Choose the correct option from the drop down box.

1. _____ that the American economy is basically a capitalist economy. 2. _____ of American-style capitalism is individual ownership of property. Property includes such things as houses and land, businesses, and intellectual property such as songs, poems, books, and inventions. 3. _____ is free enterprise: This means the freedom to produce, buy, and sell goods and labor without government intervention. 4. _____ is free, competitive markets. That is, businesses that succeed stay in the market, and those that fail must leave the market. In this type of economy, not everyone will be able to find a job at every moment and not all businesses will be successful, but in a pure capitalist system, the government is not expected to interfere with the natural economic forces. The idea in a pure capitalist system is for the government to take a laissez-faire attitude toward business, that is, the government's role should be very limited. For example, in a pure capitalist system the government might provide national defense. It could also make laws protecting ownership and use of private property. 5. _____, in a pure capitalist state, the government might provide those things that private businesses could not or would not normally provide, such as roads and schools. But otherwise, the government would allow businesses to operate without intervening.

In truth, the United States is not a pure capitalist system. The U.S. government today does not maintain a completely laissez-faire attitude toward business. The government's role in business grew throughout the twentieth century, beginning especially in the 1930s. This expanded role of government is a complicated subject, and I'm going to discuss only a few of the issues today, just to give you some idea of why and how the government regulates the economy. We'll be discussing 6. _____ basic reasons why the government intervenes in the economy.

7. _____ is to protect the environment. Because the costs of polluting the environment can affect all members of society, the government uses various legal means to try to regulate businesses and to protect the environment. Companies must comply with certain government regulations. For example, companies may be required to install pollution-control equipment. The government also has regulations about how and where toxic waste can be dumped and imposes fines on companies that do not follow these regulations. You may remember the BP oil spill in the Gulf of Mexico in 2010, which resulted in the worst environmental disaster in U.S. history. It affected the states of Louisiana, Mississippi, Alabama, and Florida. BP and some of its partners were charged for violations of U.S. environmental laws, especially the Clean Water Act and the Oil Pollution Act. In addition, they were charged with violating safety and environmental regulations in building and managing the well that spilled the oil. I should add that BP accepted financial responsibility for cleaning up the spill and also agreed to a court settlement to pay for individual losses people in the area suffered.

8. _____ is to help people who, for some reason beyond their control, earn little or no income. These people may be too young or too old or too ill or otherwise unable to support themselves. The government has various public assistance, or welfare, programs that are paid for with tax money to help these people.

9. _____ is to try to see that businesses remain competitive. Early in the twentieth century, the government passed antitrust and monopoly regulation laws. Antitrust laws were passed to prevent companies from joining together to unfairly control prices, what we call price-fixing. Monopoly regulation laws were designed to prevent any one company from growing to become the only company of its type, without any competition for business. The government believed that it was better to intervene in the economy to be sure that competition was protected. A somewhat related situation, the financial crisis of 2008, showed there may be a possible role for

increasing government regulation of banks. In short, many banks were taking risks with others' money, risks that were invisible to the public and to the government. In 2012, Congress was still debating the government's responsibility to avoid financial crisis by preventing banks from taking risks of this sort.

10. _____ is to maintain economic stability. How the government does this is complicated, but basically, the government uses three methods to achieve stability. The first method the government uses to promote stability is taxation, the means by which the government collects money from people and businesses. The second method government uses to keep the economy stable is expenditure, the money that the government spends. And the third method the government uses to maintain stability is controlling the interest rate on money it lends to businesses. Let's look at each of these methods in more detail.

11. _____ If the economy is growing too fast, inflation becomes a problem. The government can raise taxes to take money out of the economy and lower the inflation rate. But raising taxes can lead to increased unemployment. Therefore, the government has to be very careful to regulate taxes to keep unemployment and inflation in balance.

12. _____ is through its own expenditures, as I just mentioned. The government has a huge amount of money to spend every year. Some of its decisions about how to spend the money are based on economic conditions in different industries or in different parts of the country. For example, the government may try to help the economy of a certain state by buying goods and services from businesses inside that state.

13. _____ is by controlling the interest rate on the money the government lends to business. If the economy is growing too slowly, the government lowers the interest rate to encourage people to borrow more money-money to start new businesses or expand old businesses. If the economy is growing too fast, the government raises the interest rate. Raising the interest rate will discourage investment in new businesses and in expanding old businesses.

14. _____ - are the government's main means of maintaining the economy's stability.

Generally speaking, the two major political parties in the United States differ on how big a role they think the government should play in the economy. Members of the Republican Party, the more conservative party, tend to favour fewer taxes, less assistance to the poor, and conditions that help business grow. Members of the Democratic Party, on the other hand, are often more protective of the environment and more understanding of the needs of the old, poor, and sick. Democrats are, consequently, more often in favour of using taxes to pay for social programs and of regulating businesses more closely. The U.S. government's role in the economy can vary because the composition of the government can change every few years. So, the extent to which the government intervenes in the economy changes depending on which party the president is from, which party has a majority in Congress, and how well the president and Congress work together. When the president and Congress do not work together, or when the two parties do not work together, a political gridlock can occur. When this happens, economic growth is affected because businesses are uncertain about interest rates, government regulation, and future sales. But

15. _____.