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**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.

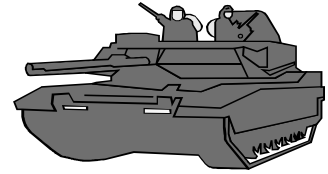
3.

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 ”**

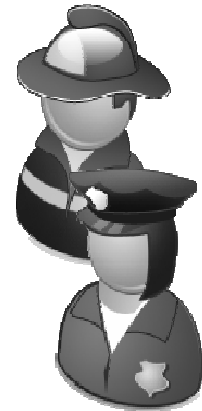
**THE POSITIVE APPROACH SIMPLY ASKS , “ OK , WHY ”**

**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 :**

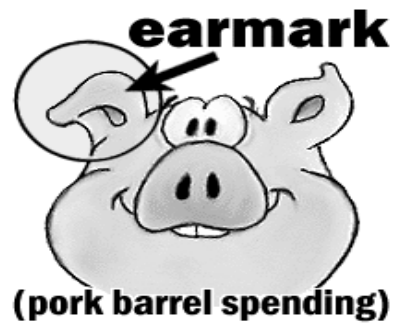
1.

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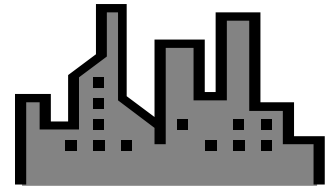
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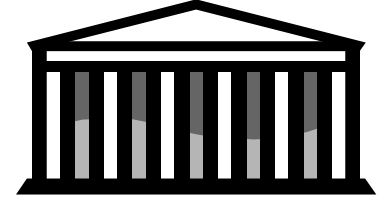


**DUE TO GOVERNMENT INVOLVEMENT IN OUR ECONOMY , OUR VERSION OF THE FREE MARKET IS MADE UP OF 2 PARTS :**

1. “ PRIVATE SECTOR ” -



2. “ PUBLIC SECTOR ” -



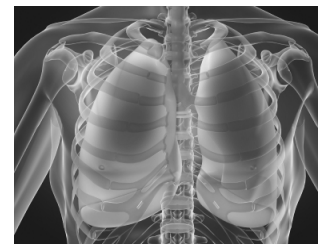
**MANAGING THE SIDE EFFECTS OF CAPITALISM AND GOVERNMENT INTERVENTION :**

**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.

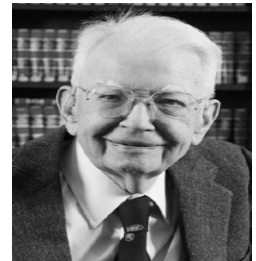
**GOVERNMENTS HANDLE EXTERNALITIES THROUGH REGULATION > LAWS DESIGNED TO FORCE ELIMINATION OF THE SIDE EFFECTS :**

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

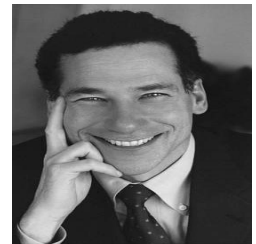
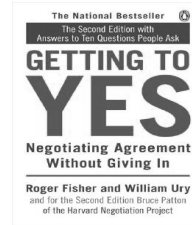


**THE PRIVATE MARKET TRIES TO SOLVE PROBLEMS CAUSED BY EXTERNALITIES THROUGH NEGOTIATION :**

**“ 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 :**

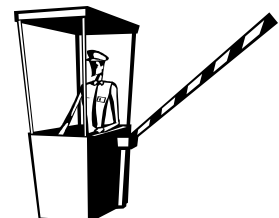
**THE PURPOSE >**

**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**