

CHAPTER LEARNING OBJECTIVES

1. **STUDENTS WILL BE ABLE TO IDENTIFY AND DEFINE THE 2 MAIN PARTS OF THE AMERICAN FREE MARKET SYSTEM**
2. **STUDENTS WILL BE ABLE TO IDENTIFY LAWS THAT PROTECT OUR ECONOMIC FREEDOMS**
3. **STUDENTS WILL BE ABLE TO EXPLAIN WHY POLICY MAKING IS SO IMPORTANT TO THE EXECUTIVE BRANCH OF GOVERNMENT**
4. **IN ECONOMIC TERMS, STUDENTS WILL BE ABLE TO EXPLAIN A “SAFETY NET ” AND THEIR PURPOSE**
5. **STUDENTS WILL BE ABLE TO IDENTIFY A PUBLIC GOOD AND THE NEED FOR THEM**
6. **STUDENTS WILL BE ABLE TO IDENTIFY THE 4 CHARACTERISTICS OF PUBLIC GOODS**
7. **STUDENTS WILL BE ABLE TO DEFINE AND PROVIDE EXAMPLES OF “FREE RIDERS ”**
8. **STUDENTS WILL BE ABLE TO DEFINE AND PROVIDE EXAMPLES OF EXTERNALITIES**
9. **THE STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN WHY THE FREE MARKET MAY NEED ASSISTANCE AT TIMES**
10. **STUDENTS WILL BE ABLE TO EXPLAIN THE 4 WAYS GOVERNMENT PROMOTES GROWTH AND STABILITY**

THE GOVERNMENT PROTECTS OUR ECONOMIC FREEDOMS THROUGH THE RULE OF LAW IN 3 WAYS :

- 1.
- 2.
- 3.



WHAT IS THE DIFFERENCE BETWEEN LAWS AND POLICIES ?

“LAWS ” -

“PUBLIC INTEREST ” -

WHAT ARE EXAMPLES OF LAWS DESIGNED TO PROTECT OUR ECONOMIC FREEDOMS ?

1

2.

3.

4.

5.



“POLICY ” -

CONSIDERATIONS REGARDING POLICES > EVERY POLICY HAS 2 ASPECTS TO IT :

1. “ENDS ” -

2. “MEANS ” -



WHAT ARE THE 4 QUESTIONS THAT NEED TO BE ASKED ABOUT POLICIES ?

1.

2.

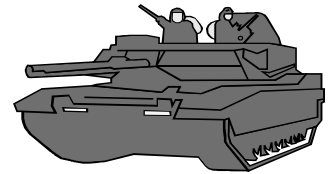
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4.

WHAT ARE 2 ADDITIONAL EXAMPLES OF POLICIES ?

1.

2.



WHY IS POLICY MAKING SO IMPORTANT TO THE EXECUTIVE BRANCH OF THE GOVERNMENT ?

WHAT IS THE ROLE OF ECONOMIC THEORIES IN THE DEVELOPMENT OF LAWS AND POLICIES ? TWO POINTS :

1.

2.

AS A CITIZEN , TO HOLD YOUR PEERS AND GOVERNMENT ACCOUNTABLE FOR THE RIGHT LAWS AND POLICIES YOU MUST UNDERSTAND TWO IMPORTANT POINTS ABOUT THE TYPES OF THEORIES / STATEMENTS THAT WILL BE USED AND WHAT YOU MUST DO WITH THEM :

1.

1. “ POSITIVE STATEMENT ” -

2. “ NORMATIVE STATEMENT ” -

“ IT IS IMPOSSIBLE TO BREAK UP ATOMS ”

“ SCIENTISTS OUGHT NOT TO BREAK UP ATOMS ”

2.

“ ITS TRUE IN THEORY , BUT NOT IN PRACTICE ”

“ ALL RIGHT THEN , TELL ME ABOUT WHAT DOES HAPPEN IN PRACTICE ”

A REAL EXAMPLE :

“ IT IS MY JUDGMENT THAT WE OUGHT TO HAVE RENT CONTROLS BECAUSE CONTROLS ARE GOOD ”

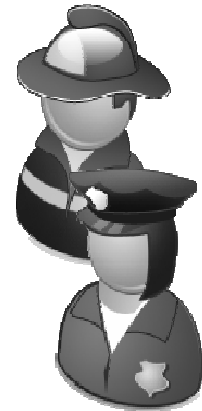
THE POSITIVE APPROACH SIMPLY ASKS , “ OK , WHY ”

WHEN IT MAKE SENSE TO DEVIATE FROM PURE CAPITALISM :

WHEN DOES IT MAKE SENSE FOR OUR GOVERNMENT TO BE INVOLVED BEYOND ENFORCING THE RULE OF LAW ? THERE IS ONLY 1 RATIONAL REASON FOR THIS :

WHAT ARE SOME EXAMPLES OF NEEDS THAT CAN NOT BE MET BY THE FREE MARKET AND THAT THE GOVERNMENT HELPS WITH ?

- 1.
- 2.
- 3.
- 4.
- 5.



WHAT GOVERNMENT INVOLVEMENT SHOULD DEPEND ON :

- 1.
- 2.

1. “ EQUITABLE ” -

2.

GOVERNMENT INVOLVEMENT TAKES MANY FORMS > HERE ARE SIX :

1. “ PUBLIC GOODS ” -

WHAT ARE THE 4 CHARACTERISTICS OF PUBLIC GOODS ?

1.



2.

3.

4.

