Under Capitalism, the price of goods and services and their means of distribution is not set by a monarch, but is determined by the demand for those goods and services. Capitalism is often epigrammatically expressed as "Free Market" economics. The cornerstone work on Capitalism a book called The Wealth of Nations by the English philosopher Adam Smith, first published in 1776.

The theory behind Capitalism is that, left alone, the forces of supply and demand will tend to balance; stability and growth are produced automatically by free economic interactions, moved by the "Invisible Hand" of market forces. The price of goods and services will be about the same value as the cost of providing them, with a reasonable profit margin. This once-radical theory is now supported by three centuries of relative prosperity, and Capitalism (typically with a moderate amount of government regulation intended to prevent exploitation) is the prevailing economic system in the world today. Since security prices are set by supply and demand, security markets are Free Markets. Today free market theory is so well established, it is impossible to express how radical and frightening these ideas once must have been.

There are many economic benefits associated with Capitalism. Individual wealth is self-determined, through individual effort. This means that to achieve success, one must either work hard and save wisely, inventing or innovate—developing new forms of goods and services or new ways to produce existing goods and services—or by investing—giving money to people who innovate or invent. In this last case, the investor does no work, but they are compensated for taking a risk—the risk of losing their investment. Opportunity, not income, is equal. Capitalism can be characterized as "from each according to their ability, to all according to their contribution (financial gain through work or risk resulting in economic growth)".

Capitalism is also subject to certain perils or pitfalls. Reliance on a completely unrestrained economy opens the door to exploitation of people and resources on a scale unthinkable before industrialization. Long term growth can be sacrificed to immediate profit. The needs of workers, consumers, or investors may be ignored. An unregulated system is also prey to the Gordon Gecko syndrome—the proposition that "Greed is good" and whatever generates the most immediate individual profit is best for the overall economy. This has been proven untrue—for example, after a period of aggressive privatization of essential services such as roads and public utilities, the economy of Argentina completely collapsed. A system of limited economic regulation can ameliorate or eliminate these adverse effects.

The United States, and most other nations today, follow a mixed-market Capitalist system. Almost the entire market operates as a self-regulating free market. Economic regulations are allowable within strict limits, defined by social contract (a Social Contract is a formal agreement between a people and their government, such as the United States Constitution). Furthermore, some essential goods and services related to basic physical needs of citizens are provided by the government. These goods and services include healthcare (Medicare), old age pensions (Social Security), public education (administered not by federal authority, but by your local school board) and the law enforcement (the police, court system, and prisons on federal, state, and local levels).

In the private for-profit sectors of a Mixed Market economy, the development of a business is founded on a triangle of participants: Labor, Caital and Entrepreneurship. Labor consists of the people necessary to produce goods and services for the company. Entrepreneurship consists of the ideas and plans necessary to produce these goods and services. Capital is the money needed to purchase the materials and equipment required to do business.

A company, under this narrow definition (there are other types of company, such as non-profits, which operate differently, but these types of companies fall outside of the scope of this session), is the union of labor, entrepreneurship, and capital working together to generate profits. These profits are distributed to labor and entrepreneurship in the form of financial compensation, and to Capital investors as a dividend or an increase in the value of their stock, which they may sell to realize these gains (the object is to sell at a higher price than the original cost of purchase).

The resources necessary for a company to produce goods and services are called "Capital Goods". They include working space (offices, factories, etc.), machines (this can mean everything from computers to machine lathes, depending upon what goods and services the business is set up to provide). In some cases, Capital Goods can also include initial compensation for key employees before the company begins to generate profits. These Capital Goods are purchased by selling ownership of the company, in return for promised future returns.

When a company issues stock, or other interests in ownership it is to buy capital goods. A company cannot issue stock merely to make money. Funds received from investors have to be used for the development of the business.

Bonds are sold for other financial purposes, but the funds thus obtained must also be incorporated into the operation of the company. A company, which issues stock or bonds and simply pockets the money is not a business, it is a fraudulent enterprise, possibly even a criminal one.

Since the economy of a nation is really the sum total of al business (this can be represented by figures such as the Gross National Product or the Gross Domestic product). There are essentially two approaches to promoting growth: the old way and the new way.

The Old Way is known as "Protectionism". A nation following Protectionist policies concentrates on its own internal economy, with little or no regard for the economic situation of other nations. This is done by subsidizing domestic industry, discouraging foreign companies from providing goods and services in competition with domestic companies, encouraging unequal trade arrangements, and engaging in aggressive international competition for resources and markets. There are many ways to discourage foreign operations, including high tariffs, import quotas, high customs duties, excessive taxes, and other barriers to trade. This type of system, repeated worldwide, with each nation in perpetual economic conflict with other nations, produced some less than favorable results—for example, unresolved trade disputes contributed significantly to the tensions that produced two World Wars before the middle of the last century.

In the aftermath of the second of these World Wars, economists and political theorists began to advance an idea even more radical than Capitalism—that nations could lay the groundwork for lasting peace and mutual prosperity by tying their economies closer together. Up to that time, most nations were relatively isolationist, and maintained high taxes and tariffs on imports. The idea was to remove these impediments, creating a "Free Trade" environment, and providing a foundation for future economic stability and growth.