The European Economy in the 16th and 17th Centuries

The growth of overseas trade and wealth from the colonies brought about major changes in the economy of Europe.

Rise of Capitalism

• Capitalism is an economic system in which private individuals own resources that are used to make a profit that they keep. Under this system of capitalism, many Europeans started profit-making enterprises.

1. What is capitalism? ____________________________________________

• Many European merchants became wealthy from overseas trade.
• Many Europeans invested in new colonies. They bought shares in companies that started colonies. When the colony started making a profit from trade, the investors made money.

2. How did Europeans become wealthy from overseas trade:

• Merchants put their new wealth into industries in Europe. At the time, the cottage industry was the way most things were manufactured. Merchants gave raw materials to families in the country. These families were paid to make finished products, such as cloth. The merchants then sold the manufactured goods at a profit.

3. Identify from the text the key elements of the cottage industry.

Growth of Mercantilism

• Several European governments adopted a policy known as mercantilism. This policy let the government profit from the new wealth of the colonies.

4. Why did many governments adopt the policy of mercantilism?

• The goal of mercantilism was for a nation to gain as much wealth as it could. It could do this by finding precious metals in its colonies. Or, it could gain gold and silver by selling more goods than it bought. For example, the colonies would ship raw materials to the mother country cheaply. The finished goods could be sold to European countries or to the colonies at a high profit.

5. What was the goal of mercantilism?

• By the 18th century, many people were tired of government control of trade. Some economists started to argue that there should be a market economy, one free of government control.

6. Why do you think many desired a market economy by the 18th century?

7. Who benefits the most from a free market economy ... business or consumer? Why?