

Macroeconomics Activity: Economic Freedom, Prosperity, and the Quality of Life

The following macroeconomics activity is taken from the Instructor's Manual to Accompany "Teaching Tools for Microeconomics from John Stossel -- College edition" by James Gwartney, John Morton, Mark Schug, and Joseph Calhoun. The accompanying Stossel DVDs may be purchased at: AbcNewstore.com

Common Sense Economics Part II: End of part 2

Key Economic Words and Concepts: Collective Choice, Economic Freedom, Personal Choice, Private Property Rights, and Voluntary Exchange

Most college economics textbooks do not mention the importance of economic freedom to prosperity or even define the term. This activity provides some ideas on how to correct this deficiency. All statistics in the activity are from James Gwartney and Robert Lawson with Erik Gartzke, *Economic Freedom of the World, 2005 Annual Report*, Fraser Institute, 2005.

1. Help the students understand what economic freedom is. According to Gwartney, Lawson, and Gartzke, economic freedom rests on four cornerstones, which are:

- Personal choice rather than collective choice;
- Voluntary exchange coordinated by markets rather than allocation through the political process;
- Freedom to enter and compete in markets; and
- Protection of persons and their property from aggressive acts by others.

Economic freedom can also be defined by what governments do and do not do. To promote economic freedom, governments should:

- Establish an even-handed legal system;
- Protect individuals and their property from people using violence, coercion, and fraud to seize things that do not belong to them;
- Facilitate access to sound money; and
- Provide an infrastructure for voluntary exchange and the operation of markets.

To promote economic freedom, governments should restrain from:

- Taking actions that interfere with personal choice, voluntary exchange, and the freedom to compete in the labor and product markets;
- Increasing taxes and government expenditures;
- Increasing government regulations on businesses' and people's choices; and
- Limiting access into occupations and business activities.

2. What difference does economic freedom make? Ask the students to examine the statistics below and make conclusions based on them. These statistics compare eight characteristics of nations that score in the top fifth in economic freedom with nations that score in the bottom fifth of economic freedom. The differences should dramatically illustrate the difference that economic freedom makes in a nation's standard of living and quality of life.

Economic Freedom Index

Characteristic	Top Fifth	Bottom Fifth
Per capita GDP	\$25,062	\$2,409
Economic growth rate	2.5%	.6%
Investment per capita	\$4,903	\$195
Unemployment rate	5.2%	13%
Life expectancy	77.7 yrs.	52.5 yrs.
Income level of poorest 10%	\$6,451	\$1,185
Adult literacy	96.4%	65.3%
Access to improved water	97.0%	70.9%

Source: James Gwartney and Robert Lawson with Erik Gartzke, *Economic Freedom of the World, 2005 Annual Report*, Fraser Institute, 2005.

3. Research project. Have the students compare the top 10 nations in the Economic Freedom Index (EFI) with the bottom 10 nations. Have the students look at factors such as per capita GDP, life expectancy, infant mortality, economic growth rate, adult literacy, unemployment rate, and inflation rate. A good online source for research is the CIA Factbook, available at <http://www.cia.gov/cia/publications/factbook/>. Have each student select a nation to research and report to the class. Then make generalizations about countries with high economic freedom and low economic freedom.

Top 10 Countries and Bottom 10 Countries					
Top 10			Bottom 10		
Nation	EFI	Per capita GDP	Nation	EFI	Per capita GDP
Hong Kong	8.7		Gabon	5.1	
Singapore	8.5		Central African Rep.	4.9	
New Zealand	8.2		Congo, Rep. of	4.8	
Switzerland	8.2		Algeria	4.6	
United States	8.2		Burundi	4.5	
United Kingdom	8.1		Guinea-Bissau	4.5	
Canada	8.0		Congo, Dem. Rep.	4.3	

Ireland	7.9		Venezuela	4.3	
Australia	7.8		Zimbabwe	3.3	
Estonia	7.8		Myanmar	2.8	

Source: James Gwartney and Robert Lawson with Erik Gartzke, *Economic Freedom of the World, 2005 Annual Report*, Fraser Institute, 2005.