Markets at Work

Tracing Adam Smith's influence on free enterprise

MWH.C.3.3.C "Examine the impact of Adam Smith's theories, as presented in The Wealth of Nations, on modern economic thought and free enterprise."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline three of Smith's ideas, circle a modern practice or concept linked to each one, and give each matching pair the same number. Use your marks to trace how his ideas shaped economic thought.

From Pin Factories to Bakeries

1 In 1776, Adam Smith published *The Wealth of Nations* as Britain's trade and industry expanded. He asked how a society could produce more without a ruler directing every worker. In his famous pin factory example, workers who each completed one step could produce far more pins than workers who each made an entire pin. This division of labor increased output because workers gained skill and saved time switching tasks. Today, a bakery might assign mixing, baking, and packaging to different employees. Modern economists still study specialization as a source of productivity, though repeating one task can also make work dull.

2 Smith also argued that people seeking their own income can sometimes benefit others through exchange. A baker wants to earn money, but must sell bread that customers choose to buy. If several bakeries compete, each has a reason to improve quality or keep prices attractive. Smith used the phrase "invisible hand" to describe how individual choices can sometimes advance wider interests without a central planner intending that result. Modern free enterprise gives private businesses room to make production decisions, while buyers choose among sellers. Economists use this idea to examine how competition can coordinate choices, not to claim that every selfish action helps society.

3 Prices can help coordinate those choices. If flour becomes scarce, its price may rise. A bakery may then use flour more carefully, while suppliers have an incentive to produce or deliver more. Modern economists call this a price signal: a change that carries information about scarcity and incentives. Yet Smith did not argue that markets need no rules. He criticized monopolies that limit competition and supported certain public works and education. Today's debates about free enterprise ask when competition and prices work well and when public action is needed, such as protecting competition or providing services markets may undersupply.

2 ANSWER WITH EVIDENCE

Use the passage

1. How does the modern bakery example show the continuing influence of Smith's pin factory idea?

2. According to the passage, how can a baker's desire to earn money benefit customers in a competitive market?

3. If flour becomes scarce, how can a higher price affect the decisions of both bakeries and suppliers?

4. How does Smith's view of monopolies challenge the claim that free enterprise needs no public action?

3 YOUR TURN

Your own words

Imagine two competing bicycle repair shops in your town face a shortage of replacement tires. In four to five sentences, explain how two ideas from Smith could shape the shops' choices and customers' experiences, then identify one reason a public rule or service might still matter.

ANSWER KEY

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HIGH SCHOOL · MWH.C.3.3.C

PART 1 · READ AND MARK

Underline three of Smith's ideas, circle a modern practice or concept linked to each one, and give each matching pair the same number. Use your marks to trace how his ideas shaped economic thought. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How does the modern bakery example show the continuing influence of Smith's pin factory idea?	**Like the pin factory, the bakery divides work into steps. Specialization can raise productivity as workers gain skill and spend less time switching tasks.**
2	According to the passage, how can a baker's desire to earn money benefit customers in a competitive market?	**To attract customers who can choose another bakery, the baker has a reason to improve quality or keep prices attractive.**
3	If flour becomes scarce, how can a higher price affect the decisions of both bakeries and suppliers?	**Bakeries may use flour more carefully, while suppliers have an incentive to produce or deliver more.**
4	How does Smith's view of monopolies challenge the claim that free enterprise needs no public action?	**Smith criticized monopolies for limiting competition. Public action that protects competition can help markets work.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

One shop could assign tire repairs to a worker who practices that task often, increasing output through specialization. As tires grow scarce, higher tire prices could signal both shops to conserve their supply or seek other suppliers. Because customers can choose between shops, each owner has a reason to offer reliable repairs at prices customers will accept. These choices show how Smith's ideas still shape free enterprise without a manager directing every shop. A public rule against a shop blocking rivals from buying tires could help preserve the competition Smith valued.

Accept other accurate links between Smith's ideas and modern free enterprise. For Part 3, look for two explained applications and a plausible role for public action, not a claim that Smith opposed all government involvement.