Conventional Theory: Capitalism

1. ASSUMPTIONS

i. Scarcity →
ii. Individuals Maximize Happiness →
iii. Firms Maximize Profits →

Self-Interest

2. MODEL

i. Production Possibilities Curve
ii. Law of Demand
iii. Law of Supply

Market: Price signals (the invisible hand)

Determinants of Demand

1. Income
2. Preference
3. Number of Buyers
4. Availability/Convenience
5. Prices of Substitutes and Complements
6. Future Expectations

Determinants of Supply

1. Cost of Inputs
2. Number of Firms
3. Taxes, Subsidies, and Regulations
4. Prices of Related Goods
5. Changes in Technology
6. Future Expectations

3. CONCLUSIONS

I. *What to Produce?* Firms make what people want.
II. *How to Produce?* Firms make the profit-maximizing amount using the fewest resources.
III. *For Whom to Produce?* Firms' products go to those who want them most.

Enlightened Self-Interest

Conservative Policy

a. Embrace free-market capitalism.
b. Reject government interference.
- Self-correction

Liberal Policy

a. Embrace fair-market capitalism.
b. Support government intervention.
- Equal opportunity