VIDEO #2 – Capitalism and the US economy

Checking for understanding

*Read through these questions – can you answer them quickly? If you can, then you understand the key concepts in this video. If not, go back and watch it again. Don’t forget to check your answers with the answer key (don’t peek – the whole point of this is to see if YOU understand the key ideas).*

1. What does invisible hand mean?
2. What does laissez-faire mean?
3. How does a market economy answer the three key questions?
4. Why does capitalism work well?
5. Why does capitalism NOT work well?
6. What is communism and why does it not work either?
7. What is a welfare capitalist economy?
8. How do we know that the United States is a welfare capitalist state?
9. Why do we say that the United States has moved left in the last century?

Answer Key

1. What does invisible hand mean? (Let supply and demand control the economy, instead of the government controlling the economy – our selfish interests will make it work)
2. What does laissez-faire mean? (Leave it alone – that the government should not intervene in the economy by having too many controls or trying to manipulate supply and demand; the only role for government is to make sure the economy runs smoothly by preventing war or monopolies)
3. How does a market economy answer the three key questions? (It’s all about competition: What to produce – what is in demand; how to produce it – that’s up to the supplier; who gets it – the price system)
4. Why does capitalism work well? (Competition means that producers innovate, making better products at lower prices; this all encourages economic growth)
5. Why does capitalism NOT work well? (Without government intervention the less fortunate can be abused)
6. What is communism and why does it not work either? (A system created as a response to the abuses of the capitalist system that encourages us all to share the work; it doesn’t work because human nature is selfish so a system based on sharing is difficult to establish)
7. What is a welfare capitalist economy? (A capitalist economy that also allows for more government intervention to assist the least fortunate members of society)
8. How do we know that the United States is a welfare capitalist state? (Because in the last century they introduced ideas like minimum wage, maximum hours, health care for the poor, etc. This goes against the ideas of pure laissez-faire, but the society still embraces the ideas of capitalism)
9. Why do we say that the United States has moved left in the last century? (Because they used to be more capitalist, but now that they have more government programs that moves them left on the economic spectrum)