2. “ REGULATION ” -



3. “ SAFETY NETS ” / “ WELFARE PROGRAMS ” -



WELFARE PROGRAMS “ REDISTRIBUTE INCOME ” AND WILL ALWAYS CAUSE PASSIONATE DEBATES OVER WHAT ?

5 EXAMPLES OF SAFETY NET / WELFARE PROGRAMS :

1.

2.

3.

4.

5.

4. “ EARMARKS ” -

THREE PROBLEMS CAUSED BY EARMARKS :

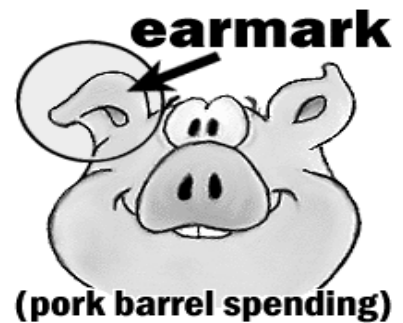
1.

2.

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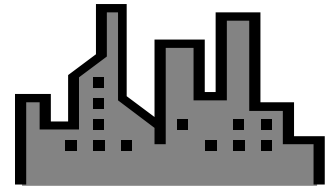
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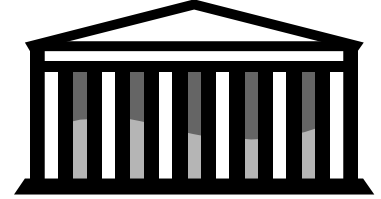


DUE TO GOVERNMENT INVOLVEMENT IN OUR ECONOMY , OUR VERSION OF THE FREE MARKET IS MADE UP OF 2 PARTS :

1. “PRIVATE SECTOR” -



2. “PUBLIC SECTOR” -



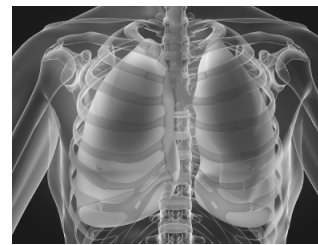
MANAGING THE SIDE EFFECTS OF CAPITALISM AND GOVERNMENT INTERVENTION :

WHAT ARE “EXTERNALITIES” ?

GOVERNMENT INVOLVEMENT IN THE ECONOMY WILL ALWAYS RESULT IN CREATING EXTERNALITIES :

WHAT IS THE CHALLENGE ? >

NEGATIVE EXTERNALITY EXAMPLES :



THE TWO OPTIONS FOR SOLVING EXTERNALITIES :

1.

2.

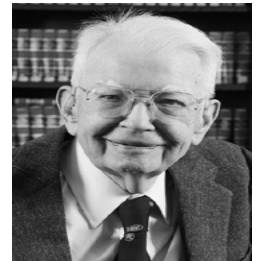
GOVERNMENTS HANDLE EXTERNALITIES THROUGH REGULATION > LAWS DESIGNED TO FORCE ELIMINATION OF THE SIDE EFFECTS :

- 1.
- 2.
- 3.
- 4.

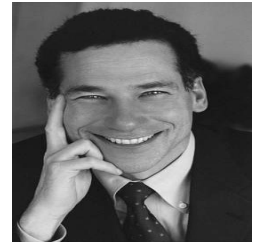
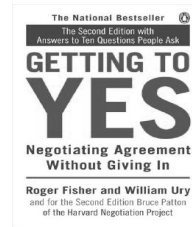


THE PRIVATE MARKET TRIES TO SOLVE PROBLEMS CAUSED BY EXTERNALITIES THROUGH NEGOTIATION :

“ COASE THEOREM ” -



POTENTIAL PROBLEM WITH USE OF THE COASE THEOREM IS IF THERE IS A “ BATNA ” -



PUBLIC GOODS CAN CAUSE THE “ TRAGEDY OF THE COMMONS ” -

THE HIGHWAY EXAMPLE :

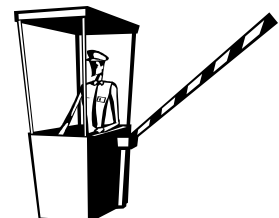
THE PURPOSE >

THE TRAGEDY IS THE NEGATIVE EXTERNALITY CREATED AS A RESULT OF OVER USE >

HOW DO YOU SOLVE THIS ? WHAT ARE THE OPTIONS ?:

BUILD ADDITIONAL ROADS ?

- 1.
- 2.



TOLL ROADS ?

- 1.
- 2.



REGULATION - CAR POOL LANES ?

- 1.
- 2.

THE BEST CHOICES ARE THROUGH PRIVATE NEGOTIATION = THE TOLL ROAD AND / OR REGULATION , AND SOMETIMES POSITIVE EXTERNALITIES ARE CREATED IN THE FORM OF A “ FREE RIDER ” -



IN WHAT 4 WAYS SHOULD THE GOVERNMENT PROMOTE GROWTH AND STABILITY ?

- 1.

“ A UTOPIA WITHOUT BUSINESS FREEDOM WILL HAVE NO WEALTH TO REDISTRIBUTE ” ~ C. SCHRAMM

- 2.

- 3.

- 4.



“ Economics is a science of recognizing primary and secondary consequences of decisions . It is the science of tracing the effects of some proposed or existing policy / decision , not only on some special interest in the short run , but also on the general interest in the long run .



In seeing economics as a science of tracing consequences , we must also be aware that , like logic and mathematics , it is a science of recognizing inevitable implications . The answer already lies in the statement of the problem . ” ~ H. Hazlet