SECTION 3

The United States Economy

TERMS & NAMES
- factors of production
- GDP
- free enterprise/market economy
- consumer
- profit
- competition

MAIN IDEA

The United States has an economy based on free enterprise. Consumers and business owners decide what goods and services to produce.

WHY IT MATTERS NOW

This economic system has made it possible for the United States to become a leader in the worldwide economy.

DATELINE

JUNE 2001, THE UNITED STATES—The collapse of many dot-coms has shaken consumer confidence. Internet-based companies, nicknamed "dot-coms" for the last part of their Web addresses, have been failing by the hundreds.

In the mid-1990s, investors backed dot-com companies in hopes of making a huge return on their investments. This ready money encouraged people with limited management experience, untested technologies, and experimental Web sales strategies to start companies. In 1999, more than 1,700 Internet start-ups were born.

When investors realized that many start-ups were losing money, they began to withdraw their support. Between January 2000 and May 2001, 435 Internet companies shut down. Over 31,000 people have lost their jobs.

Place • When companies fail, employees are often left without jobs and office equipment is sold. ▲

The Study of Economics

Business start-ups and shutdowns, the rise and fall of investor and consumer confidence, the increase and decrease in the number of people without jobs—all of these changes are part of the market economy of the United States. Investors, service providers, manufacturers, and consumers make choices each day, and these choices affect the state of the economy.

TAKING NOTES

Use your chart to take notes about the United States today.

The United States Today	
History	
Government	

Goods and Services Suppose you want a CD recording just released by your favorite music group. To earn the money to pay for it, you might rake your neighbor's leaves or care for his or her child for a few hours. The CD is a good. A good is any object you can buy to satisfy a want. Raking leaves or baby-sitting is a service you provide. A service is an action that meets a want. Your neighbor buys your service to meet his or her want.

What to Buy People constantly decide which goods and services to buy. They usually satisfy basic needs such as food, clothing, housing, transportation, childcare, and medical treatment first. If there is money left over, they might choose to spend it on music CDs, in-line skates, a computer game, or a vacation.

Reading Social Studies

A. Synthesizing After a government has set aside money for basic wants, what additional goods or services might it pay for?

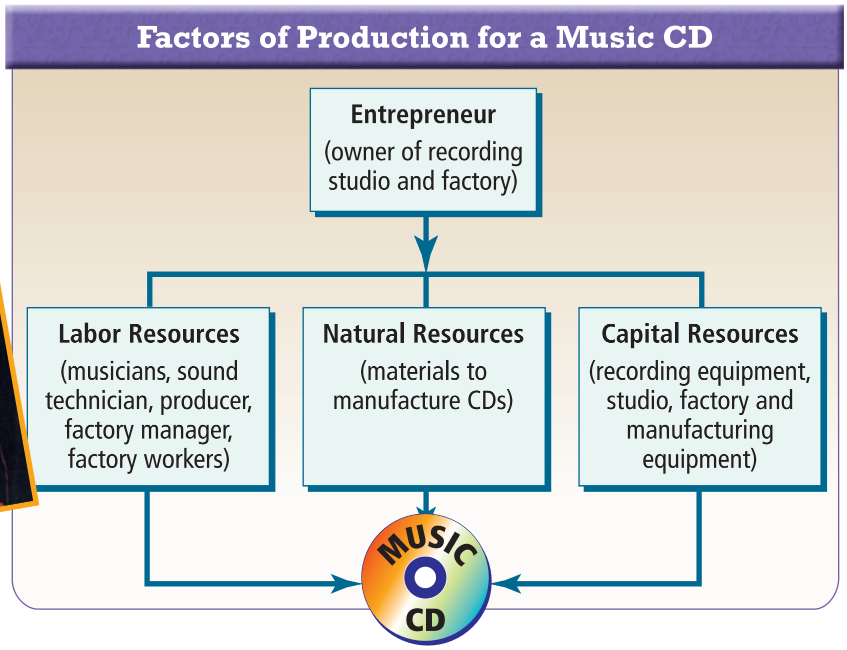
A government must also make decisions. Tax dollars must be set aside to pay for police and fire protection, schools, roads, and military forces. Once these expenses have been determined, other choices can be made.

A Growing Economy

A nation must produce goods and provide services to support a growing economy. In an expanding economy, citizens have better-paying jobs, so the government collects more tax money. Then people and the government can satisfy more wants.

To sustain a growing economy, business owners must keep production at a high level. Production is the making of goods and services. The four **factors of production** are the ingredients, or elements, needed for production to occur.

Culture • **Christina Aguilera's critical contribution in the production of a CD is as one of the labor resources. ▼**



Natural Resources Raw materials are used to make goods. Examples include land, water, forests, minerals, soil, and climate.

Labor Resources Workers are needed with the appropriate knowledge, skills, and experience to make goods or provide services.

Capital Resources Machines, factories, and supplies are needed.

Entrepreneurs These are the people who bring natural resources, labor resources, and capital resources together to produce goods and services.

Strange but TRUE

The Value of Money The U.S. Department of the Treasury first issued paper money in 1861. During the Civil War, people hoarded coins. This caused a severe shortage of coins in circulation.

