Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Period\_\_\_\_\_\_\_Date\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Economics**

**CH 2: Economic Systems**

**Study Guide**

35 Total Points

34 Vocabulary = 17 pts

18 Questions = 18 pts

**Section 1: Answering the Three Economic Questions**

Vocabulary: Define or describe each term (5 pts)

1. Economic System –
2. Factor Payment –
3. Patriotism –
4. Safety Net –
5. Standard of Living –
6. Traditional Economy –
7. Market Economy –
8. Centrally Planned Economy –
9. Command Economy –
10. Mixed Economy –

Section 1 Questions (3 pts)

1. Why aren’t all people paid the same amount in factor payments for the resources they provide?
2. Provide two examples of unequal factor payments.
3. Why do governments provide safety nets for their citizens?

**Section 2: The Free Market**

Vocabulary: Define or describe each term (6 pts)

1. Market –
2. Specialization –
3. Household –
4. Firm –
5. Factor Market –
6. Profit –
7. Product Market –
8. Self-Interest –
9. Incentive –
10. Competition –
11. Invisible Hand –
12. Consumer Sovereignty –

Section 2 Questions (7 pts)

1. Provide an example where you see specialization in this area.
2. What are the roles of households and firms in a market economy?
3. How does competition among firms benefit consumers?
4. Explain what Adam Smith meant by “the invisible hand of the marketplace.”
5. What is the connection between incentives and consumer sovereignty in a free market economy?
6. Why is economic equity difficult to achieve in a free market economy?
7. Explain how a factory assembly line is an example of specialization.

**Section 3: Centrally Planned Economies**

Vocabulary: Define or describe each term (3 pts)

1. Socialism –
2. Communism –
3. Authoritarian –
4. Collective –
5. Heavy Industry –
6. Joseph Stalin –

Section 3 Questions (4 pts)

1. How do socialism and communism differ?
2. Why did Soviet collectives offer little incentive to farmers?
3. In the Soviet Union, what was the opportunity cost of the emphasis on heavy industry?
4. Why do centrally planned economies have difficulty meeting consumer needs?

**Section 4: Modern Economies**

Vocabulary: Define or describe each term (3 pts)

1. Laissez faire –
2. Private Property –
3. Free Enterprise –
4. Continuum –
5. Transition –
6. Privatize –

Section 4 Questions (4 pts)

1. Why have some nations begun a transition to free enterprise?
2. Why are nations with centrally planned economies sometimes slow to succeed when they privatize industry?
3. What benefits might citizens of a centrally planned economy derive from a move toward a market-based economy?
4. Why are there no pure free market economies in the world?