

**2.5**

# **Benefits of Free Enterprise**



## **As a Young Economist, I will be able to...**

- Explain the basic characteristics of the U.S. free enterprise system.
- Describe the role of the consumer and the entrepreneur in the American economy.
- Identify the protections in the U.S. Constitution that underlie free enterprise.
- Describe the role of government in the U.S. free enterprise system.

# Basic Characteristics of Free Enterprise

The United States strives at allowing entrepreneurs build new businesses

But Consumers play a vital role in our economy

Here are the basic Characteristics of Free Enterprise!



# 1. Opportunity

**Country allows the freedom to innovate & contribute to our overall economic prosperity.**

**Over 27 million (and counting) businesses in US.  
About 7 million are run by minority groups**

**We have had a tradition of free enterprise & great resources to supply opportunity**



# 2. Incentives

**Consumers look for better prices and higher wages. Incentives drive profit!**

**Sometimes they can be worth money or other types of rewards**

**Most are positive, but some are negative such as paying less taxes if you work less hours**



# 3. Profit Motive

**Drives individuals & businesses to make decisions that improve material well-being**

**Forces business owners & managers to make choices on what will increase profit**

**Forces financial discipline & encourages entrepreneurs to take rational risks**



# 4. Competition

**Businesses must compete with each other for consumers money**

**This can lower prices and force companies to make better quality materials!**

**Open Opportunity-** The principle that anyone can compete in the marketplace.





# 5. Legal Equality

**Principle that everyone has the same legal rights.  
Maximizes countrys use of human capital**

## 6. Private Property Rights

**People have the right to control possessions  
and use them as them as they wish**





# 7. Economic Freedom

**Free Contract-** People get to decide what agreements they want to enter into

**Voluntary Exchange-** Allows consumers & producers to decide what, when, & how they buy & sell



# Key Roles in the Free Enterprise System

**Role of the consumer- YOU have the choice to make your own economic choices**

**Interest Groups-** Private organization that tries to persuade public officials to act in ways that benefit its members

**Role of the Entrepreneur- They decide how to combine resources to create new goods & services**

**They take risks with the consumers to try and turn a profit**

# Economic Freedom & the Constitution

**Patriotism-** Love of one's country, benefits the economic freedom of the U.S.

**We can spend and make wealth in almost any manner & nation encourages it**

**Some freedoms include....**



# Property Rights

**The Fifth Amendment protects private property & government should pay compensation for taken land**

**Land can ONLY be taken for public reason.**

**Eminent Domain-** The right of the government to take private land for public use



# Taxation

**Constitution spells out how government can tax people & businesses.**

**Congress can levy taxes to spend on needs**

**The Sixteenth Amendment allowed Congress to tax income**



# Contracts

**Constitution allows people & businesses to make contracts & legal agreements**

**Constitution also protects people & organizations  
can't use political process to be excused from  
contracts**



# Limited Role of Government in the Marketplace

**Public Interest-** The concerns of society as a whole. Such as pollution, medicines, & sanitary conditions

Consumers have the right to be educated on topics

**Public Disclosure Laws-** Requires companies to give consumers important information about the products or services they offer

Federal Trade Commission requires businesses to be truthful about goods & services





# Health, Safety, Wellbeing

**Business has limits on their actions in the public interest.**

**Safety standards, food conditions, packaging, expiration dates, etc.**

**The environment has been a major concern since the development of the EPA in 1970**



**Individuals & businesses are subject to zoning laws, can only operate in certain areas**

# Negative Effects of Regulation

The 1960s & 1970s saw a huge demand for protection & the creation of several new government agencies

Regulation can be costly & slow to implement & some businesses think it stifles competition

This is a debate we still see in our current state and national governments

