

Summary: The United States Economy

The Study of Economics

Economics involves the exchange of goods and services. Based on their needs, individuals decide what they want to buy. A government also makes decisions about what to buy. Governments need to pay for police and fire protection, schools, roads, and military forces. Once these needs are met, money can be spent on other things, such as medical research or environmental protection.

For an economy to grow, business owners must produce goods and services. The four factors of production are the use of natural resources (raw materials), labor resources (workers), capital resources (machines, factories, supplies), and entrepreneurs (people who bring all resources together).

The United States Economy

A way to measure a country's economy is to look at its GDP (gross domestic product). This tells the total value of the goods and services that a country produces. The U.S. economy is one of the world's wealthiest.

The U.S. government does not set prices, tell businesses what to produce, or tell people where to work. These are qualities of a free enterprise/market economy. Business owners compete to sell goods without the government telling them what to do.

Prices affect how many goods are sold. If the demand for a good is greater than the supply, the seller can raise the price and make a bigger profit. If the supply is greater than the demand, the seller lowers the price, making a smaller profit.

In a free market economy, there is competition, or rivalry, among sellers to attract consumers. To achieve this, a company may offer an improved product, manufacture it more cheaply, or sell it at a lower price.

Other Economic Systems

Most countries combine features from market, command, and traditional economies. In a market economy, citizens decide what they want to buy and sell and at what price. In a command economy, the government decides how many of which goods are produced and sets the prices. In a traditional economy, social roles and culture determine those things.

Before You Read

Find and circle each vocabulary word.

factors of production *noun*, elements needed for production to occur

GDP *noun*, gross domestic product, total value of the goods and services that a country produces

free enterprise/market economy *noun*, an economy in which business owners compete in the market with little government interference

consumer *noun*, a person who uses goods and services

profit *noun*, money that remains after the costs of producing a product are paid

competition *noun*, rivalry among businesses to sell goods and services and make the greatest profit

After You Read

REVIEW After a government has set aside money for basic wants, what additional goods or services might it pay for? Highlight the sentence that lists additional services.

REVIEW How does competition help consumers? Circle the sentence that tells how competition helps.

REVIEW Why might countries combine features of different economic systems? Draw a box around the paragraph that gives background information.