

## Chapter 2 Economics Study Guide

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- Know the Characteristics of a centrally planned economy including:
  1. The central government owns all land and capital
  2. The central government makes all economic decisions
  3. Each person is arbitrarily assigned a job
- Know the meaning of competition (An example of competition would be the struggle among various producers for the consumer's business).
- A free market economy needs government intervention to provide for things that the marketplace does not address. The market does not take care of citizens who cannot take care of themselves; hence, there is a need for a limited "safety net."
- Know the 3 key economic questions:
  1. What goods and services should be produced?
  2. How should these goods and services be produced?
  3. Who consumes these good and services?
- The process of specialization makes the economy more efficient.
- Know the economy of different areas such as China, which has a mixed economy but is still on the side of being centrally planned.
- Know the advantages of both free market and centrally planned economies.
- The incentive that motivates a manufacturer to sell a product is to make profits on sales.
- Learn the characteristics of a traditional economy (Example: Children tend to have the same jobs as their parents did, and communities tend to be slow-growing).
- Review Q!! Remember the difference between the product market and the factor market from the flow chart from last chapter.
- Another Review Question (isn't this fun!): Remember that scarcity exists if there are more uses for resources than can be satisfied at one time. Scarcity would still exist in a world where people want to help others instead of being selfish.
- In a centrally-planned economy, government makes all the decisions. Socialist economies can still be market-based, although the government is usually much more involved.
- The purpose of competition is to act as a regulating force in the marketplace. Monopolies cannot be self-sustaining unless there is a barrier to entering the marketplace.
- The U.S. government plays the roles of protector, consumer, regulator, and promoter of economic goals in the United States. In the U.S., almost all economic decisions are made in the marketplace, but some planning is mixed in.
- The function of an economic system is to produce and distribute goods and services.
- People expect the government's "Safety net" to cover problems such as joblessness, injuries to workers, and natural disasters.
- Canada has a mixed economy, but it leans towards the free market. Sweden has a mixed economy, but it leans towards centrally planned/market socialism. Germany and most of Western Europe is similar to Sweden, but less extreme. Singapore is almost unbridled market capitalism.
- Lenin was responsible for introducing Communism to the former Soviet Union.
- Free markets tend to offer a wider variety of goods than Command economies
- A free rider is someone who consumes a good or service but does not pay for it (F-22 example; some people don't want it but benefit from it anyway).
- Command economies have several weaknesses, including: 1) There is no incentive for people to work hard 2) It requires a large, decision making bureaucracy 3) It lacks the flexibility to deal with minor problems
- Economic goals are important because they help people determine if an economic system meets their needs.

Be able to cite examples of economic growth

Know the Circular-Flow diagram of the free market (you may need to review Chapter 1 notes)

Know/be familiar with/be able to use in a sentence the following terms:

- Standard of living
- Privatize/Privatization
- Economic system
- Economic Interdependence
- Self-interest
- Safety net
- Communism
- Collective farms
- Product market
- Factor payments
- Free enterprise
- Continuum
- Incentive
- Safety net
- Socialism
- Transition
- Economic Efficiency
- Price Stability
- Social Security
- Traditional economy
- Authoritarian
- Standard of living
- Fixed income

Know the following people:

Karl Marx  
Friedrich Engels  
Vladimir Lenin  
Joseph Stalin  
**Adam Smith**

### **SHORT ESSAYS:**

- Identifying advantages and disadvantages of a mixed economy.
- Why have most large centrally planned economies fail?
- How does government participate in a mixed economy?
- Explain why a completely free market economy would not be practicable for any major country.
- Why have the governments of many centrally-planned economies tried to privatize their economies?
- What are some of the economic goals most economies try to achieve?