Chapter 2

Free Enterprise in the United States

What are the three basic economic questions?

What is important about how a country answers these basic questions?

What are the four basic types of economic systems?

What are the four pillars of the free enterprise system?

What motivates entrepreneurs to take risks?

What are two important functions of prices?

In what two markets do people compete? How?

What are the two markets in the circular flow model?

What two roles do households play in the economy?

What is the “invisible hand” theory based on? Whose theory is it?

9. What is relative scarcity and how does it affect price?