Chapter 18, Section 3

Being an Economically Smart Citizen

KEY TERMS

market economy an economic system in which supply, demand, and prices help people make decisions and allocate resources (page 416)
capitalism a system in which private citizens own most of the means of production (page 417)
free enterprise a system in which businesses are allowed to compete for profit with a minimum of government interference (page 417)
incentive a reward offered to try to persuade people to take certain economic actions (page 417)
rational choice a choice that is based on choosing the alternative that has the greatest value from among comparable products (page 419)

DRAWING FROM EXPERIENCE

What is a wise consumer? Do you think you are a wise consumer? Why do you think so?

The last section described the trade-offs involved in making economic choices. This section discusses the reasons why it is important for people to have an understanding of economics.

ORGANIZING YOUR THOUGHTS

Use the diagram to help you take notes. Knowing the role of the government in the economy will make people more economically smart. Identify the roles of the government in the economy in the diagram.

Roles of Government in the Economy

1.  
2.  
3.  

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**READ TO LEARN**

- **Understanding Your Role in the Economy** *(page 416)*

  To be good economic citizens, people must be informed. They have to know how they affect the economy and how the economy affects them. The United States has a market economy. This is one in which supply, demand, and prices help people make decisions and distribute resources. Economic decisions are made by individuals looking out for their own self-interests, not by government. In a market economy, the choices that people make as consumers affect the products that businesses make. People’s choices also affect the prices that businesses charge for their products. On the other hand, the products businesses make and the prices they charge affect the choices consumers make.

  A market economy is sometimes referred to as capitalism. This is a system in which private citizens own most of the means of production. A market economy is based on free enterprise, in which businesses are allowed to compete for profit with a minimum of government interference.

  To be informed about the economy, people have to know about the features of the economy. People also need information about the economic activities of business and government.

  To be economically smart, people have to understand how economic incentives affect behavior. Incentives are rewards that are offered to try to persuade people to take certain economic actions. For example, credit card companies offer incentives when they offer low interest rates to try to get consumers to choose their credit cards.

  People also need to know what role the government plays in the economy. A major role of the government is to provide services such as public education and national defense that private businesses do not provide. The government tries to make markets competitive. This helps to force businesses to use resources more efficiently to produce the goods and services that people prefer. It helps to force businesses to produce goods at low costs. The government also influences the decisions of people and businesses by rewarding or punishing certain actions. For example, the government can encourage education by giving incentives such as scholarships and financial aids. It can discourage actions such as smoking by placing high sales taxes on cigarettes.
Chapter 18, Section 3 (continued)

4. How do the choices made by consumers and those made by businesses affect each other?

• Making Wise Choices (page 418)

Economically informed citizens make good consumer decisions. When people make consumer decisions based on opportunity cost, they are making a rational choice. This involves choosing the alternative that has the greatest value from among comparable products. People make rational choices when they buy the goods and services that can best satisfy their wants for the lowest possible costs. If people are economically informed, they will use scarce resources wisely. When individuals use resources wisely, they benefit society as a whole.

5. Why should people be economically informed?