

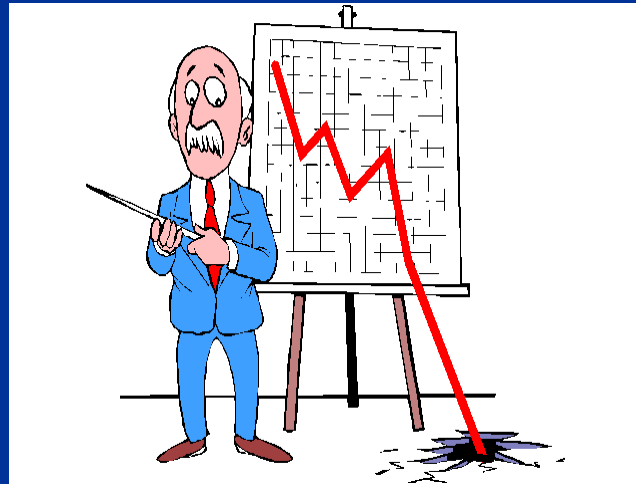
THE AMERICAN ECONOMY



<http://www.criticalcommons.org/Members/JJWooten/clips/ron-swanson-on-capitalism/view>

SIX CHARACTERISTICS OF THE AMERICAN ECONOMY

- FREEDOM OF ENTERPRISE
- FREEDOM OF CHOICE
- PRIVATE PROPERTY
- PROFIT INCENTIVE
- COMPETITION
- MINIMAL GOVERNMENTAL CONTROL



1) FREEDOM OF ENTERPRISE

- Social/Political commitment to give people freedom to compete in market place
- NO GUARANTEE OF SUCCESS

2) FREEDOM OF CHOICE

- CONSUMERS MAKE DECISIONS ABOUT WHAT SHOULD BE PRODUCED



3) PRIVATE PROPERTY



- * Individuals/Businesses
- Land/Goods/Services
 - Buy whatever you can afford*
 - <https://www.youtube.com/watch?v=IOP2TuanjMA>

4) PROFIT INCENTIVE



- DESIRE TO MAKE A PROFIT
- RISK OF FAILURE
- PROFIT-MONEY LEFT OVER AFTER THE COSTS OF PRODUCTION
- Costs – WAGES, RENT, INTEREST, TAXES
- MORAL ISSUES (PHARMACEUTICAL CO.)
 - Soliris, \$440,000 per year

PROFIT

■ INDIVIDUALS-FREE TO CHOOSE HOW TO USE PROFITS

*HOW WE SPEND AFFECTS ECONOMY

*SAVING/INVESTING HELPS ECONOMY GROW)

-CHECKING ACCOUNTS

-SAVINGS ACCOUNTS

-CERTIFICATES OF DEPOSIT

-STOCK MARKET

-RETIREMENT PLANS



5) COMPETITION

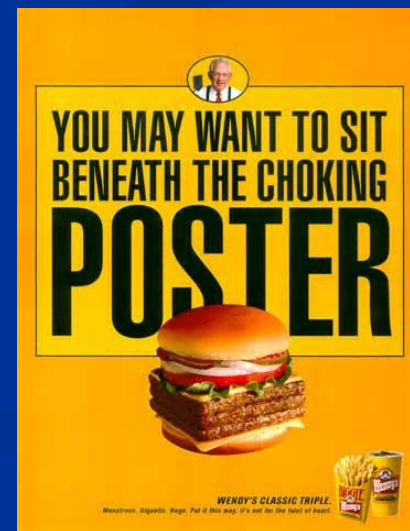
- RIVALRY AMONG PRODUCERS OF SIMILAR GOODS TO WIN MORE BUSINESS

- HOW TO WIN MORE BUSINESS

- *LOW PRICE

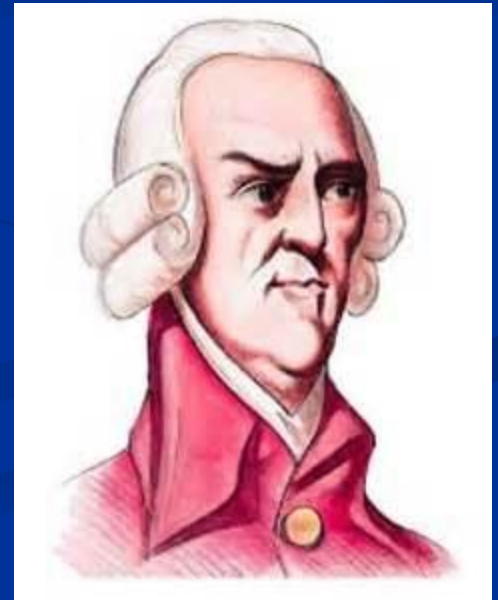
- *BETTER QUALITY

- *PRICE CORRECTLY



6. MINIMAL GOVERNMENT CONTROL

- ADAM SMITH...
- IN THE U.S.- INDIVIDUALS OWN THE FACTORS OF PRODUCTION AND DECIDE HOW TO USE THEM...



