



AUDIO STATION

**Chapter 3: American Free Enterprise
Section 1**

Prentice Hall

ECONOMICS

PEARSON

In Partnership With
THE WALL STREET JOURNAL
CLASSROOM EDITION

Objectives

1. **Define** the basic principles of the U.S. free enterprise system.
2. **Describe** the role of the consumer in the American economy.
3. **Identify** the constitutional protections that underlie free enterprise.
4. **Explain** why the government may intervene in the marketplace.



Key Terms

- **profit motive:** the incentive that drives individuals and business owners
- **open opportunity:** the principle that anyone can compete in the marketplace
- **legal equality:** the principle that everyone has the same legal rights
- **private property rights:** the principle that people have the right to control their possessions and use them as they wish



Key Terms, cont.

- **free contract:** the principle that people may decide what agreements they want to enter into
- **voluntary exchange:** the principle that people may decide what, when, and how they want to buy and sell
- **interest group:** a private organization that tries to persuade public officials to act in ways that benefit its members
- **patriotism:** love of one's country



Key Terms, cont.

- **eminent domain:** the right of a government to take private property for public use
- **public interest:** the concerns of society as a whole
- **public disclosure laws:** laws requiring companies to provide information about their products or services



- What are the benefits of free enterprise?
 - Free enterprise makes it possible for people who have ideas and persistence to start businesses and make themselves successful.
 - Free enterprise also offers a great deal of economic freedom to the consumer.



What is Free Enterprise?

- The United States is considered by many to be a “land of opportunity.”
- The American tradition of free enterprise has been a key factor in supporting this belief.



Principles of Free Enterprise

- Characteristics of a free enterprise include:
 - Profit motive
 - The American economy rests on recognition of the profit motive as a key incentive. In a free enterprise businesspeople make decisions based on what will increase their profits.
 - Open opportunity
 - The American principle of open opportunity says that anyone can compete in the marketplace.



Principles, cont.

- Checkpoint: What are three key economic rights that Americans enjoy?
 - Legal equity
 - American free enterprise believes in the principle that everyone has the same legal rights.
 - Private property
 - The free enterprise system allows people to make their own decisions about their own property.
 - Freedom to buy and sell
 - People can decide what agreements to enter into, as well as what, when, and how they want to buy and sell.



The Role of the Consumer

- Checkpoint: What role do consumers play in a free enterprise system?
 - In the free enterprise system consumers have the freedom to make their own economic choices. Through voluntary exchange, consumers send a signal to businesses, telling them what to produce and how much to make.
 - Consumers can also make their wishes known to businesses by joining interest groups, which influence public officials to act in ways that benefit its members.





Free Enterprise in the World

How free is American free enterprise? According to the World Bank, the answer is --very free. The World Bank has ranked 178 nations according to how freely businesses can operate independent of government regulation. On this Ease of Doing Business Index, the U.S. comes in third. **What are the advantages and disadvantages of allowing businesses to operate with few government limits?**

EASE OF DOING BUSINESS

Ranking on the World Bank Index



SOURCE: The Doing Business Project

The Constitution

- Free enterprise in the United States is written into the framework of the U.S. Constitution.
 - One right granted by the Constitution is the 5th Amendment, which protects private property from being taken from a citizen without due process.
 - However, the government is allowed to take property from an individual, paying fair market value for that property, when there is a public reason. This is known as eminent domain.



The Constitution, cont.

- The Constitution also spells out how government can tax individuals and businesses.
 - According to Article 1, Congress could levy taxes but not until the passage of the Sixteenth Amendment in 1913 Congress could levy an income tax on individuals and businesses.
- Finally, the Constitution guarantees people and businesses the right to make contracts.



The Role of Government

- The government plays many roles in the marketplace.
- These roles include:
 - Carrying out the constitutional responsibilities to protect property rights, contracts, and other business activities
 - Making sure that producers provide consumers with information
 - Protecting the health, safety, and well-being of consumers.



Major Federal Regulatory Agencies

- All of the agencies to the right represent ways the federal government intervenes in the marketplace.
 - Identify one agency meant to protect each of the following:
 - (a) public safety,
 - (b) fair competition,
 - (c) equality.

Agency and Date Created	Role
1906 Food and Drug Administration (FDA)	Sets and provides standards for food, drugs, and cosmetic products
1913 Federal Reserve System (FED)	Regulates banking and manages the money supply
1914 Federal Trade Commission (FTC)	Enacts and enforces antitrust laws to protect consumers
1933 Federal Deposit Insurance Corporation (FDIC)	Insures bank deposits, approves mergers, and audits banking practices
1934 Federal Communication Commission (FCC)	Regulates interstate and international communications by radio, television, wire, satellite, and cable
1934 Securities and Exchange Commission (SEC)	Administers federal laws concerning the buying and selling of securities
1935 National Labor Relations Board (NLRB)	Prevents or corrects unfair labor practices by either employers or unions
1958 Federal Aviation Administration (FAA)	Regulates civil aviation, air-traffic and piloting standards, and air commerce
1964 Equal Employment Opportunity Commission (EEOC)	Promotes equal job opportunity through enforcement of civil rights laws, education, and other programs
1970 Environmental Protection Agency (EPA)	Enacts policies to protect human health and the natural environment
1970 Occupational Safety and Health Administration (OSHA)	Enacts policies to save lives, prevent injuries, and protect the health of workers
1972 Consumer Product Safety Commission (CPSC)	Enacts policies for reducing risks of harm from consumer products
1974 Nuclear Regulatory Commission (NRC)	Regulates civilian use of nuclear products
1995 Surface Transportation Board (STB)	Resolves railroad rate and service disputes and reviews proposed mergers. Oversees certain trucking company, moving van, and shipping company rates

SOURCE: The White House and "Foundations of Business Administration," Professor Bauer-Ramazani



Negative Effects of Regulation

- Negative effects of government include:
 - Rules are costly to implement
 - Regulations stifle competition
 - Increased government spending in industries because the government has to hire workers to do the actual oversight



Review

- Now that you have learned about the benefits of free enterprise, go back and answer the Chapter Essential Question.
 - What role should government play in a free market economy?

