

Guided Reading Activity

The American Free Enterprise System

Lesson 1 *American Free Enterprise Capitalism*

Review Questions

Directions: Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

A. Characteristics of Free Enterprise Capitalism

Main Idea: The five characteristics of free enterprise capitalism are economic freedom, voluntary exchange, private property, the profit motive, and competition.

1. An economy based on free enterprise has both _____ and _____
_____.
2. Economic freedom grants the ability to _____ the things you want and _____
where and for whom you want. Businesses can _____ the workers they want and are free to
_____ success or failure.
3. In a _____ exchange, buyers acquire items they believe are worth _____ than
the money charged, while _____ believe the item sold is worth _____ than the
cash paid. Both parties believe they _____ from the transaction.
4. In a capitalistic system, people can do whatever they choose to their property due to _____
_____. Additionally, they have the opportunity to _____
and _____ based on the value of their property.
5. The _____ drives producers to improve their _____ well-
being. Because of this, the lure of _____ guarantees a constant supply of goods and
services from all kind of producers.
6. Capitalism helps ensure _____ resources are used efficiently by promoting
_____ among producers.

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B. Benefits of Free Enterprise Capitalism

Main Idea: The benefits of free enterprise capitalism include individual freedom, a wide variety of goods for sale, innovation, economic progress, and increased wealth.

1. Individual freedom exists economically and politically in places where _____ and _____ allow people to choose their government as well as their purchases.

2. Because in market economies production is based on people's _____, not just their needs, there is a wide _____ of options available for many kinds of goods and services.

3. Price can drive _____ in market economies, where consumers' demands lead to producers' innovations that make the most of scarce or expensive resources.

4. Companies competing for business produce better _____, usually for _____ money. This promotes economic _____.

5. Economists think of _____ as the accumulation of products that are _____, scarce, have utility, and are _____ from one person to another.

C. Disadvantages of Free Enterprise Capitalism

Main Idea: The disadvantages of free enterprise capitalism include uneven economic growth, income inequality, and supply-side tendencies. In addition, in order to protect consumers, some government regulations on businesses are still needed.

1. The most recent example of uneven economic growth in the United States was the _____, which lasted 18 months between 2007 and 2009. During this period, the nation's GDP shrank about 4.5 to _____ percent.

2. The widening gap between _____ and _____ may require government interventions some criticize as too _____ in nature.

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3. In the _____ side of the market, suppliers tend to _____ with other suppliers to avoid _____ or to become more efficient. This means that participants on the _____ side of the market have fewer suppliers to choose from.
4. Corporations have most of the same rights as _____. They can sue and be sued, they can enter into _____, and they can own _____. However, corporations cannot _____ like you can.

Summary and Reflection

Directions: Summarize the main ideas of this lesson by answering the question below.

Describe the characteristics of our economic system. Of the benefits and disadvantages of our free enterprise capitalism, which do you think are the most important to economic success? Why?
