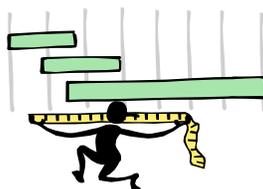


Common Sense Economics:
What Everyone Should Know About Wealth and Prosperity
 (Gwartney, Stroup, Lee, and Ferrarini ~ St. Martin's Press, © 2010)

Small Group Discussion Questions

Part II. Seven Major Sources of Economic Progress



Legal System: The Foundation for Economic Progress Is a Legal System That Protects Privately Owned Property and Enforces Contracts in an Evenhanded Manner.

1. What three things does private ownership allow the owner to do?
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 in the past? 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?
5. Does private ownership encourage selfish behavior? Does it encourage owners to consider the views of others when they make choices about how to use their privately owned resources? Discuss.

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

6. What makes a market competitive? How do firms compete with one another? What determines whether small firms, medium-sized firms, or large firms will dominate in a 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 “creative destruction?” How does this idea help to make the case that competition is NOT “pro-business”, as is often suggested in popular parlance?

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?
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.

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?
18. Why were lenders willing to extend mortgages to people with a poor credit history? Did government policy contribute to the availability of such loans? Explain
19. What impact did Fannie Mae and Freddie Mac have on the run up in housing prices during 2002-2006, the erosion of mortgage lending standards, the eventual increase in the mortgage default rate, and the severe recession of 2008-2009?
20. What are some of the secondary effects that will result when investment is allocated by political decision-makers? How will this influence the productivity of the projects that will be undertaken?

Monetary Stability: A Stable Monetary Policy Is Essential for the Control of Inflation, Efficient Allocation of Investment, and Achievement of Economic Stability.

21. “Money is to an economy what language is to communication.” What does this statement mean?
22. How do economists measure inflation? What is the major cause of inflation? Cite evidence to support your answer.
23. 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?
24. Shifts in monetary policy generally exert an impact on the level of economic activity with time lags that are variable and often lengthy. How will these time lags influence the ability of monetary policy-makers to follow a course that will minimize economic instability? Explain your response.

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

25. 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?
26. Explain the ways in which high marginal tax rates reduce both productivity and the gains from trade.

27. How will individuals and families adjust their behavior when marginal tax rates are increased to high levels? Give examples.
28. How were marginal tax rates altered during the Great Depression? Did these tax changes help promote recovery or did they increase the length and severity of the depression? If policy-makers have good intentions, will the impact of their policies be positive? Discuss.

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 Domestically.

29. Why do Americans buy things from foreigners? What are the characteristics of the things we buy from others?
30. 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?
31. 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.
32. Why do the authors contend that “...it is production of value that really matters, not jobs”? How does this relate to the current debate about the impact of “outsourcing”?
33. “The United States would gain substantially if it unilaterally phased out all of its trade restrictions over, for example, a ten-year period.” Do you agree or disagree with this statement? Explain your answer.

Concluding Thoughts

34. 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.