

## **LESSON 3: FEATURES OF THE ENTERPRISE SYSTEM**

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**Focus Question:** *To what extent is the U.S. economy a free-enterprise system?*

### **Objectives**

*Students will be able to:*

- Describe Adam Smith’s idea of the free-enterprise system.
- Identify the basic features of the free enterprise system as practiced in the U.S. today.
- Discuss how the circular flow of the economy helps support the free enterprise system.

### **Standards**

NES: 4, 7, 8, 9, 10, 14

ELA: 1, 2, 3

### **Time Frame**

One day, double period

### **Materials**

Textbook chapter on: Economic Systems

### **Teaching Strategies**

#### **I. Adam Smith and the Free Enterprise System**

- As a homework assignment for Lesson 3, distribute Worksheet 3A, “Adam Smith and the Free Enterprise System” and have students complete the exercise on the worksheet.
- As part of the whole-class discussion in Lesson 3, have the students explain their answers to the following:
  - To what extent do you agree with Adam Smith’s ideas about how the economy should operate?
  - Which of Smith’s ideas is followed most closely in the U.S.?
  - Which of Smith’s ideas is followed least closely in the U.S.?
  - What questions does this worksheet raise for our class discussion?

#### **II. U. S. Economic System**

Distribute Worksheet 3B, Part I, “U.S. Economic System.” Have students complete the exercise on the worksheet. Then, as part of the whole-class discussion, have them explain their answers to the following questions:

- What do we learn from the cartoon about the free enterprise system?
- In your own words, how would you describe each of these features?
- To what extent do these features mirror the ideas of Adam Smith?
- In what ways do these features help promote the interests of business in the U.S.?
- How do these features contribute to making the U.S. economy the largest in the world? Which of these features is the most important in explaining the success of the U.S. economy?

### **III. Circular Flow**

Ask students to complete the exercise on Worksheet 3C, “Circular Flow.” Then have them explain their answers to the following:

- What do we see in this chart?
- How does this chart explain how the U.S. free enterprise system works?
- To what extent does this chart show that our economy follows Adam Smith’s ideas? To what extent does it show that our economy doesn’t follow Smith’s ideas?
- Does this chart indicate that the government’s involvement in the economy is too much? Too little? Or just right?

### **Summary/Assessment**

If Adam Smith were alive today, what would he consider right and/or wrong with how the U.S. economy operates?

### **Homework**

- Read materials in preparation for Lesson 4.
- Assign questions for homework.
- Complete Worksheets 4A and 4C before next lesson.

**Worksheet 3A**

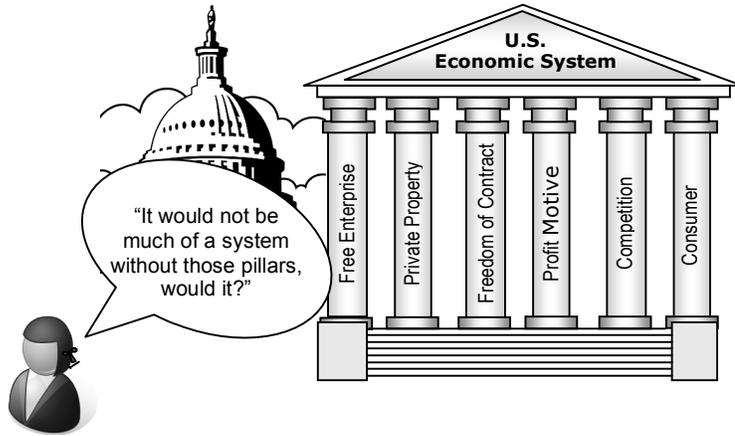
**Adam Smith and the Free Enterprise System**

*Exercise.* Many people credit Adam Smith, a Scottish economist who lived in the 18<sup>th</sup> century, with developing the free enterprise system. Some of Smith's most important ideas about the free enterprise system appear in the chart on this page. In the appropriate space below, indicate whether you agree Smith's ideas and whether you think these ideas guide the U.S. economy today.

ADAM SMITH'S IDEA	Do you agree or disagree with Smith's idea?			Does the free market system as it exists in the U.S. today operate this way?		
	Yes	No	Not sure	Yes	No	Not sure
1. The government should not have a large role in the economy and have little control over business.						
2. Businesses acting in their own self-interest (to make as much money as possible) will bring about the greatest good for society.						
3. Competition among businesses is a good thing. As a result of competition, businesses will produce goods and services that consumers need most. These goods and services will be of the highest possible quality, selling at lowest possible prices.						

**Worksheet 3B**

**Foundations of the U.S. Economy**



Gerson Antell, *Economics: Institutions and Analysis* (New York: Amsco, 1997), p.48. Permission pending.

**Exercise.** In the space provided in Column I, write the letter from Column II that most closely represents the description of that feature.

