Economics

Chapter 2 Study Guide

Terms to know:

* economic system
* command system
* market system
* private property
* freedom of enterprise
* freedom of choice
* self-interest
* competition
* market
* specialization
* division of labor
* medium of exchange
* barter
* money
* consumer sovereignty
* dollar votes
* creative destruction
* “invisible hand”
* circular flow diagram
* resource market
* product market

To know and be able to do:

* Compare and contrast the command system with the market system
* Identify the nine important characteristics of the market system
* Describe the role of private property rights in the market system
* Distinguish between freedom of enterprise and freedom of choice
* Explain why self-interest is a driving force of the market system
* Identify two features of competition in the market system
* Explain the roles of markets and prices in the market system
* Describe how the market system relies on technology and capital
* Discuss how two types of specialization improve efficiency in the market system
* Describe the advantages of money over barter for the exchange of goods and services in the market system
* Describe the size and role of government in the market system
* List the Five fundamental questions to answer about the operation of a market economy
* Explain how a market system determines what goods and services will be produced and the role of consumer sovereignty and dollar votes
* Explain how goods and services will be produced in a market system
* Find the least costly combination of resources needed for production when given the technological data and the prices of resources
* Explain how a market system determines who will get the goods and services it produces
* Describe the guiding function of prices to accommodate change in the market system
* Explain how the market system promotes progress by fostering technological advances and capital accumulation
* State how the invisible hand in the market system tends to promote public or social interests
* List three virtues of the market system
* Compare how a command economy coordinates economic activity with how a market economy coordinates economic activity
* Explain the problems with incentives in a command economy
* Draw the circular flow model, correctly labeling the two market and the real and money flows between the two markets
* Describe the role private property plays in helping a market economy find the most productive combination of resources.