Name ______________________ Date ________________ Class ______________________

STUDY GUIDE Chapter 7, Section 3

For use with textbook pages 178–183

THE ROLE OF GOVERNMENT

KEY TERMS

trust Legally formed combination of corporations or companies *(page 178)*

price discrimination The practice of charging customers different prices for the same product *(page 179)*

cease and desist order A Federal Trade Commission ruling requiring a company to stop an unfair business practice, such as price-fixing, that reduces or limits competition among firms *(page 179)*

public disclosure The requirement that businesses reveal information to the public *(page 181)*

DRAWING FROM EXPERIENCE

How does government affect you on a daily basis at home? At school? When you play sports? When you go shopping? In the last section, you learned about market failures. This section focuses on how government in a capitalist economy keeps competition alive.

ORGANIZING YOUR THOUGHTS

Use the chart below to help you take notes as you read the summaries that follow. Think about how the United States government has acted to protect competition.

Year of Legislation	Description of Legislation
1890	
1914	
1936	

READ TO LEARN

Antitrust Legislation *(page 178)*

The Sherman Antitrust Act of 1890 was passed to restrict monopolies and other relationships that limit competition. One such relationship is a ***trust,*** which is a combination of companies.

A. The Clayton Antitrust Act of 1914 outlawed price discrimination. ***Price discrimination*** occurs when companies charge different prices to different customers, rather than charging all customers the same price.

B. Also in 1914, the Federal Trade Commission Act set up the Federal Trade Commission. The Federal Trade Commission and can issue cease and desist orders. A ***cease and desist order*** makes a company stop doing something that unfairly limits competition.

C. The Robinson-Patman Act of 1936 made the rules against price discrimination even stronger.

1. How does the Federal Trade Commission encourage competition?

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Government Regulation *(page 179)*

The government may let a natural monopoly grow so the company can take advantage of lower production costs. Then the government regulates the monopoly's activities so it cannot take advantage of consumers. The government passes laws to make sure that consumers get the same prices and service that they would get under competition.

The government also uses the tax system to regulate businesses. To pay the taxes, the industry must raise its prices. The higher prices may mean that the industry will lose some customers.

2. How do you think the government should use the taxes it collects from industries that pollute?

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Public Disclosure *(page 181)*

The government helps competition by requiring public disclosure. ***Public disclosure*** means that businesses have to make sure that people can obtain certain kinds of information about what the businesses do. Any corporation that sells its stock publicly, for example, is required to supply financial reports to its investors and the Securities and Exchange Commission.

3. Which condition of a competitive free enterprise economy does public disclosure promote?

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Indirect Disclosure *(page 182)*

The government has made it easier for consumers to obtain information through its support for the Internet. Government documents and business information are available on the Internet.

4. How has the government supported the growth of the Internet?

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Modified Free Enterprise *(page 183)*

Government takes part in economic affairs to encourage competition. The economy is a mix of different market structures, business organizations, and government regulation.

5. Which do you think benefits consumers more—a system with a laissez-faire philosophy or a modified free enterprise system with government regulation? Explain your answer.

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