

The Economy

The Circular Flow Diagram

Basic Concepts:

Economics: How we get what we want or need

Capitalism:

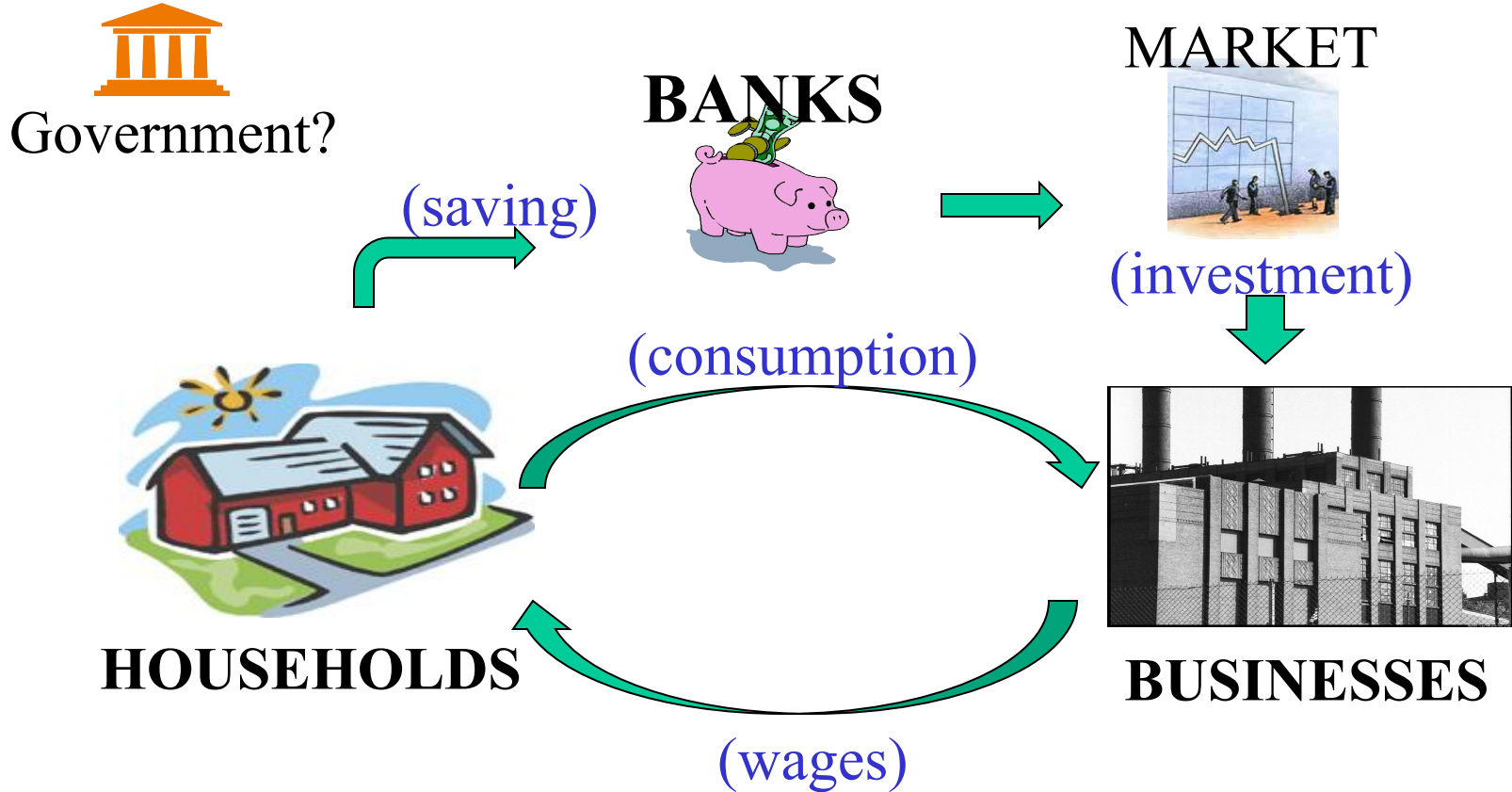
- Private Property: Individual owners have EXCLUSIVE rights to use
- Free Market: Individuals buying & selling (market) by their own choice (free)

Commercial Economy: Economy based on trade
Most production is for trade

Key Questions:

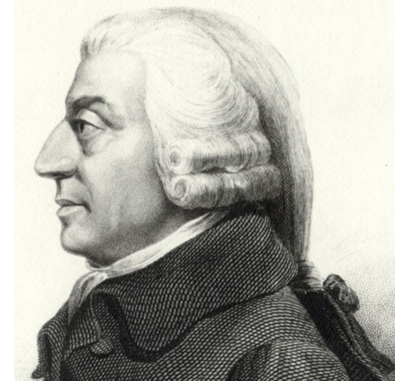
1. What are the strengths & weaknesses of the capitalist system?
2. What should the role of government be in the economy?

ECONOMIC CIRCULAR FLOW DIAGRAM



Classical Liberalism & *Laissez-Faire* Economics

1. Adam Smith, *The Wealth of Nations*, 1776
2. *Laissez-Faire* -- “let it be”, government stays out of the economy as much as possible
3. Classical Liberalism
 - a. Liber = Free (i.e. Liberty, Liberalism)
 - b. Economy “free” of government interference
 - c. Free Market: Owners are “free” to trade their property as they see fit “free” of outside (government) interference



Think about what would happen to the circular flow diagram if the following occurred:

1. All clothes were owned made by the same business.
2. A large number of banks went out of business in rapid succession.
3. Households were not earning a 'living wage' (the amount of money needed to buy the necessities of daily life).