

# 7.4

## Market Economy & Circular Flow

# Mixed Market Economy

- Private Property
- Voluntary Exchange
- Patents
- Copyrights
- Productivity
- Specialization
- Division of Labor
- Efficiency

# Private Property

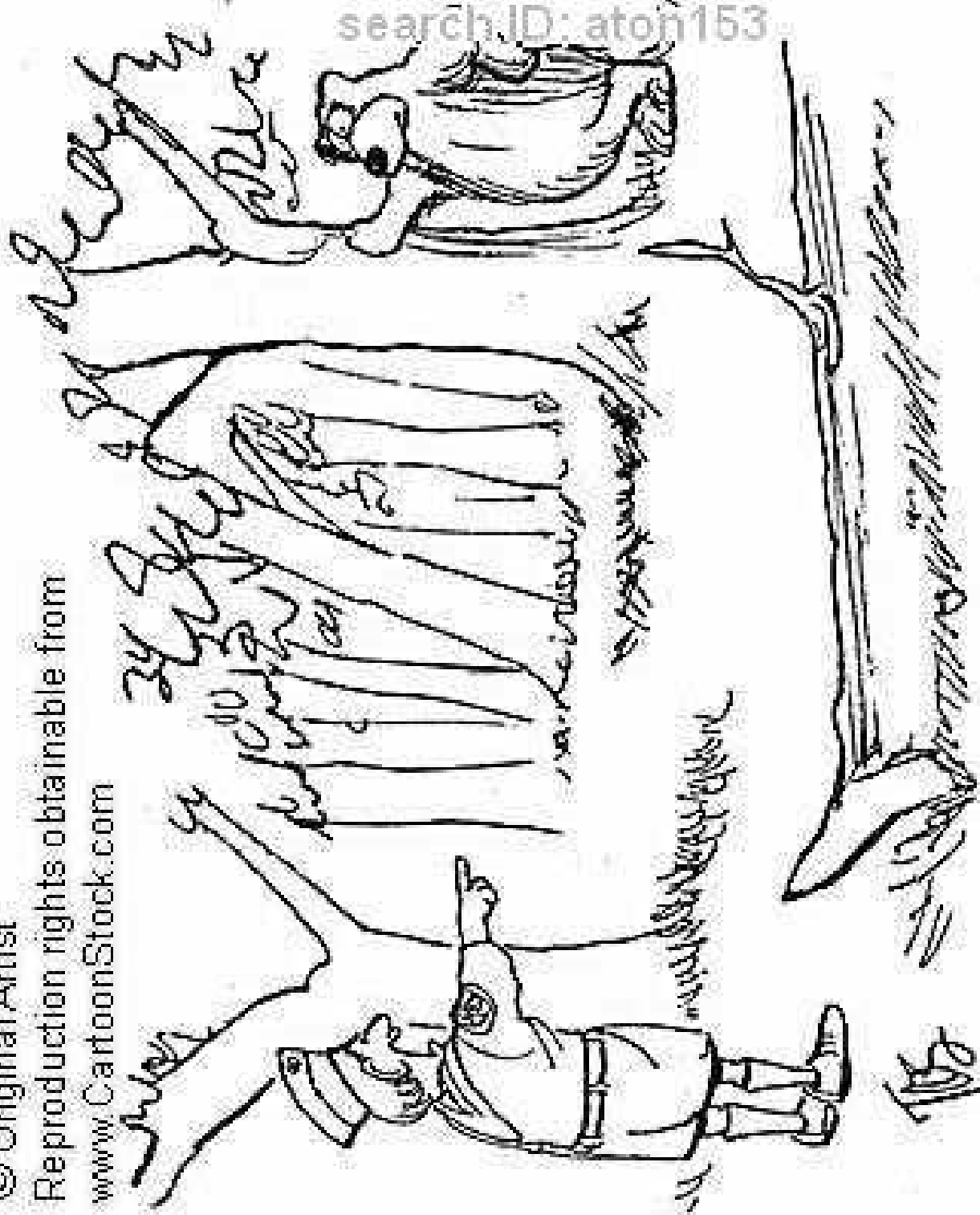


- Owning private property is one of the most basic freedoms of the free enterprise system.
- Americans have the freedom to own, use, or dispose of our own private property as we choose as long as we do not interfere with the rights of others.

