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Free Markets



As a Young Historian, I will be able to...

- Explain why markets exist.
- Explain a circular flow model of a free market economy.
- Describe how self-interest and competition lead to the self-regulating nature of the marketplace.
- Identify the advantages of a free market economy.

Why Do Markets Exist?

Market- Any arrangement that allows buyers & sellers to exchange things

Markets allow us to achieve needs/wants without being self-sufficient

Specialization- Concentration of the productive efforts of individuals & businesses on a limited number of activities

What are some examples?



BUY, BUY, SELL, SELL!

How did people used to get materials or purchase things they needed?

Free-Market Economy- People are allowed to make choices on how things are made, consumed, & the quantity

Example- A person can own a factory & decide what they want to make/sell



The United States is famously a free enterprise system

Households, Firms, & Markets

Household- Person or group living in a single residence

Firm- Organization that uses resources to produce a product or service, which it then sells

Factor Market- Arena of exchange in which firms purchase the factors of production from a household

*buying & selling land

Product Market- Arena of exchange in which households purchases goods & services from a firm

*buying food from grocery store



How do Markets Self-Regulate?

Adam Smith- “Competition & our own self-interest actually help to keep marketplace functioning

Self-Interest- Your own personal gain, pushing the free market

Incentives- Hope of a reward or fear of penalty to encourage behavior

People will respond in particular ways to positive & negative incentives



How do they regulate again?

A large variety of choices helps drive the economy

Competition- The struggle among producers for the dollars of the consumers

Self-interest & competition create an “invisible hand” of the marketplace



*** Advantage of a Free Market

1. *Economic Efficiency*- Our economy can respond to quick changes

2. *Economic Freedom*- We can work where we want, produce what we want, & buy what we want

3. *Economic Growth*- New ideas & innovations are born!

4. **Additional Goals**- Consumers have the power to decide what they want & how their desires are met

AKA...**Consumer Sovereignty!**