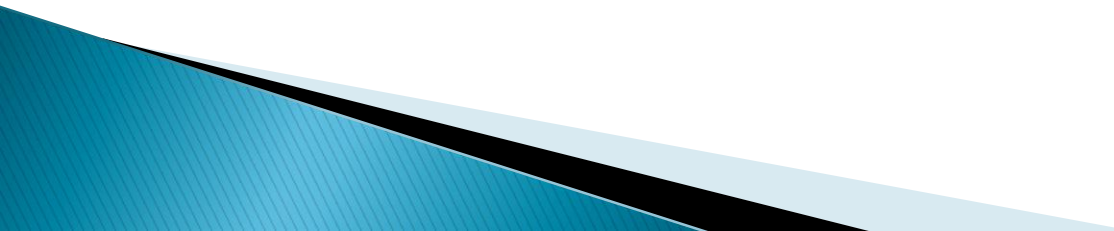


Understanding Free- Market Capitalism

Understanding Canadian Business 7th Edition



Capitalism

- ▶ Is an economic system in which all or most of the factors of production and distribution are privately owned and are operated for profit.
 - ▶ Is the popular term used to describe free-market economies.
- 

How Free Markets Work

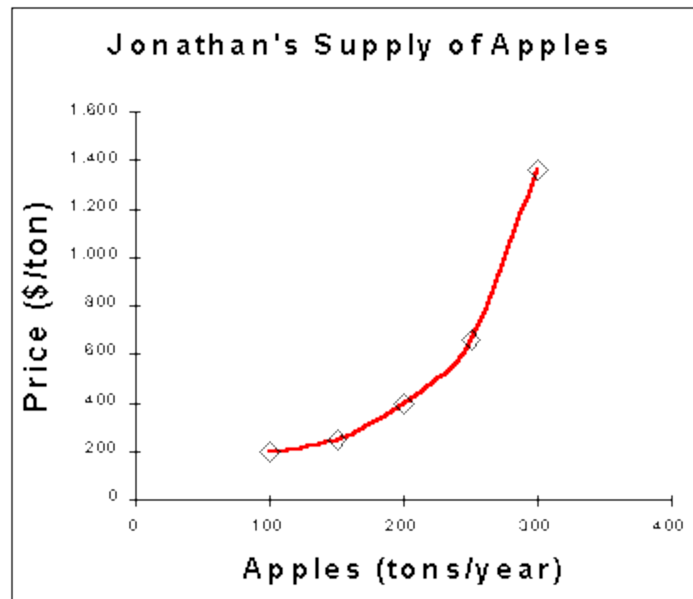
- ▶ The free market is one in which decisions about what to produce and in what quantities are made by the market— that is , by buyers and sellers negotiating prices for goods and services.

How are Prices Determined

- ▶ In a free market, prices are not determined by sellers; they are determined by buyers and sellers negotiating in the marketplace.

The Economic Concept of Supply

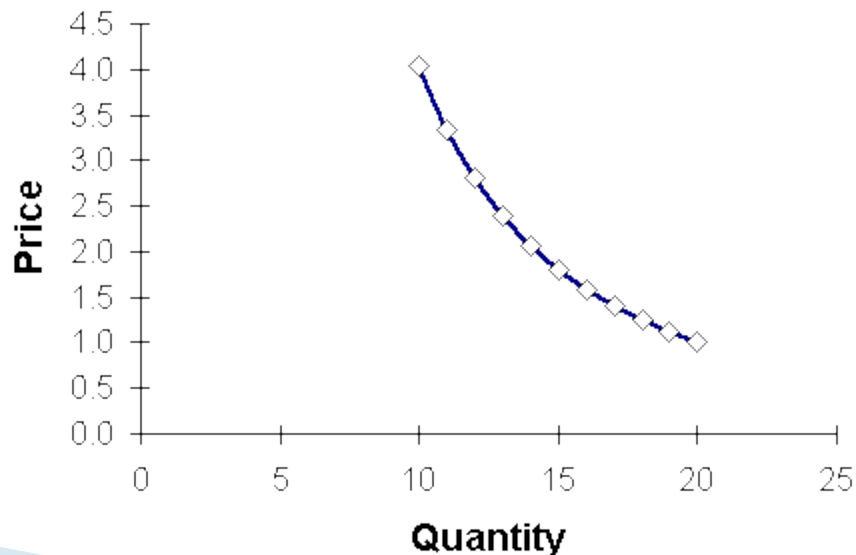
- ▶ Supply refers to the quantity of products that manufacturers or owners are willing to sell at different prices at specific time.



The Economic Concept of Demand

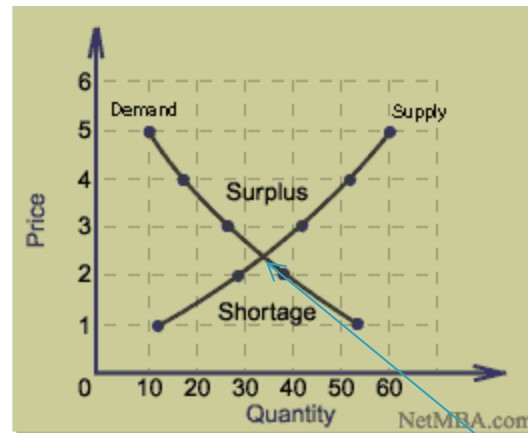
- ▶ Demand refers to the quantity of products that people are willing to buy at different prices at a specific time.

