## What is a Market Economy?

The United States has a market economy. This is a type of economic system that is based on the interactions of buyers and sellers. Buyers or consumers decide what to consume, or buy in a market economy. Consumer desire for a product is called demand. Consumer demand for a product influences the goods and services businesses make and sell. For example, many people in our country use computers so there is a demand for computers and large amounts are produced. Very few people use typewriters, so the demand is low and the production of just a few typewriters meets that demand. Thus, the interaction of buyers and sellers in the marketplace determine what is produced in a market economy. There are several other important characteristics of a market economy.

### Private Property Rights

In a market economy almost everything is owned by individuals or private businesses, not by the government. Natural resources like minerals and capital resources like machines and factories are not government-owned. Private property rights allow individuals and business to control the productive resources (natural, human, and capital). Private ownership enables people to get and use resources they choose. Private property rights also results in a wide variety of stores and businesses.

### Voluntary Exchange

Buyers and sellers exchange freely. Buyers use their income to exchange for goods and services provided by sellers. Buyers are free to buy what they want and sellers are free to sell what they want. Both buyers and sellers want to benefit from the exchange. Buyers will get the goods and services they want and sellers want to make a profit. If buyers or sellers do not see a benefit in making an exchange or trade, they are free not to trade.

### Competition

Sellers have the freedom to produce the products they think will be the most profitable. They also compete to attract buyers. Competition between businesses helps to keep prices low. For example, think about two toy stores selling the same popular toy. To attract buyers, one store may put the toy on sale. The other toy store may decide to lower its price also in order to compete for buyers.

### Consumer Sovereignty

In a market economy, the consumer is king. Consumer choices (or demand) drive what goods and services are available. If nobody is willing to buy a good or service, businesses will stop offering that product or service.

## Incentives

Buyers respond to incentives in predictable ways. Incentives are actions, awards or rewards that influence the choices people make. Some examples of incentive are sales and fines.

## Specialization

In a market economy people specialize. People specialize when they produce only some of the goods and service they consume. They then trade with others to get the rest of the things they want. Specialization increases the amount of goods and services people produce and consume. For example, farmers grow crops for food, while doctors help sick people get better. Since they are busy with their jobs, both rely on trade to get what need or want. Another type of specialization happens when a large task is broken down into many separate jobs, like on an assembly line.

## You are Important in a Market Economy!

Individuals and businesses enjoy economic freedom in a market economy. People can choose what job they want to have (specialization) and their employer. They can choose to have their own business or work for someone else. Businesses are free to choose what goods and services they want to produce. They are also free to sell them anywhere they want. Businesses can also charge whatever price they feel will bring a profit.

As a consumer you are very important in a market economy. Every time you buy something, you are helping balance supply and demand. When millions of people do this, the supply of goods adjusts to the demand of the consumers. When you buy things you are also helping to decide what goods and services will be produced.