ROLE OF GOVERNMENT IN U.S. FREE ENTERPRISE

- GOVERNMENT REGULATION –LAWS THAT DETERMINE HOW A BUSINESS OR INDUSTRY SHOULD RUN
 - PUBLIC DISCLOSURE LAWS
 - REQUIRE COMPANIES TO GIVE FULL INFO ABOUT THEIR PRODUCTS
- PROTECT HEALTH, SAFETY, & WELL BEING

Nutrition Facts	
Serving Size 1 cup (228g)	
Servings Per Container about 2	
Amount Per Serving	
Calories 250	Calories From Fat 110
% Daily Value*	
Total Fat 12g	18%
Saturated Fat 3g	15%
Trans Fat	
Cholesterol 30mg	10%
Sodium 470mg	20%
Total Carbohydrate 31g	10%
Dietary Fiber 0g	0%
Sugars 5g	
Proteins 5g	
Vitamin A	4%
Vitamin C	2%
Calcium	20%
Iron	4%

*Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs:

	Calories: 2,000	2,500
Total Fat	Less than 65g	80g
Saturated Fat	Less than 20g	25g
Cholesterol	Less than 300mg	300mg
Sodium	Less than 2,400mg	2,400mg
Total Carbohydrate	300g	375g
Dietary Fiber	25g	30g

Footnote with Daily Values (DVs)



MAJOR FEDERAL REGULATORY AGENCIES

AGENCY	ROLE
1906 – FOOD AND DRUG ADMINISTRATION (FDA)	ENFORCES STANDARDS FOR FOOD, DRUGS, AND COSMETIC PRODUCTS
1914 – FEDERAL TRADE COMMISSION (FTC)	ENFORCES ANTITRUST LAWS TO PROTECT CONSUMERS
1934 – FEDERAL COMMUNICATIONS COMMISSION (FCC)	REGULATES COMMUNICATIONS BY RADIO, TV, WIRE, SATELLITE, AND CABLE
1964 – EQUAL EMPLOYMENT OPPORTUNITY COMMISSION (EEOC)	PROMOTES EQUAL JOB OPPORTUNITY
1970 – ENVIRONMENTAL PROTECTION AGENCY (EPA)	PROTECTS HUMAN HEALTH AND THE NATURAL ENVIRONMENT
1972 – OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION (OSHA)	ENFORCES POLICIES TO SAVE LIVES, PREVENT INJURIES, AND PROTECT THE HEALTH OF WORKERS
1974 – NUCLEAR REGULATORY COMMISSION	REGULATES CIVILIAN USE OF NUCLEAR PRODUCTS

NEGATIVE EFFECTS OF REGULATION

- RULES CAN BE COSTLY FOR
BUSINESSES TO IMPLEMENT
 - * ESPECIALLY SMALL BUSINESS
- RAISES GOVERNMENT SPENDING



GROWTH & STABILITY

- MEASURING ECONOMIC WELL-BEING
 - GROSS DOMESTIC PRODUCT
 - TOTAL VALUE OF GOODS AND SERVICES PRODUCED IN AN ECONOMY
- GDP IS USED TO PREDICT BUSINESS CYCLES
- BUSINESS CYCLE: PERIOD OF MACROECONOMIC EXPANSION FOLLOWED BY A PERIOD OF CONTRACTION
- GOVERNMENT WANTS TO PREVENT WILD SWINGS

ENSURING ECONOMIC STRENGTH

- 3 MAIN OUTCOMES PURSUED
- 1) HIGH EMPLOYMENT
 - RATE TO BE BETWEEN 4%-6%
- 2) GROWTH
 - STANDARD OF LIVING SHOULD INCREASE FOR EACH GENERATION
 - GDP IS A MEASURE OF GROWTH
- 3) STABLE PRICES
 - PREVENT SUDDEN & DRASTIC CHANGES IN PRICES
 - FINANCIAL INSTITUTIONS NEED TO BE HEALTHY



PUBLIC GOODS

■ PUBLIC GOOD: A SHARED GOOD OR SERVICE

THAT IS IMPRACTICAL...

- 1) TO MAKE CONSUMERS PAY INDIVIDUALLY
- 2) TO EXCLUDE NON-PAYERS

■ Taxes pay for public goods:

- Roads
- Police/Fire
- Road kill removal
- Fireworks
- Parks, monuments, etc.
- **MALLS???? NO!**



COST AND BENEFITS

IT'S A PUBLIC GOOD WHEN:

- 1) THE BENEFIT TO EACH INDIVIDUAL IS LESS THAN THE COST THAT EACH WOULD HAVE TO PAY IF IT WERE PROVIDED PRIVATELY AND.....
- 2) THE TOTAL BENEFITS TO SOCIETY ARE GREATER THAN THE TOTAL COST
- (FIGURE 3.4 ON PAGE 64)
- **FREE RIDER**: SOMEONE WHO WOULD CHOOSE NOT TO PAY FOR A CERTAIN GOOD OR SERVICE, BUT WOULD STILL BENEFIT
 - EXAMPLES



WHAT IS WRONG WITH THIS PICTURE?