Constant Elasticity Demand Curve



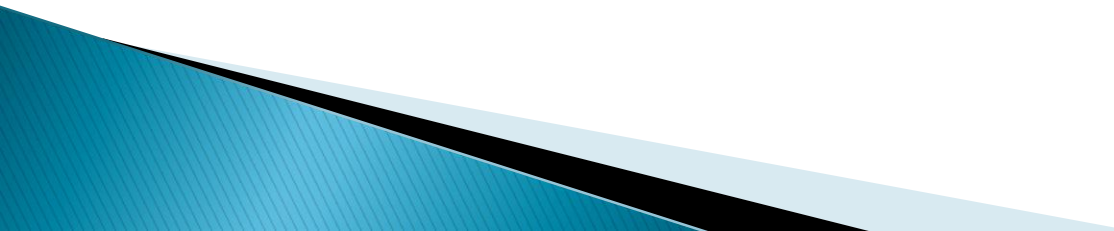
The Equilibrium Point and the Market Price

- ▶ Sellers prefer a high price and buyers prefer a low price.
- ▶ Market Price– the price determined by supply and demand.

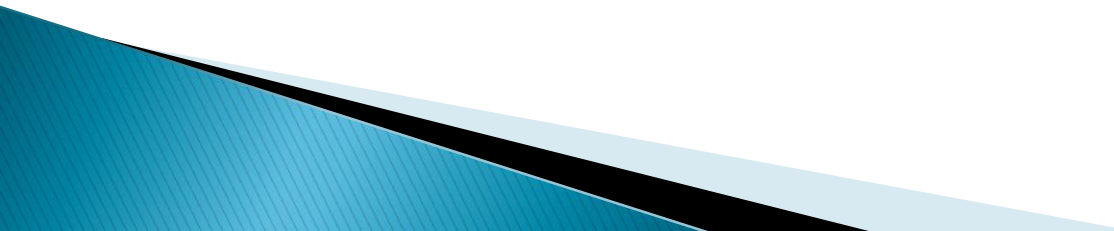


Equilibrium
point

Competition Within Free Markets

- ▶ Perfect Competition – The market situation in which there are many sellers in a market and no seller is large enough to dictate the price of a product. (e.g. apples)
 - ▶ Monopolistic Competition – The market situation in which a large number of sellers produce products that are very similar but are perceived by buyers as different. (eg. Hot dogs)
- 

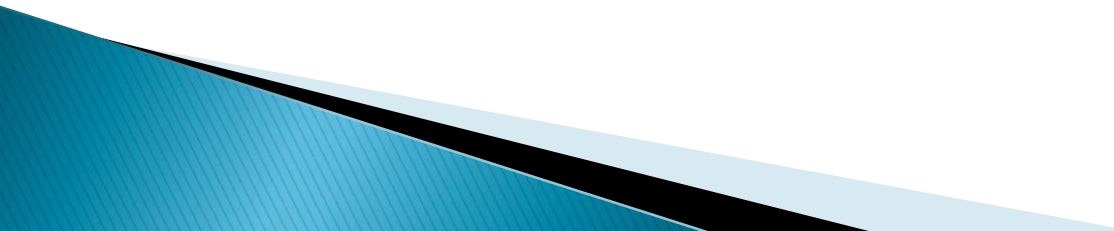
Competition Within Free Markets

- ▶ Oligopoly – a form of competition in which just a few sellers dominate the market. (e.g. oil and gas)
 - ▶ Monopoly – a market in which there is only one seller for a product or service. E.g. water, electricity and telephone(not now)
- 

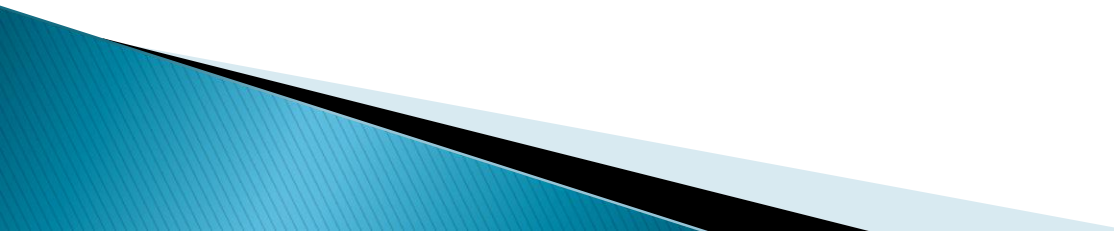
Socialism

- ▶ Is an economic system based on the premise that some, if not most, basic businesses such as steel mills, coal mines and utilities should be owned by the government so that profits can be evenly distributed among the people.
- ▶ Socialists believe that wealth should be more evenly distributed.
- ▶ Takes away business people's incentive to work hard as profits will be heavily taxed.
- ▶ Burma, Vietnam, Laos, Cuba, North Korea and People's Republic of China
- ▶ [List of Countries Presently](#)

Understanding Communism

- ▶ Communism is an economic and political system in which the state(the government makes almost all economic decisions and owns almost all of the major factors of production. Eg North Korea
 - ▶ [List of Communist Countries](#)
- 

The Trend Toward Mixed Economies

- ▶ Free-market economies – exist when the market largely determines what goods and services are produced, who gets them and how the economy grows. Capitalism
 - ▶ Command economies – exist when the government largely decides what goods and services are produced, who gets them, and how the economy will grow. Socialism and Communism
- 

The Trend Toward Mixed Economies

- ▶ Mixed Economies – Economic systems in which some allocation of resources is made by the market and some by the government.