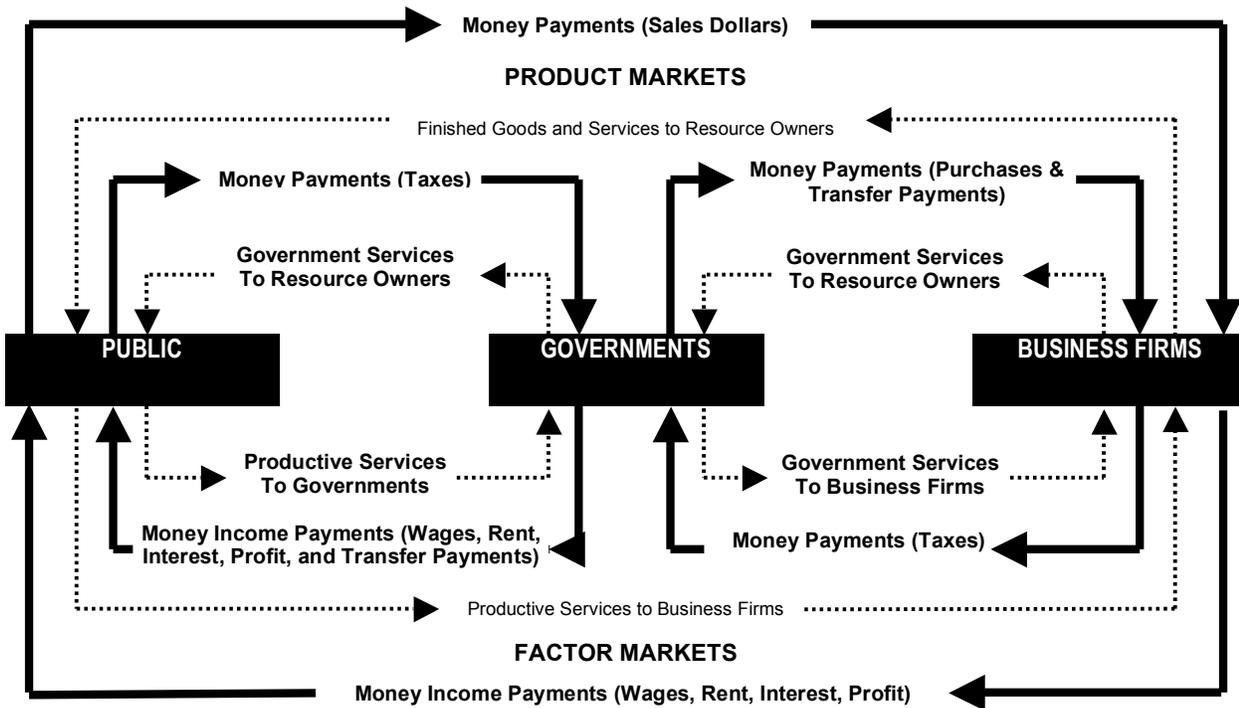
<b>COLUMN I</b> <b>FEATURES OF U. S. ECONOMIC SYSTEM</b>	<b>COLUMN II</b> <b>DESCRIPTION OF FEATURES</b>
1. Free Enterprise _____  2. Private Property _____  3. Freedom of Contract _____  4. Profit Motive _____  5. Competition _____  6. Consumer Sovereignty _____	A. The freedom those who shop have to choose which goods and services they wish to buy and which not to buy. Thus, in the U.S. economy it is the buyers who determine to a large degree which goods and services will be produced.  B. The rivalry for customers among those companies or individuals who produce the same kinds of goods and services.  C. The fact that any person in the U.S. has right to own land, other means of production, or even ideas.  D. The right people have to operate any legal business they wish.  E. The main reason most people go into business is to make money. As a result, businesses seek to keep costs down and sales up.  F. The right of people and businesses to enter into legal agreements with one another.

**Worksheet 3C**

**Circular Flow**

*Exercise.* The circular flow of the economy shows another view of the free-enterprise system as it is practiced in the United States. After studying the diagram answer the following questions.

**Governments in the Circular Flow of Resources, Goods, Services, and Money Payments**



Source: *Master Curriculum Guide in Economics: A Framework for Teaching the Basic Concepts*, 2<sup>nd</sup> ed (New York: Joint Council on Economic Education)

1. What do the solid lines in this chart represent? \_\_\_\_\_
2. What do the dotted lines represent? \_\_\_\_\_
3. List one kind of payment that both **Governments** and **Business Firms** make to the **Public**.  
\_\_\_\_\_
4. List one kind of payment that both the **Public** and **Business Firms** make to **Governments**.  
\_\_\_\_\_
5. List one kind of payment both **Governments** and the **Public** make to **Business Firms**.  
\_\_\_\_\_
6. List something that the **Business Firms** provides to the **Public**.  
\_\_\_\_\_
7. List something that **Governments** provide to **Business Firms**.  
\_\_\_\_\_