- Sunsets are a non-excludable good, in that non-payers can't be prevented from enjoying them. Other examples of non-excludable goods are national defense, fireworks, and lighthouses. Private firms tend to under produce non-excludable goods because customers have little incentive to pay for them. Public goods are both non-excludable and non-rival.

ECONOMIC SIDE EFFECTS

An externality is an economic side effect of a good or service that generates benefits or costs to someone other than the person deciding how much to produce or consume.

- The building of a new dam and creation of a lake generates:

- **Positive Externalities**

- A possible source of hydroelectric power
- Swimming
- Boating
- Fishing
- Lakefront views

- **Negative Externalities**

- Loss of wildlife habitat due to flooding
- Disruption of fish migration along the river
- Overcrowding due to tourism
- Noise from racing boats and other watercraft

VIDEO EXAMPLE OF NEG. EXT:

<https://www.youtube.com/watch?v=5Jdk3riKKwo&feature=youtu.be>

VIDEO OF EXTERNALITIES & FREE RIDER:

<http://economicsoftheoffice.com/all/?q=free+rider>(The Proposal)

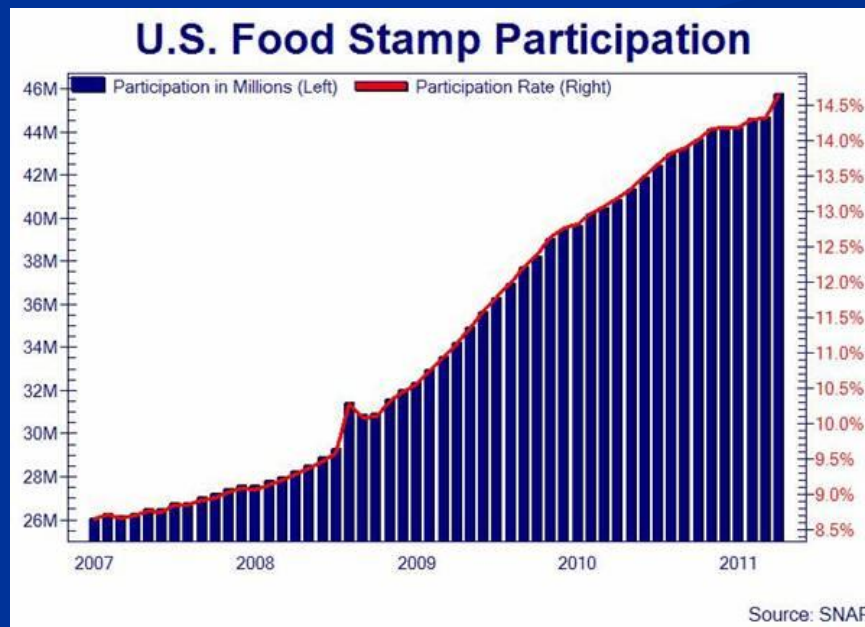
SAFETY NETS

- FREE MARKET: CAN LEAD TO GAPS IN WEALTH
- HOW DO YOU THINK WEALTH IS DIVIDED IN THE US?
- <http://www.youtube.com/watch?v=QPKKQnijnsM>
- POVERTY THRESHOLD: INCOME LEVEL BELOW WHICH IS NEEDED TO SUPPORT A FAMILY OR HOUSEHOLD
- 2015: \$24,036 FAMILY OF FOUR



WELFARE SYSTEM

- WELFARE: GOV. AIDE TO THE POOR
- SYSTEM BEGAN WITH FDR FOLLOWING THE GREAT DEPRESSION



TANF

- TEMPORARY ASSISTANCE FOR NEEDY FAMILIES
- PROVIDES FEDERAL MONEY TO STATES
- STATES RUN THEIR OWN WELFARE PROGRAMS
- RULES MUST CREATE WORK INCENTIVES AND ESTABLISH A LIFETIME LIMIT FOR BENEFITS



SOCIAL SECURITY

- CREATED IN 1935
- PROVIDES RETIREMENT INCOME FOR THE ELDERLY
- ELIGIBLE AT AGE 62 (CONTINUES TO INCREASE)
- AVERAGE MONTHLY BENEFIT (2016): \$1340



SAFETY NETS

- HELP THOSE WHO ARE INJURED, LOST JOB, PROVIDE MEDICAL CARE, ETC.
- SAFETY NETS TYPICALLY **DO NOT** HELP THOSE WHO RECEIVE A LOW INCOME
- MINIMUM WAGE WILL NOT QUALIFY AN INDIVIDUAL FOR WELFARE PROGRAMS