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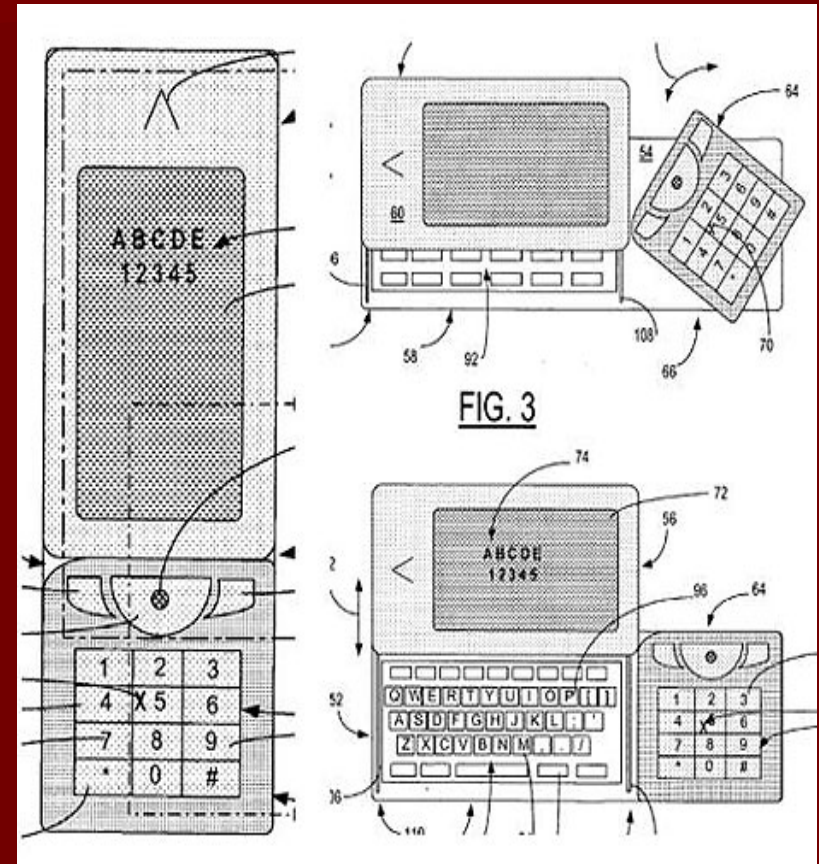
**"Hey, YOU! Stop leaning on MY tree!"**

# Voluntary Exchange

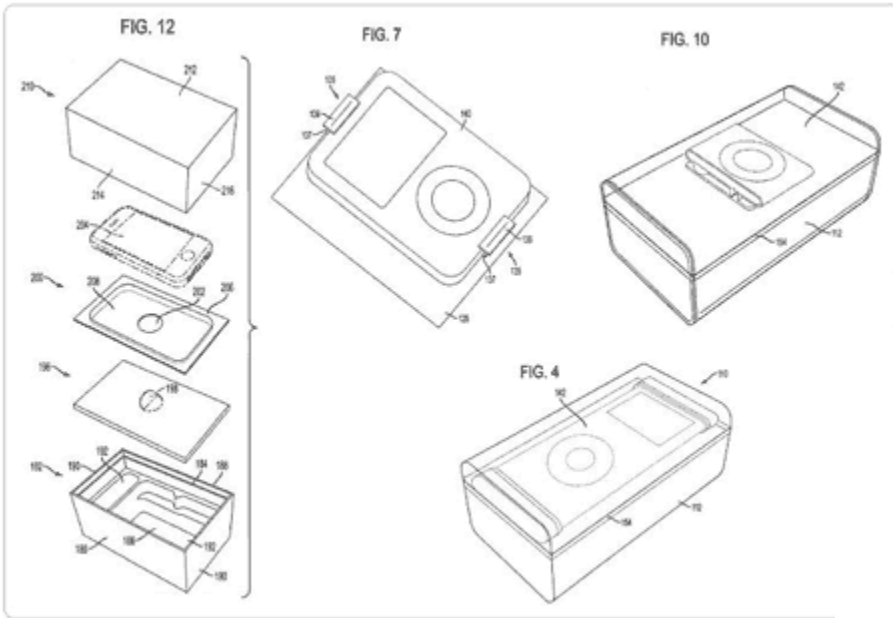
- Individuals in the USA are free to make personal choices through the price system.
- You the consumer **choose** what to buy and what not to buy.
- You have the right of choice in the products that you own.
- Individuals in the US are free to engage in free enterprise and competition.

