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# CAPITALISM AND FREE ENTERPRISE

COACH BURNETT  
AP MACROECONOMICS

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## CAPITALISM

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❖ Capitalism - a system in which people like you and me own our own labor as well as the property, equipment, and other resources to make money

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## CHARACTERISTICS OF A FREE ENTERPRISE SYSTEM

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1. Economic Freedom
2. Voluntary Exchange (of goods & services)
3. Private Property and the freedom to enter into contracts
4. Profit Motive

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## ECONOMIC FREEDOM

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- ❖ You are free to:
- Choose your job
  - Choose where and when you work
  - Work for yourself or someone else
  - Leave your job and move to another job
- ❖ Businesses are free to:
- Choose which workers they want
  - Figure out how much business they want to do

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## VOLUNTARY EXCHANGE

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- ❖ People and businesses choose to do business with each other. Nobody forces them to do it.
- ❖ When people and businesses do business, they are made better off

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## PRIVATE PROPERTY AND FREEDOM TO ENTER INTO CONTRACTS

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- ❖ People have the right to do what they want with their own property.
- ❖ Private property gives people the motivation to work hard, save their money, and invest.
- ❖ Private property motivates people to get ahead in life.
- ❖ Contracts are agreements made between people to buy and sell.
- ❖ Contracts can be written or spoken, but either way we are legally bound to keep our agreements.

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## PROFIT MOTIVE

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- ❖ People are free to risk what they already own in order to make even more money.
- ❖ The chance at becoming rich makes many people decide to become entrepreneurs
- ❖ Profit:
  - how much better off a person or business is after a period of time
- ❖ Profit Motive:
  - the force that makes people and businesses want to get more money

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## ROLE OF THE ENTREPRENEUR

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- ❖ The entrepreneur brings together people, resources, and other equipment to make a profit.
- ❖ Entrepreneurs motivate the economy by always coming up with new ideas and ways of doing things.
- ❖ Because of all the money that entrepreneurs make, this makes people want to go into business and compete, making us all better off.

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## ROLE OF THE CONSUMER

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- ❖ Consumers are people (like you and me) who buy things and pay for services.
- ❖ We, the consumers, rule the free enterprise economy.
- ❖ Our choices decide what is made, bought, and sold in the economy.
- ❖ CONSUMER SOVEREIGNTY

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## ROLE OF THE GOVERNMENT

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- ❖ Protector
- ❖ Provider and Consumer
- ❖ Regulator

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## THE PROTECTOR

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- ❖ The government makes and enforces laws against:
  - False advertising
  - Unclean food and medicine
  - Pollution and unsafe products
- ❖ The government enforces laws against discrimination in the work place
- ❖ The government enforces contracts

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## PROVIDER AND CONSUMER

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- ❖ The government provides products and services that businesses don't provide such as:
  - Schools
  - Roads
  - Army
  - Welfare
  - Etc.
- ❖ The government is also a consumer because it buys things from businesses:
  - Fighter jets
  - Aircraft Carriers
  - Submarines
  - Tanks

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## REGULATOR

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❖ The government regulates, or *makes rules for businesses to follow*. For example, the government decides which frequency radio stations can broadcast on. The government also makes rules for running nuclear power plants (and so on and so forth...).

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## MIXED ECONOMY

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❖ Because the government plays a part in our economy we are not a true free market economy. Instead, we are a modified free enterprise economy called a 'Mixed Market Economy.'

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