STANDARD CE.12A
-- U.S. ECONOMY

Characteristics of the United States economy, including limited government, private property, profit, and competition. The United States economy is primarily a free market economy; but because there is some government involvement it is characterized as a mixed economy.

Government intervenes in a market economy when the perceived benefits of a government policy outweigh the anticipated costs.

Characteristics of the United States economy

- A market exists whenever buyers and sellers exchange goods and services.

- Free enterprise: Markets are generally allowed to operate without undue interference from the government. Prices are determined by supply and demand as buyers and sellers interact in the marketplace.

- Private property: Individuals and businesses have the right to own real and personal property as well as the means of production without undue interference from the government. The government provides a structure to define and enforce such property rights.

- Profit motive: Profit consists of earnings after all expenses have been paid. Individuals have the opportunity to create a business and earn profits.

- Competition: Rivalry between producers and/or between sellers of a good or service usually results in better quality goods and services at lower prices.

- Consumer sovereignty: Consumers determine through purchases what goods and services will be produced. Government involvement in the economy is limited. Most decisions regarding the production of goods and services are made in the private sector.

STANDARD CE.12B
-- SUPPLY & DEMAND

In a market economy supply and demand determine prices. Both buyers and sellers respond to price changes. When prices change, buyers change the quantity they are willing and able to buy and sellers change the quantity they are willing and able to bring to market.

Neither supply nor demand alone can set the price.

Price

- Price is determined by the interaction of supply and demand
- Price is the amount of money exchanged for a good or service

Demand

- Demand is the amount of a good or service that consumers are willing and able to buy at different prices during a given time period.
- Law of demand: Consumers will buy more of a good or service at lower prices and less at higher prices.
- Higher prices for a good or service provide incentives for buyers to purchase less of that good or service.
- Lower prices for a good or service provide incentives for buyers to purchase more of that good or service.

Supply

- Supply is the amount of a good or service that producers are willing and able to offer for sale at each possible price during a given period of time.
- Law of Supply: Producers will produce more when they can sell at a high price and will produce less when they can sell at a low price.
- Higher prices for a good or service provide incentives for producers to make or sell more of a good or service.
- Lower prices for a good or service provide incentives for producers to make or sell less of a good or service.
Equilibrium price:

- Equilibrium price is the point where supply and demand meet.
- Everyone who wants to sell at that price can sell.
- Everyone who wants to buy at that price can buy.

**STANDARD CE.12C**

**-- BUSINESS ORGANIZATIONS; ROLE OF ENTREPRENEURSHIP**

_There are three basic ways that businesses organize to earn profits._

*Entrepreneurs play an important role in all three types of business organizations._

Basic types of business ownership

- **Proprietorship**: A form of business organization with one owner who takes all the risks and all the profits.
- **Partnership**: A form of business organization with two or more owners who share the risks and the profits.
- **Corporation**: A form of business organization that is authorized by law to act as a legal entity regardless of the number of owners. Owners share the profits. Owner liability is limited to the amount of their investment.

**Entrepreneur**

- A person who takes a risk to produce and sell goods and services in search of profit
- May establish a business according to any of the three types of organizational structures
- Entrepreneurs increase competition by bringing new goods and services to market or by delivering products in innovative ways. They often foster technological progress and economic growth.

**STANDARD CE.12D**

**-- CIRCULAR FLOW**

Circular flow shows how consumers (households), businesses (producers), and markets interact.

*Resources, goods and services, and money flow continuously among households, businesses, and markets in the United States economy.*

Economic flow (circular flow)

- **Households** own the resources used in production, sell the resources, and use the income to purchase products.
- **Businesses** buy resources; make products that are sold to individuals, other businesses, and the government; and use the profits to buy more resources.
- When households and businesses spend money, the income is used by households to purchase goods and services and by businesses to purchase resources.
- **Governments** use tax revenue from households and businesses to provide public goods and services.

**STANDARD CE.12E**

**-- FINANCIAL INSTITUTIONS**

How financial institutions channel funds from savers to borrowers

*Private financial institutions help facilitate an exchange of money between savers and borrowers.*

Private financial institutions

- Include banks and credit unions
- Receive deposits and make loans
- Encourage saving and investing by paying interest on deposits
- Help provide financial capital (money) to people/businesses to start or grow businesses

**STANDARD CE.12F**

**-- GLOBAL ECONOMY**

The relationship of Virginia and the United States to the global economy, with emphasis on the impact of technological innovations

Virginia and the United States pursue international trade in order to increase wealth.
• **global economy**: Worldwide markets in which the buying and selling of goods and services by all nations takes place

**Reasons that states and nations trade**

- To obtain goods and services they cannot produce or **cannot produce efficiently** themselves
- To buy goods and services at a **lower cost** or a **lower opportunity cost**
- To **sell goods** and services to other countries
- To **create jobs**

Virginia and the United States **specialize** in the production of certain goods and services, which **promotes efficiency** and growth.

**Impact of technological innovations**

Innovations in technology (e.g., the Internet) contribute to the **global flow of information, capital, goods, and services**.

The use of such **technology** also **lowers the cost** of production.