Economics

Chapter 2

**Terms to identify:**

Economic System

Command system

Market system

Private property

Freedom of enterprise (page 60)

Freedom of choice (page 60)

Self-interest (page 60)

Competition (page 61)

Market (page 61)

Specialization (page 62)

Division of labor (page 62)

Medium of exchange (PAGE 62)

Barter (page 62)

Money (page 63)

Consumer sovereignty (page 65)

Dollar votes (page 65)

Creative destruction (page 68)

“Invisible hand” (page 68)

Circular Flow diagram

Resource market

Product market

(People with the older version of the text, your terms are found at the second half of chapter 2 AND within chapter 4)

**Questions to be able to answer:**

* Compare and contrast the command system with the market system
* Identify the nine important characteristics of the market system
* Describe the role of private property rights in the market system
* Distinguish between freedom of enterprise and freedom of choice
* Explain why self-interest is a driving force is a driving force of the market system
* Identify two features of competition in the market system
* Explain the roles of markets and prices in the market system
* Describe how the market system relies on technology and capital
* Discuss how two types of specialization improve efficiency in the market system
* Describe the advantages of money over barter for the exchange of goods and services in the market system
* Describe the size and role of government in the market system
* List the Five Fundamental Questions to answer about the operation of a market economy
* Explain how a market system determines what goods and services will be produced and the role of consumer sovereignty and dollar votes
* Explain how goods and services will be produced in a market system
* Find the least costly combination of resources needed for production when given the technological data and the prices of the resources
* Explain how a market system determines who will get the goods and services it produces
* Describe the guiding function of prices to accommodate change in the market system
* Explain how the market system promotes progress by fostering technological advances and capital accumulation
* State how the ‘Invisible hand” in the market system tends to promote public or social interests
* List three virtues of the market system
* Compare how a command economy coordinates economic activity and how a market economy coordinates economic activity
* Explain the problems with incentives in a command economy
* Draw the circular flow model, correctly labeling the two markets and the real and money flows between the two markets
* Describe the role of private property plays in helping a market economy find the most productive combination of resources