Chapter 28

Role of Consumers in a in a Market Economy

Lesson 28.1

Our Market Economy

GOALS

- Describe and compare the three major types of economic systems.
- Discuss basic characteristics and parts of a market economy.
- Describe the role of money in a market economy.

Economic Systems

- An economic system refers to the process used by a society to decide what to produce, how to produce it, and for whom (how to distribute it among the population).
- There are three major types of economic systems: hands-on, hands-off, and compromise.

Hands-On Systems

- A hands-on system is one where the government or central authority controls most of the decisions involving what will be produced, how, and for whom.
- Within a **communist economic system** (also known as a command system), the government owns and controls most, if not all, of the productive resources of a nation.
- A **socialist economic system** (also called a planned system) is characterized by a large degree of government control of many of the decisions within the nation.

Hands-Off Systems

- A hands-off system is one where there is little or no role for government or a central authority.
- Within a **traditional economic system**, the people decide what decisions will be made and how they will be made.
- **Capitalism** is an economic system in which producers and consumers are free to operate and compete in business transactions with minimal, if any, government interference or regulation.
- There are other hands-off economic models, including anarchism, mutualism, and libertarianism.

Compromise Systems

- Most nations today have some form of mixed economy, which means it contains elements of more than one type of economic system.
- Our U.S. economy is considered a **market economy**, because both market forces (based on individual freedoms) and government decisions determine which goods and services are produced and how they are distributed.

Elements of a Market Economy

- Scarcity
- Supply and demand
- Consumer power
- Producer power

Scarcity

- In any economy, consumers' wants are unlimited, while the resources for producing the products to satisfy these wants are limited.
- This basic economic problem is called **scarcity**.
- A country's economic system determines what products will be produced with its limited resources.

Supply and Demand

- Supply is the quantity of goods and services that producers are willing and able to provide at various prices.
- Demand is the willingness and ability of consumers to purchase goods and services at various prices.

Consumer Power

- Consumers have the ultimate power in a market economy; this is known as consumer sovereignty.
- Consumers determine what is produced and at what price.

Producer Power

- Producers also have power in a free enterprise system, because they can employ various techniques to influence consumer buying decisions.
- They use advertising and other marketing strategies to try to increase demand for their products.

Parts of the Economic System

- Three essential parts of a market economy are:
  - Competition
  - Purchasing power
  - Informed consumers

Competition

- **Competition** is the rivalry among sellers in the same market to win customers.
- There are three forms of competition in a market economy:
  - With pure competition, there are many sellers and many buyers in the market, resulting in improved quality and lower prices.
  - An oligopoly exists where there are only a few sellers producing a very similar product or service.
  - A **monopoly** is a market with many buyers but only one seller.

Purchasing Power

- Purchasing power is the value of money, measured in the amount of goods and services that it can buy.

Informed Consumers

- A market economy must have informed consumers who know their rights and responsibilities in the marketplace.
- Informed consumers compare products and prices.

The Role of Money

- All economic systems use some form of money or medium of exchange.
- **Money** is anything that can be used to settle debt.
- It must be in a form where it can be readily divisible; it must be durable, and it must be recognizable as a store of value.

The Gold Standard

- When our nation was young, our money was based on a gold standard.
- With a gold standard, each dollar bill was backed by that same amount of gold on store at a safe place.
- Today our money is referred to as fiat money.
- **Fiat money** is not backed by gold, but by faith in the general economy and government of the country.

Supply and Demand of Money

- Like most other commodities, money is also subject to the forces of supply and demand.
- The Federal Reserve System controls our money supply.

The Money Multiplier

- When banks are able to lend money they have on deposit from customers (transaction deposits), they are able to "create" more money.
- The money multiplier tells you how much more money can be created when banks can lend out a portion of each customer's deposit.

Lesson 28.2

Consumer Responsibilities

GOALS

- Describe deceptive practices used to defraud consumers.
- Discuss how to be a responsible consumer.

Fraudulent and Deceptive Marketing Practices

- **Deception** occurs when false or misleading claims are made about the quality, the price, or the purpose of a particular product.
- In a market economy, consumers must educate themselves to recognize a potential fraud before they become victims.

Bait and Switch

- **Bait and switch** is an illegal sales technique in which a seller advertises a product with the intention of persuading consumers to buy a more expensive product.

Fake Sales

- A **fake sale** is when a merchant advertises a big sale but keeps the items at regular price or makes the price tags look like a price reduction when there actually is none.
- Often the merchant increases the prices just prior to the sale and alters the price tags to show the so-called markdowns.

Low-Balling

- **Low-balling** is advertising a service at an unusually low price to lure customers and then attempting to persuade them that they need additional services.

Pyramid Schemes

- **Pyramid schemes** are mostly illegal multilevel marketing plans that promise distributors commissions from their own sales and those of other distributors they recruit.

Pigeon Drop

- The term **pigeon drop** refers to any method used by experienced con artists to convince vulnerable people to invest in phony investments, swampland real estate, or other swindles.

Fraudulent Representation

- Telephone or door-to-door solicitations made by people who claim to represent well-known companies or charities are another type of swindle.
- Consumers buy products and then learn that the products have been rebuilt, stolen, or made of inferior quality with a reputable brand name label applied to them.

Health and Medical Product Frauds

- A common type of swindle involves deceptive advertising for expensive "miracle" pills, creams, and devices to enhance the consumer's health and beauty.
- The ads are designed to appeal to the typical consumer's desire to be healthy and attractive.

Infomercials

- An **infomercial** is a lengthy paid TV advertisement that includes testimonials, product demonstrations, and presentation of product features.
- While the product may be reputable, there is no guarantee, and claims about results may be greatly exaggerated.

Internet Fraud

- On the Internet, fraudulent businesses can appear genuine.
- You may order and pay for goods and never receive them.
- When you give credit card numbers and other personal information to these scam artists, you may become a victim of identity theft.

Identity Theft

- **Identity theft** involves stealing personal information, such as credit card numbers and Social Security numbers, to gain access to a person's finances, often to make purchases with credit.

Telemarketing Fraud

- “Free” prizes
- Foreign lotteries
- Fraudulent sweepstakes
- Fake charities

Being a Responsible Consumer

- Identify deceptive practices.
- Shop smart, including online.
- Stay informed.
- Seek **redress**—a remedy to a problem.