

*Answer the following questions.*

1. How can the changes in an economy be described?
2. How do businesses behave at the peak?
3. How can recession be characterised?
4. How do businesses operate at the trough?
5. What happens when businesses enter the expansion?
6. What causes business cycles?

*Define the following words and expressions.*

ups and downs	recover
lay off	consumer spending
prosperity	trough
excess	recession
inventories	expansion
peak	GDP
total outputs	fluctuation
boom	

## 1.22. GOVERNMENT REGULATION OF THE ECONOMY

As we have already discussed, there's no **pure market economy** in the world, because government plays an important role in an economy. If we take the government of the USA, it has several responsibilities.

**SAFEGUARDING THE MARKET SYSTEM.** The free enterprise system, and the laws of supply and demand that govern it, depend on competition. Government protects competition by

1. establishing and **enforcing** "rules of game";
2. furnishing the public with information about market conditions and the state of the economy.
3. helping to **settle disputes**.

**PROVIDING PUBLIC GOODS AND SERVICES.** Such public goods and services as public schools, roads, police, fire protection and national defense couldn't be provided by private enterprise. These are examples of public goods and services.

**DEALING WITH EXTERNALITIES.** As our society has become more **densely** populated and the volume of production increases negative **spillover effects** have grown into major threats. But the market system doesn't **assign** cleanup

or healthcare costs to those who caused the problem. In such a case government must limit the effect of these **harmful externalities**. The following government measures fall into the categories of **persuasion**, taxation, subsidy, and regulation.

- persuasion (advertising campaigns)
- taxation (levy taxes on those who **dump wastes** or fill the sky with smoke)
- subsidies (to encourage those who generate beneficial externalities)
- regulation (to set standards to make harmful externalities illegal)

***ASSISTING THOSE IN NEED AND HELPING SPECIFIC GROUPS.*** A society should help its low-income citizens to relieve poverty and redistribute income from those earning enough to live on to those in need. Such programs as Social Security, Welfare, Food Stamps, and Unemployment Compensation help to relieve poverty.

***STABILIZING THE ECONOMY.*** Government can **smooth** the ups and downs of the economy which often changes particularly in the market conditions. It should find the way to reduce unemployment, stabilize prices, and **promote** economic activity.

*Answer the following questions.*

1. Can there be a pure market economy in the world?
2. How should a government protect competition?
3. Why can't private enterprises provide public goods and services?
4. How must a government limit the effect of harmful externalities?
5. How must a society help its low-income citizens?
6. What are the ways of stabilizing the economy?

*Define the following words and expressions.*

<p>pure market economy assign enforce harmful externalities furnish persuasion settle disputes</p>	<p>dump wastes densely populated smooth spillover effect promote</p>
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