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| **Why did economic systems begin to shift during the Industrial Revolution?**  Objectives: Describe what an economic system is  and why economic systems begin to shift during the Industrial Revolution. |

**Directions:** Read the chart below. Respond to the questions.

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| **What is economics?** |
| Every society has access to resources, however, these resources are limited. There is a limited amount of water. There is a limited amount of fertile land. There is a limited amount of human labor. Economics is the the study of how people **make choices** about how they use their limited resources to meet their wants and needs. Essentially, all nations must answer the question of scarcity of resources. |
| **What is an economic system?** |
| An economic system is the method used by a society to produce and distribute good and services. Through an economic system, each society answers three important questions:   |  |  |  | | --- | --- | --- | |  |  |  | |

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| **Why do economic systems change over time?** |
| Until the modern age, people focused largely on land and agriculture. However, as nations began to trade and industrialize, new economic systems were needed to make sense of how they should make choices about how they use their limited resources to meet their wants and needs.  The economic system that was most widely supported from the 1500s and until the 1700s was **mercantilism**. Mercantilism was a system of wealth accumulation and trade for profit. Mercantilists believed that there was a fixed amount of wealth and the job of a nation was to accumulate and extract as much wealth as possible. This system emerged around the the period of the Age of Exploration when new colonies were being established and many European nations believed that through trade, the accumulations of gold and the control of colonies would bring the most wealth.  As new technologies were developed and Great Britain began to industrialize during the Industrial Revolution, ideas around wealth changed. Economic theorists like Adam Smith argued that there was not a fixed amount of wealth. Rather, he argued, wealth could be created. A new economic system we now know as **capitalism** emerged. In industrializing Great Britain, the focus began to shift from accumulating wealth to finding more effective ways to create wealth through factory systems that used the latest technology, complex division of labor, free trade, etc.  Capitalism evolved from mercantilism and while both economic systems are geared towards profit, these systems have differences in the way this is achieved.  **Which turning point shifted European ideas around economic systems?**   |  | | --- | |  |   **What is the one commonality between capitalism and mercantilism?**   |  | | --- | |  | |
| |  |  |  | | --- | --- | --- | |  | **Mercantilism (1500s-1700s)** | **Capitalism (mid 1700s-present)** | | **What is the main goal?** |  |  | | **How are prices set?** |  |  | | **How are products traded?** |  |  | | **How involved is the government in the economy?** |  |  | | **What are the individual freedoms in this system?** |  |  |   **What similarities and differences do you notice between these economic systems?**   |  | | --- | |  | |

**What is the “invisible hand”, *laissez faire* and the free market? How do these systems generate wealth?**

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| **Directions:** Read the text below and respond to the questions.  **What is self-interest? What is the “invisible hand?”**  Adam Smith believed that individuals should be free to pursue their own economic **self-interest** [things that will bring you personal gain or benefit]. Through pursuing their own self interest, Smith believed that all of society would benefit. Smith argued that people would make things that feed their self-interests of increasing their **wealth** and **profit** such as a coat maker who makes coats. Even though he is making coats out of self-interest or a selfish desire for profit, Smith argued that this would still benefit the rest of society because people need coats and are willing to pay for them. Smith believed an economy like this should work smoothly and efficiently without any government interference, as if guided and organized by an **invisible hand**. The invisible hand is a metaphor for a self-regulating economy where people get what they need by pursuing their own self-interests.  11. According to Adam Smith, how does allowing people to freely pursue their **self-interest** benefit society?   |  | | --- | |  |   12. What does the metaphor of the **invisible hand** mean?   |  | | --- | |  |  |  |  | | --- | --- | |  | Watch this video, [*The Invisible Hand*](https://www.youtube.com/watch?v=ulyVXa-u4wE&list=PLhQpDGfX5e7CI3ReXlkaqfYZcGs3phfAa&index=26). Respond to the questions below. | | 13. To what is the economy compared to in the video?  14. According to the video clip, how does the invisible hand keep the economy running effectively? | |   **What is *laissez faire*?**  The invisible hand metaphor is connected to Smith’s belief in a***laissez faire* economy.** In a laissez faire economy, the government does not interfere in the economy by imposing regulations like taxes or restrictions on those who could trade. People are free to make their own decisions. *Laissez faire* is French for, “leave it alone” or “let go.”  15a. What is **laissez faire economics**?   |  | | --- | |  |   **What is a market economy or the free market?**  Laissez faire is based on the belief in a **market economy** or a **free market**. A free market or market economy is an **economic system** where people are free to make economic decisions without government interference. There are three key elements or “natural laws” of a free market.   |  |  |  | | --- | --- | --- | | **Supply and Demand** | **Self-Interest** | **Competition for Consumer Money** | | Untitled drawing (7).jpg | https://lh4.googleusercontent.com/wJpla3_eVa6oTJzR69WLEv7zrXF75w7np_tO84u-qaiccQWukNfh4VQFvFd1yJU3G80YBNuLxf38HSRELiejJQ1ql1L58W7G2SclID9q4MiDw16iqJMAf0y-pL0jtdjKit9gm0ir | https://lh4.googleusercontent.com/3lMx_Btflt5Tl3TjlcdKI-sHS0G9dXSUr3_OHtMHHgufiDRXvlHhzur4-UCATwk_GMX4Hd1MRBrXsU5VElZoh_-N_XaOrnMXF3uWXOJr2jnfil8iWZVuWA7ZG2e9Q2Nft77-nQkN | | **Producers** are people who make things. **Consumers** are people who buy things. The amount of a good that a producer makes is called its **supply**, the amount that is available. How much consumers want something is called **demand.** The price of something is determined through the **law of supply and demand**. Producers try to sell their supply for the highest price possible, but this is limited by how much consumers demand it. | There is **self-interest** so producers and consumers only think about their selfish needs when making decisions. | There is **competition** where producers compete for consumer money by lowering their prices or introducing new products. |   Smith believed that consumers can get what they needed, people could generate wealth, and prices would set themselves all without government interference. Smith warned that if **entrepreneurs** do not have the **profit incentive** to take risks and innovate and if **buyers** can’t buy from whomever they want and if sellers can’t set their own prices, then the economy won’t work “right.” He advocated that that producers and consumer be left free to make their own decisions. This idea of the free market is now known as **capitalism**. Under capitalism, the **means of production** (such as factories) are owned by individuals and goods and services are produced for profit.  17. What are the three elements of a **free market**?   |  | | --- | |  |   Smith thought that while the government should not interfere with the economy, he recognized that the government had a role. According to Smith, the government has only three functions: to protect society from invasion, to defend its citizens from injustice, and to keep up public works projects like roads and canals. Other than these three functions, Smith believed that the government should have minimal government involvement in the economy.  18. Under **laissez faire economics,** what are the three responsibilities of the government?   |  | | --- | |  |  |  | | --- | |  | |
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