Assignment # 4 Final Exam

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2. What are the advantages and disadvantages of a market system?

There are many advantages of a market system. First, a market system allows producers to produce goods and services that consumers actually want. Another advantage is that producers as well as consumers typically conserve resources that are scarce. Also, competition among businesses and companies often requires them to keep their costs down at a competitive level while their production levels are high. Market systems typically allow a lot of economic freedom and allow individuals to acquire skills that are helpful to the economy.

There are also many disadvantages of a market system. First, certain markets do not work that well in certain areas. While monopolies are able to increase in price and create restrictions on production. Businesses are able to use advertising as a form of satisfying their wants. A big disadvantage of a market system is that there is a large gap in the amount of income received among individuals, there is a large gap of income between the rich and the poor. Not to mention that market systems may prove to be unstable due to inflation or high unemployment rates.

3. Why do economic systems change and evolve over time?

Change is often times inevitable. As time evolves change is often sure to follow. Economic systems are not exempt from this. Economic systems typically change to meet the needs of the evolving times. For instance, during the Revolution the economic system was an industrial one because that was what was happening during that time.

Karl Marx himself theorized that the development of economies was based on the notion that economic systems eventually evolved. According to Marx, a feudal economy was replaced by that of a capitalist economy because the feudal economy was inferior to the capitalist economy. Over time economic systems have changed and evolved because society as a whole has changed and evolved and the economy must do the same as well.

5. Over the past 225 years what has happened to Adam Smith’s idealistic rendition of the market system?

Adam Smith is regarded by many as the father of economics. Smith was a Scottish social philosopher and was one of the key figures of the Scottish Enlightenment. A lot of his ideas are still relevant economics today. For instance, Adam Smith realized that in order to make substantial gains in production it would be more efficient to form an assembly line where one person specializes in one job. Doing this would allow more products and services to be created more efficiently. Smith’s theories have proven correct in today’s modern economy.

8. Why is a high level of industrial performance crucial to a healthy economy?

A high level of industrial performance is crucial to a healthy economy because without a high level of industrial performance, an economy typically cannot grow. If factories or companies are not able to produce an adequate amount of goods or services then it will be difficult for consumers to purchase these goods and services when there are not many of them available, hence the economy may suffer.

9. To what extent do taxes discourage economic growth, investment, and capital formation?

When it comes to investments taxes have a big impact on investments. Taxes and tax reductions are imposed by the government to create incentives to save and invest. However, investments are discouraged when the interest that is made on investments is taxed. Businesses often receive tax credits for investing, as businesses may spend their money on new capital. As for economic growth individuals may be less inclined to purchase expensive items that cannot be written off on their taxes and that instead they end up having to pay taxes on. Some individuals believe that reducing the rate of taxes will lead to economic growth, while others believe that if taxes are indeed reduced that many will simply go to the rich.