# Patents

- Rights granted to an inventor for a certain period of time.
- The inventor will allow the public to use his patent and he will receive money whenever the patent is used.
- The US Patent Office oversees all patents.



**Patent for a Nokia  
Cell Phone**



# Patent for iPod Nano



# Copyrights



- A copyright is a set of rights regulating the use of a particular expression of an idea or information.
- Copyright may subsist in a wide range of creative, intellectual, or artistic forms or “works”.
- These include literary works, musical compositions, paintings, photographs, movies, tv, etc.



# Productivity

- **Specialization** – when people, businesses, regions, and even countries concentrate on goods and services that they produce better than anyone else.
- **Division of Labor** – the breaking down of a job into separate, smaller tasks, which are performed by different workers.
- **Efficiency** – make the best use of scarce resources.

# Corvette on the Assembly Line



# Free Enterprise

- Goals for Free Enterprise:
  - Security
  - Equity
  - Freedom
  - Full Employment



# Security

- Economic security is a goal the government works toward.
- Individuals can help protect themselves against the unexpected by buying insurance.
- Insurance is a safety blanket when there is an emergency.

# Equity

- A sense of justice for all is part of America's heritage, and in economic terms this goal is known as equity.
- Government tries to ensure that all people share in the benefits of the free enterprise system.
- To operate smoothly, the goal of economic stability must be set to maintain employment and stable prices.
- **Equity** can refer to the value of an ownership interest in property, including shareholders' equity in a business

When making a mortgage payment, homeowners are making an investment by putting equity in the house. The goal is for the house to increase in value.



# Freedom

- Another major goal of the American economic system is to maintain economic freedom.
- Consumers are free to consume what they want.
- We have the luxury of choice.

# Full Employment

- A belief shared by economists like John Maynard Keynes.
- It means anyone who wants a job can find one.





# Markets

- Factor Market (Household)
- Product Market (Business)
- Foreign Market
- Government Market

# The Factor Market (Households)

- The factor market is where businesses buy 2 factors of production:
  - **Labor** – people to do the work
  - **Capital** – machines, equipment, and technology to create a product
- Households are the source for both of these factors of production.

# The Factor Market (Households)

- Households provide labor in the form of household members.
- Households provide money (capital) in the form of savings available to invest for things needed for production.
- The amount of money available to pay for capital and labor determines how much the business can produce.
- The amount of money a household earns selling the factors of production determines how much it can consume and save.

# Product Market (Business)

- The product market is where businesses supply goods and services for sale to households.
- Households buy the goods and services they need or want and do not buy others.
- If the business can sell its products for more than its cost of producing the product, the business has a profit.

