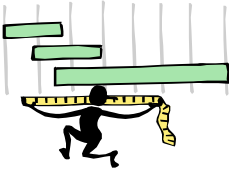


Part II: Seven Major Sources of Economic Progress



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. Explain the meaning behind the following quote from Tom Bethell: "Property sets up fences, but it also surrounds us with mirrors."
2. Identify the three components of private ownership.
3. Why do the incentives provided by secure property rights promote economic progress? Provide some examples.
4. Why is the evenhanded enforcement of contracts an important source for prosperity?
5. "Private ownership forces resource users to confront the cost of utilizing resources. Without private ownership, it is difficult to see how the benefits of resource use could be balanced against the costs incurred." Evaluate this statement.
6. If the ownership of a resource is insecure, how will this affect the value of the resource and the efficiency of its use? Why is legal entitlement of things like real estate, automobiles, scientific discoveries, and intellectual property important?
7. Secure property rights and even-handed contract enforcement result in which of the following? They
 - a. encourage investment by assuring that investors reap the rewards associated with accepting risks and deferring consumption.
 - b. protect the interests of land-owners.
 - c. encourage investment among individuals without land.
8. Property rights, contract enforcement, standards for weights and measures, and liability rules positively affect incentives for people to produce and exchange goods and services. Explain.

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

9. What is competition? What two conditions are necessary for competition to occur?
10. Why is competition important? What must firms do to compete efficiently?
11. How do consumers compete? What role does competition among consumers play in the allocation of goods and services?
12. Explain why failure (or at least the possibility of failure) is an important element of the competitive process. Is there a positive side to business failure?
13. What determines whether corporations, sole proprietorships, partnerships, employee owned firms, consumer cooperatives or other types of business structures will dominate a market?
14. How do economies of scale impact the size of firms in the real-world? Why do the authors assert that competition will decide the low-cost size of most firms in each market?
15. Which of the following statements is/are correct?
 - a. Competition hurts both sellers and buyers of goods and services.
 - b. Competition among producers lowers costs and prices, and encourages sellers to produce more of what consumers want.
 - c. Competition among buyers increases prices and allocates goods and services to those people willing to pay.

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

16. Will government licensing of firms in various markets help assure that they produce efficiently and serve the interests of consumers? Why or why not?
17. How will regulations that make it costly for employers to layoff or dismiss current employees affect the unemployment rate of youthful workers and other new labor force entrants? Explain.
18. "Price controls that set the price of a good or service above the equilibrium level will reduce the volume of trade, while controls that set price below

the equilibrium level will increase the volume of trade.” Is this statement true or false? Explain.

19. What is the “informal economy”? How does regulation influence the size of the informal economy? According to Hernando de Soto, what is the impact of regulation in developing countries?
20. What is the explicit (estimated) cost of lobbying for or against regulatory change? What are some of the secondary effects of such lobbying?
21. “Exchange based on mutual agreement is powerful evidence that the activity is both beneficial and productive.” Is this statement true? Why or why not?

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

22. What is capital investment? Why do business firms often use machinery and other capital assets to produce goods and services?
23. If an economy is going to grow, why is the allocation of investment capital into projects that create wealth crucially important?
24. How do the incentives of government decision-makers differ from those of private investors? Explain, using examples.
25. What is “capital flight”? What is the relationship between interest rates and investment? If the government fixes interest rates below the market equilibrium, what will happen to capital flight?
26. Compare and contrast the investment decisions made by individuals, businesses, and governments. Link them to economic progress.
27. Banks support efficient capital investment by
 - a. bringing lenders and borrowers together in impersonal and large markets.
 - b. charging exorbitantly high rates of interest to borrowers while paying depositors low rates of interest.
 - c. granting loans with low rates of interest to entrepreneurs and high rates of interest to large incorporated firms possessing long records of solid earnings.

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

28. What are the functions of money? Is money productive – does it help people get more out of their resources? Specifically, does it encourage them to specialize? Link specialization to economic progress.
29. Explain how stable money encourages trading, borrowing, saving, and investing.
30. What is inflation? What are the causes of inflation?
31. How does money of stable value influence the volume of trade? When the inflation rate is volatile, how is the volume of trade affected? How will this influence the income levels of people?

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

32. What is meant by a marginal tax rate? Why is it so important to always consider the marginal tax rate in policy discussions?
33. How do high marginal tax rates affect the incentive of individuals to earn and invest? How does this impact economic progress?
34. Will higher marginal tax rates always generate more revenue for the government than lower rates? Why or why not?

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.

35. Are the principles underlying the gains from international trade different those underlying domestic trade? Why or why not?
36. Paraphrase the three reasons given by the authors explaining why free trade allows nations to produce and consume more than would otherwise be possible.
37. “Trade restrictions neither create nor destroy jobs; they reallocate them.” What is meant by this statement?
38. Why do countries adopt trade restrictions? Do countries with high trade restrictions grow rapidly and achieve high income levels? Why or why not?

39. Would Americans be better off if U.S. importers had to obtain permission from government officials before they could buy things from other countries? Would politicians be better off—would they have more campaign contributions?
40. Would Americans be better off if the states imposed trade restrictions limiting the purchase or sale of goods and services to the residents of another state? Would total U.S. employment be larger? Explain.

Concluding Thoughts

41. How do institutions and policies influence income differences across countries?
42. What are the five freest economies in the world? Are countries with more economic freedom more prosperous than those that are less free?
43. Which of the following would help measure the level of economic freedom in a country?
- a. The Relative Size of Government Expenditures, Taxes and Enterprises
 - b. The Even-Handedness of the Court System and Security of Property Rights
 - c. Access to Money of Stable Value
 - d. Freedom to Trade Internationally
 - e. All of the Above