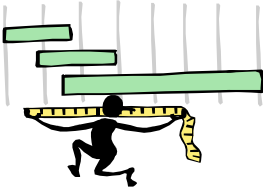


Part II: Seven Major Sources of Economic Progress



Source 1: Legal System: The Foundation for Economic Progress Is a Legal System That Protects Privately Owned Property and Enforces Contracts in an Even-Handed Manner.

1. What three “rights” accompany the ownership of private property? Can the owners of private property do anything they want with the things they own? Why or why not? Explain, using examples both from the text and your own experience.
2. Do the owners of private property have an incentive to maintain and develop their property in ways that are highly valued by others? Why or why not?
3. What is a “doomsday forecast”? Why have such forecasts been wrong? How is this related to the private ownership of resources?
4. Two centuries ago there were more buffalo than cattle in the United States. Even though millions of cattle are killed for beef consumption each year, the cattle population continues to grow while the buffalo are virtually extinct. Why?

Source 2: Competitive Markets: Competition Promotes the Efficient Use of Resources and Provides a Continuous Stimulus for Innovative Improvements.

5. What makes a market competitive? How do firms compete with one another? Discuss the importance of free entry and exit.
6. What determines whether small firms, medium-sized firms, or large firms will thrive in a globally competitive market? Explain, using real-world examples.
7. Do business firms operating in competitive markets have a strong incentive to serve the interest of consumers? Are “good intentions” necessary if individuals are going to engage in actions that are helpful to others? Discuss.

8. What is meant by “creative destruction”? How does it influence dynamic competition and economic progress?

Source 3: Limits on Government Regulation: Regulatory Policies That Reduce Trade Also Retard Economic Progress.

9. Is government regulation necessary in order to assure that a large firm like Wal-Mart will serve the interest of consumers? Why or why not?
10. “When property rights are well defined and markets competitive, competition will regulate the actions of buyers and sellers. Additional regulation by the government is unnecessary and unlikely to be helpful.” Indicate why you either agree or disagree with this statement.
11. Should government approval be required for entry into a market or the introduction of a new product? Why or why not? Consider the following examples:
- A new cancer drug
 - The fast-food market
 - New K-12 schools
 - Funeral services, including the sale of caskets
 - Professional sports teams
12. Will regulations that require employers to get permission from government officials before dismissing workers reduce the rate of unemployment? Why or why not?
13. “The market price makes it possible for buyers and sellers to communicate with each other. When the government imposes price controls and sets the price of various items, it restricts the ability of buyers and sellers to send messages to each other.” Discuss the meaning and importance of this statement.

Source 4: An Efficient Capital Market: To Realize Its Potential, a Nation Must Have a Mechanism That Channels Capital into Wealth-Creating Projects.

14. When investment is allocated by political decision-makers, are new innovative ideas likely to be supported? Are unproductive investments likely to be terminated? Explain, using both real-world and text-based examples.
15. “...mistaken investments are a necessary price that must be paid for fruitful innovations in new technologies and products.” Indicate why you either agree or disagree with this statement.

16. What makes an investment project productive? If an economy is going to grow, why is the allocation of investment capital into projects that create wealth crucially important?
17. For more than four decades, investment in the former Soviet Union and Eastern European countries was allocated by central planners. Even though the investment rates of these countries were high, general living standards grew slowly. Is this surprising?

Source 5: Monetary Stability: Inflationary Monetary Policies Distort Price Signals, Undermining a Market Economy.

18. "Money is to an economy what language is to communication." What does this statement mean?
19. How do economists measure inflation?
20. How can price stability be achieved? Would it ever make sense for a nation to adopt the currency of another nation? What are the costs and benefits of such a policy? Discuss examples.
21. If a country has a high and volatile rate of inflation, will domestic investors find this environment attractive? Will foreign investors find it attractive? How will the country's investment rate be affected?

Source 6: Low Tax Rates: People Will Produce More When They Are Permitted to Keep More of What They Earn.

22. Do you think taxes influence the choices of people? Why do economists believe that marginal tax rates exert a strong impact on the incentive of individuals to earn additional income?
23. Explain the ways in which high marginal tax rates reduce both productivity and the gains from trade.
24. "When individuals confront high marginal tax rates, it will be cheap for them to purchase tax deductible items." Is this statement true? How will this incentive structure affect the efficiency of resource use?
25. How will individuals and families adjust their behavior when marginal tax rates are increased to high levels? Give examples.

Source 7: Free Trade: A Nation Progresses by Selling Goods and Services That It Can Produce at a Relatively Low Cost and Buying Those that Would Be Costly to Produce.

26. Why do Americans buy goods and services from foreigners? What are the characteristics of imports?
27. Why are foreigners willing to sell goods and services to Americans? What will foreigners do with the dollars they acquire from the sale of goods and services to Americans?
28. Why will the dollar value of the items Americans buy from foreigners tend to equal the dollar value of the items Americans sell to foreigners? (Hint: what does the foreign exchange market do?)
29. Would higher import restrictions “save” American jobs and expand U.S. employment? Would subsidies to U.S. firms that export goods abroad increase domestic employment? Would the income levels of Americans be higher if we imported less and exported more? Explain.
30. Why do the authors contend that “...it is production that matters, not jobs.” How does this relate to the current debate about the impact of “outsourcing”.
31. “More than any other single action, unilateral removal of our trade restrictions would establish the environment for a more peaceful and prosperous world.” Do you agree or disagree? Why?

Concluding Thoughts

32. Discuss the importance of the following as sources of economic growth and prosperity: A) natural resources, B) density of population, C) democracy, and D) economic freedom.