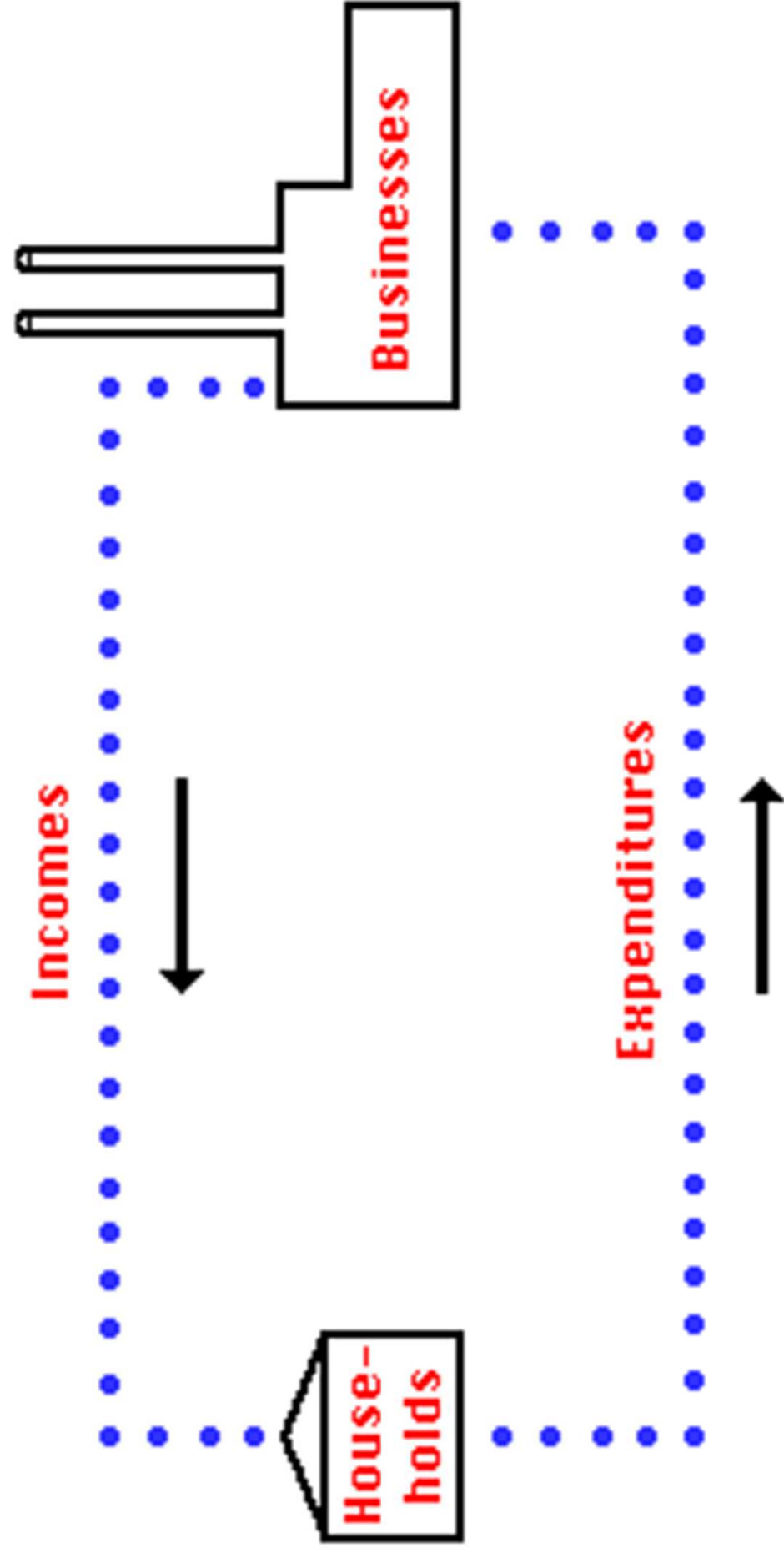
# ***Economic Activity/Exchange***

- Circular flow model
- Wages
- Salary
- Economic interdependence

# Circular flow model

- The circular flow of economic activity is the flow of money from businesses to households as wages or salaries.
- Households either spend the money on products or save the money for the future.
- The households return the money either by purchasing goods and services or investing in the business.

# The Circular Flow



# Economic Interdependence

- Money is flowing one way for products and factors of production are flowing the other way.
- These flows require both households and businesses.
- This creates economic interdependence. Households and businesses need each other to keep the economy going.