Unit 6 - The United States Economy

I. What are the basic types of profit-seeking business structures?

A. There are three basic ways that businesses organize to earn profits

B. Basic types of business ownership

1. Proprietorship: A form of business organization with one owner who takes all the risks and all the profits.

2. Partnership: A form of business organization with two or more owners who share the risks and the profits.

3. Corporation: A form of business organization that is authorized by law to act as a "legal person" regardless of the number of owners.

   Example: If McDonalds is sued, only the business is liable, not the owners.

   a. Owners share the profits

   b. Owner liability is limited to the amount of their investment.

   Example: If you invest $20 in the stock market, you can only lose $20.

II. What is an entrepreneur?

A. Entrepreneur - A person who takes a risk to produce and sell goods and services in search of profit.

B. Entrepreneurs play an important role in all three types of business organizations.

III. How do resources, goods and services, and money flow among individuals, businesses, and governments in a market economy?

A. Resources, goods and services, and money flow continuously among households, businesses, and markets in the United States economy.

B. Economic flow (circular flow)

   1. Individual and business saving and investment provide financial capital that can be borrowed for business expansion and increased consumption

   In real words....If you want to buy more things, and if you own a business and want to expand, save and invest your money.

   2. Individuals (households) own the resources used in production, sell the resources, and use the income to purchase products.
3. Businesses (producers) buy resources; make products that are sold to individuals, other businesses, and the government; and use the profits to buy more resources.

4. Governments use tax revenue from individuals and businesses to provide public goods and services.

IV. Private financial institutions

A. Private financial institutions act as intermediaries (middleman) between savers and borrowers that include households and business investors.

1. Examples include banks, savings and loans, and credit unions

B. How do financial institutions make the deposits of savers available to borrowers?

1. Receive deposits and make loans

2. Encourage saving and investing by paying interest on deposits

Term to Know "Interest": A percentage someone is charged or earns from an amount of money.

Example: 10% Interest of $100 = $10

V. Why do Virginia and the United States trade with other nations?

A. Virginia and the United States pursue international trade in order to increase wealth.

B. Reasons that states and nations trade

1. To obtain goods and services they cannot produce or cannot produce efficiently (quickly/better) themselves

2. To buy goods and services at a lower cost or a lower opportunity cost

3. To sell goods and services to other countries

4. To create jobs

C. Virginia and the United States specialize (special at one thing) in the production of certain goods and services, which promotes efficiency and growth

VI. What is the impact of technological innovation on world trade?

A. Term to Know: Global Economy - Worldwide markets in which the buying and selling of goods and services by all nations takes place.

B. Impact of technological innovations
1. Innovations in technology (e.g., the internet) contribute to the global flow of information, capital, goods, and services.

2. The use of such technology also lowers the cost of production.