The Bureau of Engraving and Printing printed "fractional currency" bills of 3 cents, 5 cents, 10 cents, 25 cents, and 50 cents. These were the smallest bills ever printed in this country. The largest note was the $100,000 Gold Certificate printed in 1934 and 1935. These notes were used for bank transactions and were not available for the public to use.

The United States Economy

The U.S. economy is one of the wealthiest in the world. One way to measure a country's economy is to look at its **GDP,** or gross domestic product. This tells the total value of the goods and services that a country produces each year. The GDP is also a way to compare the economies of different countries.

U.S. industries include services, such as health care and legal services; communications, such as publishing, television and radio, telephone, and mail delivery; finance, such as banks and stock markets; manufacturing, such as food products, automobiles, and clothing; and electronics, such as televisions, computers, and sound equipment. The success of these industries helps make many Americans wealthier than people in other parts of the world.

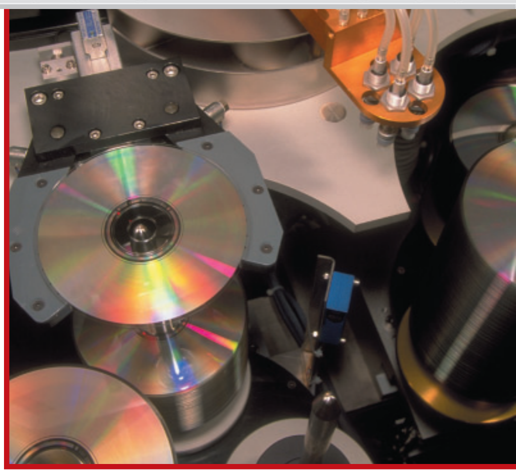
BACKGROUND

In 2000, 2.8 billion of the world's 6 billion people lived on less than $2 a day.

Estimated 2000 Per Capita* GDP

Country	U.S. Dollars
United States	36,200
China	3,600
India	2,200
Saudi Arabia	10,500
France	24,400
Zimbabwe	2,500

**Per capita* means for each person.
Source: *CIA World Factbook*



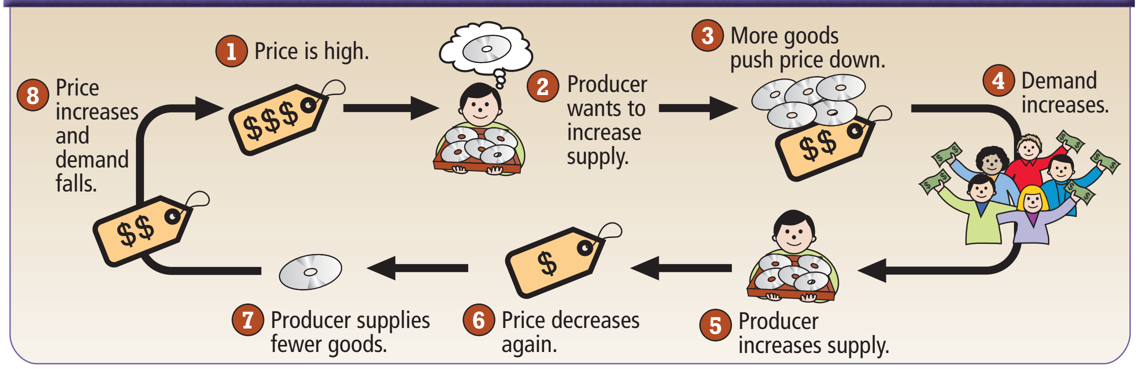
Culture • The machines that make CDs are a capital resource, one of the four factors of production. ▲

The Free Enterprise or Market Economy U.S. citizens and businesses make most economic decisions. Business owners control the factors of production. The government plays a limited role. It does not decide which or how many goods are produced. It does not set prices or tell people where to work. These are the qualities of a **free enterprise/market economy.** A market is a setting for exchanging goods and services. In a free enterprise economy, business owners compete in the market with little government interference. Other nations, such as Canada, many countries in Western Europe, Japan, and some Latin American countries, also have market economies.

Supply and Demand In a free enterprise or market economy, **consumers**—the people who use goods and services—help decide what will be produced. Prices affect how products are distributed to consumers. For example, suppose a music company produces 1,000 CDs priced at $16.95 each, but 1,100 people want to buy them. There are not enough CDs to satisfy the wants of these consumers. Because demand for the good is greater than the supply, the seller can increase the price to $17.95. He or she sells all the CDs and makes an extra $1.00 profit on each. The seller, like all entrepreneurs, wants to increase profit. **Profit** is the money that remains after all the costs of producing a product have been paid.

Now suppose the seller offers 1,000 more CDs at the original $16.95 price. One hundred sell right away, leaving 900 CDs that no one wants at this price. The seller then reduces the price to $15.95. Consumers who didn't want the CD at $16.95 may want it at this lower price. Because the supply of the good is greater than the demand, the seller must reduce the price.

