

## Chapter 4 Section 1

### The Market System

## Private vs. Public Sectors

- The **private sector** is made up of households, businesses, and the international sector.
- The **public sector** refers to activity by the various levels of government.
- Productive activity occurs in both sectors. A basic problem is determining which sector can best produce a given good or service.

## The Market System

- In the **market system** of the private sector, the consumer is supreme.
- **Consumer Sovereignty**: consumers determine what is produced through their purchases of goods and services.

## Profit and the Allocation of Resources

When a good or service seems to have the potential to generate a profit, someone with entrepreneurial ability will put together the resources needed to offer that good or service for sale.

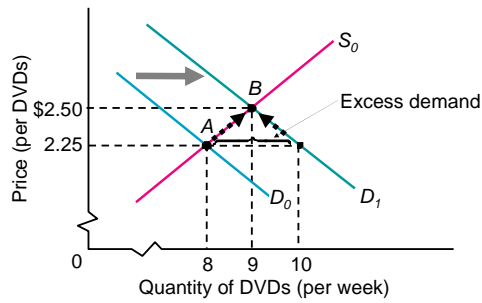
## Profit and the Allocation of Resources



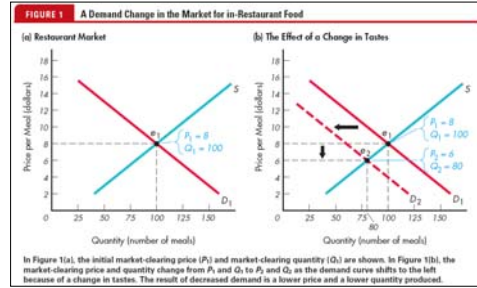
## Increase in Demand

- An increase in demand creates excess demand at the original equilibrium price.
- The excess demand pushes price upward until a new higher price and quantity are reached.

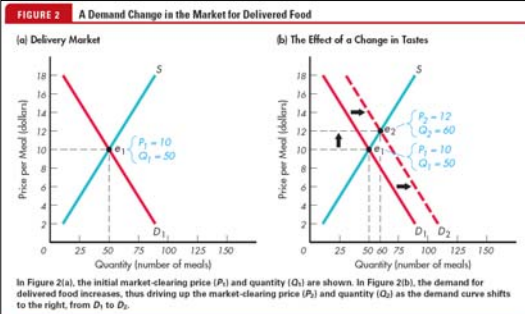
## Increase in Demand



## A Demand Change in the Market for In-Restaurant Food



## A Demand Change in the Market for Delivered Food



## Income Determination

- Buyers and sellers of goods and services and resource owners are linked together in an economy.
- For every dollar someone spends, someone else receives a dollar as income