**CAPITALISM**

Capitalism is a type of economic system. In a capitalist system, businesses are owned and managed by the people, rather than by the government. The opposite of capitalism is a command economy. In a command economy, the government determines what products are available for sale and how much they should cost.

Capitalism is also known as a free market system. The free market system was first described in a book called The Wealth of Nations by Adam Smith in 1776. In this book, Smith asserted that governments should not get involved in the economy because the most healthy economies are those that find their own equilibrium. Examples of the kinds of issues that get worked out by a free market include what products are for sale, how much they should cost, what products people decide to buy, and how much they are willing to pay for them.

The free market system is based on the concept of supply and demand. The balance between supply and demand affects the price of a product. If demand is very high and supply is very low, the price of a product will be artificially high. If demand is very low and supply is very high, the price of a product will be artificially low. The concept of supply and demand says that the ideal price of a product is the one at which there is as much demand for a product as there is supply.

Today, most countries have what is actually a mixed economy. Private businesses set their own prices and determine what products will be sold, but the government still plays a role. There are laws against a company having a monopoly (exclusive control) over one particular product or service. There are also laws requiring workplace safety and environmental protection, and prohibiting discrimination. Other governmental interventions like taxes and Social Security redistribute wealth and provide some economic support to those who need it the most.

**QUESTIONS: Capitalism Circle the correct answer.**

1. In a capitalist system, businesses are owned and managed by:

A. the government B. the people C. the market D. Adam Smith

2. What is the opposite of capitalism?

A. the free market system B. a mixed economy C. a command economy D. supply and demand

3. Capitalism is based on the concept of:

A. supply and demand B. the free market C. the command economy D. laws against monopolies

4. A company with a monopoly has \_\_\_\_\_\_\_\_\_\_\_\_\_ over a particular business.

A. no control B. government control C. exclusive control D. supply and demand

5. In a mixed economy:

A. private businesses set their own prices B. private businesses determine what products will be sold C. the government plays a role by making and enforcing laws D. all of the above