists because workers with higher levels of education, training, skills, and efficiency generally receive higher salaries than less qualified workers.



Summary

In a private enterprise economic system, individuals and groups (rather than government) own or control the economic resources. Characteristics of a private enterprise system include freedom in the marketplace, private property, limited government control, competition, the profit motive, and the price-directed system. Disadvantages of private enterprise include periods of unemployment, poverty, and unequal distribution of wealth.



1. What three questions must every economic system answer?
2. What is a private enterprise system?
3. Describe the characteristics of a private enterprise system:
 - a. Freedom in the marketplace
 - b. Private property
 - c. Limited government control
 - d. Competition
 - e. The profit motive
 - f. The price-directed system
4. What are the disadvantages of a private enterprise system?

The Gray Zone

In a private enterprise system, wealth and income are not distributed equally. Poverty still exists, and there are people who cannot afford the very basics of life—even when receiving certain assistance from the government. United States' citizens and businesses give over \$250 billion to charity each year; however,

there are no laws requiring the less fortunate. A person



OPERATION FEED

SAMPLE PAGE

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giving in
a private enterprise system?
Should those with a great deal of money feel obligated to donate some of their wealth?

People are also limited by their own choices. If you choose to buy one thing, you may not have enough money to buy another. You may need to choose which item is more important to you. If you sell your private property to one person, you cannot sell the same property to anyone else.

Economic freedom is also limited by the laws that have been created to protect people. For example, businesses such as nail salons and day-care services are required to be licensed to safeguard public health. Workers in such professions as medicine and law require specialized training and must pass examinations before they are allowed to provide their services. Businesses may not dump their waste into streams, sell products that are unsafe, or make false advertising claims about what products will do. No one is permitted to sell illegal drugs, stolen property, or services for which s/he is not trained and/or licensed to perform.

To have the money necessary to run the country, the government collects taxes from individuals and businesses. This restricts economic freedom since taxpayers cannot use all of their income for their own purposes. However, taxes are a necessary limit to economic freedom since they provide the money needed to pay for fire and police protection, public schools, highway



construction and repair, and other services that people need to operate their businesses.

Summary

Economic freedoms in private enterprise include the freedom to choose (economic goals, types of jobs), freedom to make decisions about private property, and freedom to compete. Limits to economic freedom include competition among buyers, personal choices, certain laws, and taxes.



1. How does economic freedom benefit individuals?
2. How does economic freedom benefit the economy?
3. Describe the following freedoms in a private enterprise system:
 - a. Freedom to choose
 - b. Freedom to make decisions about private property
 - c. Freedom to compete
4. What are the limits to economic freedom in a private enterprise system?

Make It Pay!

Throughout the next week, pay attention to all the examples you see.

SAMPLE PAGE

See a sign for rent in a neighborhood, or the price of milk go up or down. Keep track of these examples in your notebook, so you can discuss them with the class.

FOR RENT



Going out of Business