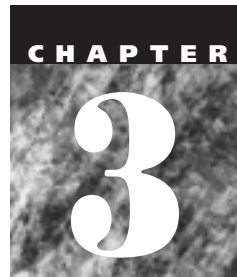


# American Free Enterprise



## SECTION 1

## BENEFITS OF FREE ENTERPRISE

### TEXT SUMMARY

There is a tradition of free enterprise in the United States—a tradition that encourages people to try out their business ideas and compete in the public market. Both Mr. Scappoose, the immigrant who opened a barber shop, and Bill Gates, the young man who founded Microsoft, are part of this tradition, and both are entrepreneurs with a desire to succeed and profit.

In the free enterprise economy, consumers, acting on their own, decide to buy products. Their individual choices signal the producers what to produce and how much to make. The result is a variety of products at reasonable prices.

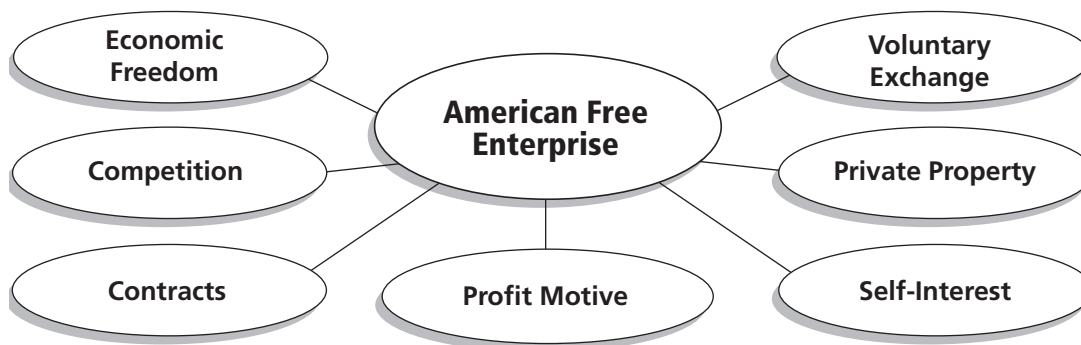
We expect government to protect consumers by assuring that they have the information they need to make informed decisions.

Government laws, such as those protecting the right to private property and enforcing contracts, help Americans benefit from free enterprise. The Constitution also specifies how government can tax, and it prohibits government from interfering in business contracts. Finally, federal and state agencies regulate industries whose goods and services affect the well-being of the public.

### THE BIG IDEA

Competition provides a variety of goods at reasonable prices.

### GRAPHIC SUMMARY: Features of American Free Enterprise



These basic features of free enterprise are so familiar to us that we tend to take them for granted.

### REVIEW QUESTIONS

1. What is the role of government in a free enterprise system?
2. **Diagram Skills** Which feature of American Free Enterprise describes the action taken by the consumer who buys a book from a bookstore?

**SECTION 2**

# PROMOTING GROWTH AND STABILITY

## TEXT SUMMARY

To keep the huge American economy on course, government economists follow macroeconomic trends. **Macroeconomics** is the study of the behavior and decision making of entire economies. By contrast, **microeconomics** is the study of economic behavior of individuals, families, and businesses. Macroeconomic progress is measured by calculating a nation's **gross domestic product (GDP)**. This is the total value of all final goods and services produced in a year. Measuring the change in GDP from one year to the next is one way of measuring growth or decline in an economy.

economy and prevent wide swings, the government has three main goals: high employment, steady economic growth, and stable prices. Government policymakers use different policies and tools in their attempts to achieve these goals.

