

# Comparative Economic Systems

## SECTION 1 *CAPITALISM*

### ■ TEXT SUMMARY

In any economy, the basic resources used to make all goods and services—land, labor, and capital—are called **factors of production**. Land includes all natural resources. Labor refers to the people who do an economy's work. **Capital** is all the human-made resources used to produce goods and services. A **capitalist** is a person who owns capital and puts it to productive use. An **entrepreneur** combines land, labor, and capital resources to produce goods or offer services.

Capitalism is a **free enterprise system**—an economic system with private or corporate ownership of and investment in capital goods. Fundamental to it are private ownership, individual initiative, profit, and competition.

Under competitive conditions, the **laws of supply and demand** determine prices. These laws say that when supplies become more plentiful, prices tend to fall; when supplies become scarcer, prices tend to rise. Likewise, prices generally fall when demand drops; when demand increases, prices generally rise.

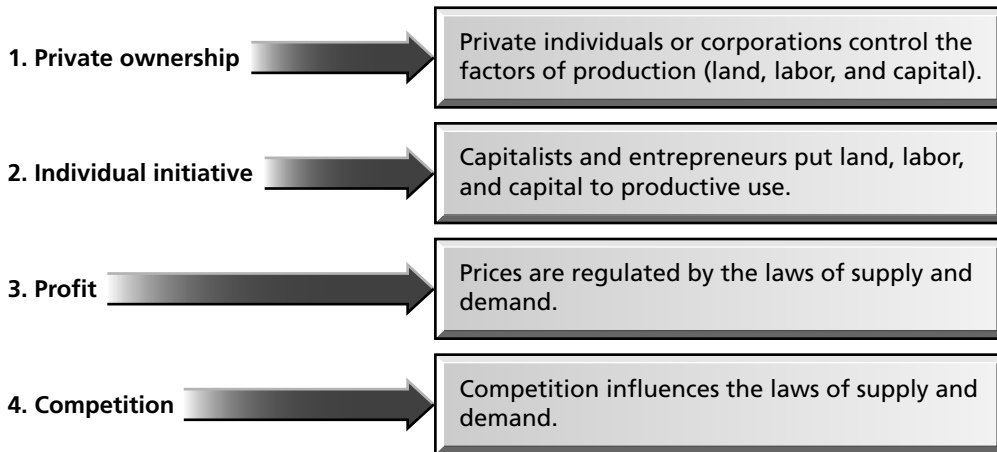
A company that is the only source of a product or service is a **monopoly**. A **trust** is a monopoly in which several corporations in the same industry combine to eliminate competition and regulate prices.

**Laissez-faire theory** holds that government should play a limited, hands-off role in society. The United States has a mixed economy—one in which private enterprise coexists with some governmental regulation of the economy.

### THE BIG IDEA

**In a capitalist economic system, private individuals or companies control the factors of production.**

### ■ GRAPHIC SUMMARY: *Characteristics of Capitalism*



American capitalism is a mixed economy—private enterprise and governmental regulation coexist.

### ■ REVIEW QUESTIONS

1. Explain the laws of supply and demand.

2. **Diagram Skills** What is the role of individual initiative in a capitalist economy?