Supply and Demand



Culture • Stores compete in malls and online to attract consumers. They use advertising and appealing store displays to catch the attention of potential customers. ▲

Supply and demand explain how price and availability are affected by how much consumers are willing to pay for an item and how much the seller decides to charge for it. The number of CDs offered at each price is the supply. The number of CDs that people will buy at each price is the demand.

Competition In a free enterprise or market economy, many businesses produce similar goods or services. There is competition to attract consumers. **Competition** is the rivalry among businesses to sell goods to consumers and make the greatest profit. To achieve these goals, a company may offer an improved product, manufacture it more cheaply, or sell it at a better price.

Other Economic Systems

Most countries combine features from three types of economic systems: market, command, and traditional economies.

Command Economy In this system, the government decides how many of which goods are produced and sets the prices. Countries, such as North Korea and Cuba with Communist governments, have command economies. China has elements of market and command economies.

Traditional Economy In this system, social roles and culture determine how goods and services are produced, what prices and individual incomes are, and which consumers are allowed to buy certain goods. For instance, a family's status may determine whether they can own a tractor. Farmers may give much of their produce to community leaders. India has features of both market and traditional economies.

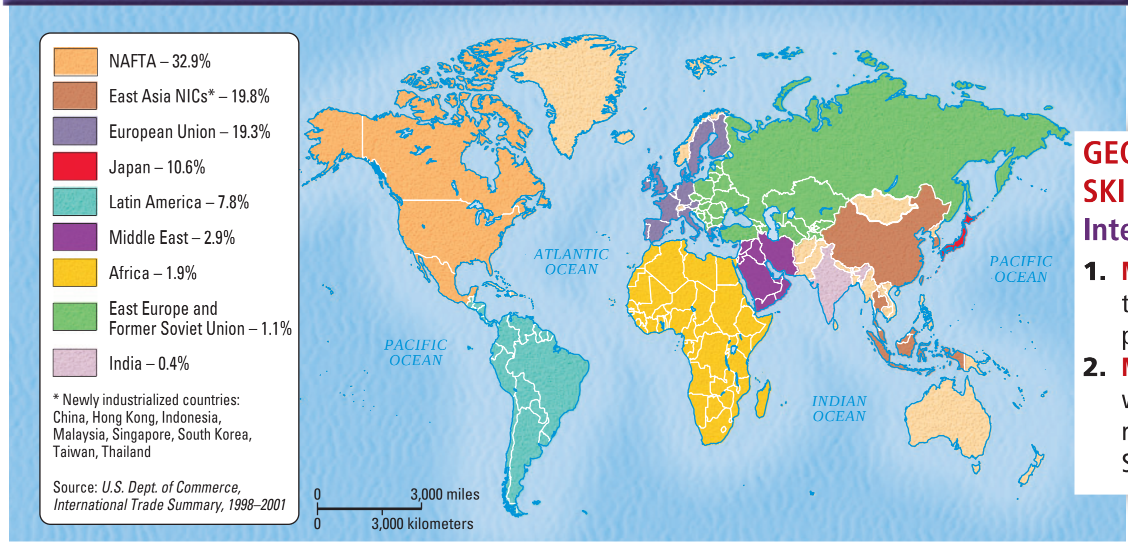
Reading Social Studies

B. Making Inferences Why might countries combine features of different economic systems?

The Global Economy

Today, more countries than ever before have market economies. Communication and transportation are fast and dependable, making trade easier among countries. The movement of people, goods, and ideas around the world has helped build a global, or worldwide, economy in which the United States is a leader. Expanding trade can open new markets and keep prices low and quality high for consumers. U.S. citizens buy many cars and clothes from other countries that take part in the global economy.

World Trade Partners of the United States, 2000



GEOGRAPHY SKILLBUILDER: Interpreting a Map

1. **Movement •** Who are the largest U.S. trade partners?
2. **Movement •** With which countries or regions does the United States trade least?

Trade Barriers Sometimes countries establish barriers to restrict trade because they prefer to produce their own goods or services. Tariffs, or taxes on imported goods, raise the price to the consumer and make it more difficult for other countries to compete.

In 1994, NAFTA, the North American Free Trade Agreement, reduced trade barriers among the United States, Canada, and Mexico. There was concern that companies would move factories to Mexico, where workers earn less, and U.S. workers would lose jobs. However, many economists believe free trade benefits all three countries.

SECTION 3 ASSESSMENT

Terms & Names

1. **Explain the significance of:** (a) factors of production (b) GDP (c) free enterprise/market economy (d) consumer (e) profit (f) competition

Using Graphics

2. Use a chart like this one to take notes on the characteristics of free enterprise/market, command, and traditional economies.

Free Enterprise/ Market Economy	Command Economy	Traditional Economy

Main Ideas

3. (a) How is the price of goods decided in the U.S. economic system?
   (b) What are the four factors of production?
   (c) What role does government have in the U.S. market economy?

Critical Thinking

4. **Making Inferences**
   What effect will reducing trade barriers between countries have on the price of goods? Explain.

Think About

- the characteristics of a free enterprise/market economy
- competition

ACTIVITY -OPTION- Write an **advertisement** for a new business showing the goods or services it will produce. Make a chart showing the type of materials, labor, and capital you will need to produce the product.