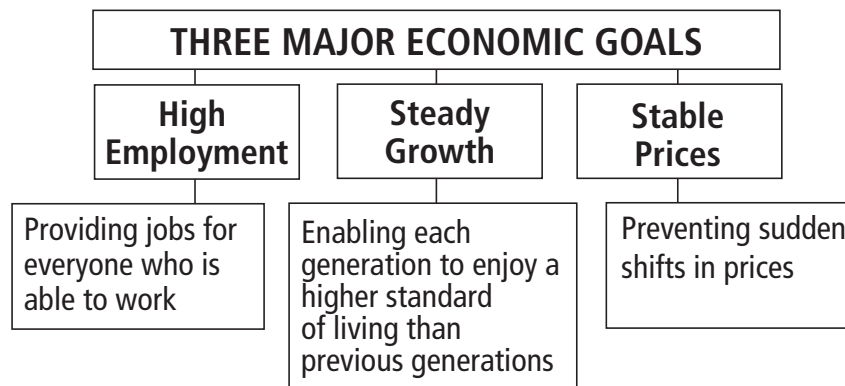
One way Americans maintain their high standard of living is by constantly improving technology. **Technology** is the process used to produce a good or service. Progress in technology helps the economy to be more efficient and productive. For example, Thomas Edison's invention of the light bulb in 1879 made possible a longer work day. To advance technological progress, government policies encourage innovation. Federal agencies fund research and development projects at universities and private companies. The government also provides patents and copyrights. This encourages inventors by protecting their ideas.

### THE BIG IDEA

**Government attempts to regulate business cycles and to encourage economic growth.**

Free enterprise systems are subject to sudden swings in **business cycles**, periods of macroeconomic growth followed by slowing or decline. To stabilize the

## GRAPHIC SUMMARY: Government Macroeconomic Goals



Government economists use a variety of policies in their attempt to achieve their three major goals.

### REVIEW QUESTIONS

1. What is GDP, and how does studying it help economists?
2. **Diagram Skills** What are three major economic goals of government?

### TEXT SUMMARY

Free markets tend to spread wealth unevenly. This leaves some people below the poverty threshold. The **poverty threshold** is the minimum level of income, as determined by the government, that is needed to support a household. To help ease poverty, the government collects tax money and redistributes it to people who are poor or otherwise in need. This kind of aid is known as **welfare**.

#### THE BIG IDEA

**Because the free market system tends to distribute wealth unevenly, the government runs programs to help people in need.**

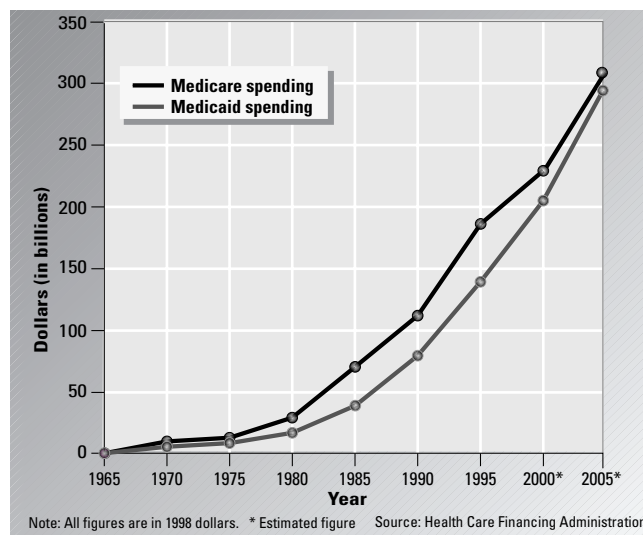
In the 1990s, welfare programs became subject to much debate. Critics charged that people were becoming dependent on their welfare payments and were not doing enough to help themselves.

Despite these debates, welfare programs continue to function in

the United States. One major program is Temporary Aid to Needy Families (TANF). It uses **cash transfers**, direct payments of money, to help poor people. Money provided by the federal government goes to the states, which design their own welfare programs. Another major program is Social Security, which provides cash transfers to the elderly retired and to people who are disabled. It is funded from taxes on people's wages. The government also provides **in-kind benefits**—goods and services provided for free or at very low prices. Examples of in-kind benefits include food stamps and subsidized housing. Another important social service that the government provides is health insurance. Medicare, which provides aid to the elderly, and Medicaid, which assists the poor, are two health insurance programs.

### GRAPHIC SUMMARY: Spending on Two Government Programs

The costs of both Medicare and Medicaid have increased substantially since they were created.



### REVIEW QUESTIONS

1. What are cash transfers?
2. **Graph Skills** Does government spend more on Medicare or on Medicaid?