

ECON 1000 – Contemporary Economic Issues “Economic Systems: Capitalism versus Socialism”

Relevant Readings from the Required Textbooks:

- Chapter 3, *Economic Systems: Capitalism versus Socialism*

Definitions and Concepts:

- **economic system** – the rules and methods put in place by a society to answer the three fundamental economic questions of “What to produce?,” “How to produce it?,” and “For whom to produce it?”
- **comparative economic systems** – the subfield of economics that compares and contrasts the structure and the performance of different types of economic organization (i.e., different economic systems).
- **four primary economic institutions:** households, firms, markets, and government
- **households** – the most fundamental part of any economic system; ultimate consumers of most finished goods/services; primary suppliers of labor
- **firms** – the institutions which transform factors of production into finished goods/services
- **economic resources** or **factors of production** – the inputs such as factories, farms, stores, trucks, and equipment used to produce goods and services.
- **natural assets** – natural resources, including minerals, naturally occurring vegetation, water resources, topographical features, and available agriculturally productive land
- **produced assets** – the currently available machines, factories, and inventories of finished goods available as industrial capital, as well as social capital such as transportation and communications infrastructure, and educational institutions
- **human capital** – the skills, education, and training which individuals in the labor force possess
- **market** – the collection of all potential buyers and all potential sellers of a good or service.

- **government** – a decision-making institution with the legal authority to impose restrictions or mandates on the behavior of other decision-makers (i.e., the ability to use legal coercion).
- **contract** – a legal document which specifies what different parties must do, whatever the external circumstances, and provides enforcement or compensation for non- performance
- **capitalism** – economic system in which the means of production are privately owned and operated for a profit.
- **socialism** – economic system in which the means of production are owned by the government.
- **feudalism** – economic system in which land ownership is restricted to an aristocratic nobility.
- **three dimensions of Private Ownership of Property:** (i) “right to control,” (ii) “right to transfer,” and (iii) “right to restitution.”
- **right to control** – the right to decide how to use your property.
- **right to transfer** – the right to obtain ownership of property from or relinquish ownership of property to another person.
- **right to restitution** – the right to be compensated by another person when he damages your property or infringe upon your rights.
- **consumer sovereignty** – the freedom for an individual to choose to purchase (or to not purchase) a good or services at a price determined in a free, unfettered market
- **Adam Smith** – 18th century (1721-1790) Scottish economist, who wrote “An Inquiry into the Nature and Causes of the Wealth of Nations,” in which he laid out the central arguments for why private ownership/control of resources and trade in free markets often result in desirable outcomes
- **Invisible Hand** – Smith’s recognition that under certain conditions, the behavior of self-interested decision makers interacting in free markets leads to outcomes which are better for all parties.
 - when the “invisible hand” is applicable, any possible alternative to the market outcome would be less desirable for some individuals in society.
 - “free market forces” are the “invisible hand” that leads us to an outcome that is “efficient” (in that “total social surplus” is maximized).
- **Karl Marx** – 19th century (1818-1883) German philosopher, economist, and revolutionary, who wrote “Das Kapital” (1867, 1884, 1885) and co-wrote (with Friedrich Engels) “The Communist Manifesto” (1848)

- **Bourgeoisie** – the term which Karl Marx used to refer to business owners.
- **Proletariat** – the term which Karl Marx used to refer to the working class.
- **Communism** – economic system in which the means of production are collectively owned by all people in a society (without intervention by a government or state)
 - A stateless, classless economic system in which all the factors of production are owned by the workers and people share in production according to their needs: “From each according to his ability, to each according to his need” (Louis Blanc in “The Organization of Work,” 1839)
- **New Soviet Man** – a person motivated primarily by selfless benevolence.
- **Economic Man** (or *homo economicus*) – a person who is both self-interested and rational (this is the standard assumption within mainstream economics)
- **command planning** – an environment in which the government directly controls nearly all economic activity, and almost all production takes place within enterprises owned/controlled by the government.
- **indicative planning** – an environment in which the government guides the behavior of individuals in regards to economic decisions by establishing policies which alter costs and benefits.
- **three primary types of economic incentives**: material rewards, moral suasion, and coercion.
- **material rewards** – monetary rewards or direct increases in consumption from engaging in an activity.
- **moral suasion** – attempts to convince individuals to behave in a certain manner because doing so is the right thing to do.
- **coercion** – the use or threat of force or incarceration in order to obtain compliance.
- **mixed economy** – an economic system in which most factors of production are owned and controlled by individuals, while some factors of production are owned and controlled by the state (i.e., a system which contains some elements of capitalism and some elements of socialism).
- **“Economic Freedom of the World”** (Table 3.1 on Page 55 of textbook)
- **“International Property Rights Index”** (Table 3.3 on Page 58 of textbook)
- **“Ease of Doing Business”** (Table 3.4 on Page 60 of textbook)

Multiple Choice Questions:

1. Which of the following is a basic characteristic of Capitalism?
 - A. Economic decisions occur in markets.
 - B. Income is distributed on the basis of “need.”
 - C. Private ownership of property is illegal.
 - D. None of the above answers are correct.
2. specifies what different parties must do, whatever the external circumstances, and provides for enforcement or compensation for non- performance.
 - A. Socialism
 - B. A Contract
 - C. A Market
 - D. The Invisible Hand
3. is an economic system in which the means of production are privately owned and operated for a profit.
 - A. Capitalism
 - B. Communism
 - C. Feudalism
 - D. Socialism
4. Which of the following countries currently has an economic system which would be best described as “Pure Socialism”?
 - A. Poland.
 - B. China.
 - C. Israel.
 - D. None of the above answers are correct.
5. refers to the skills, education, and training which individuals in the labor force possess.
 - A. Produced Assets
 - B. Human Capital
 - C. Natural Assets
 - D. A Property Right

6. One of the three primary types of “economic incentives” is “moral suasion,” which could be described as
- A. the use of monetary rewards or direct increases in consumption which result from engaging in an activity.
 - B. the use or threat of force or incarceration to obtain compliance.
 - C. attempts to convince individuals to behave in a certain manner because doing so is “the right thing to do.”
 - D. the use of torture or other “enhanced interrogation techniques” in order to elicit information from someone.
7. In which of the following countries do individuals enjoy the least amount of Economic Freedom?
- A. Hong Kong.
 - B. Venezuela.
 - C. Germany.
 - D. The United States.
8. Alec Nove described as “when the state uses influence, subsidies, grants, [and] taxes [to influence economic decisions], but does not compel.”
- A. Consumer Sovereignty
 - B. Command Planning
 - C. Indicative Planning
 - D. The Invisible Hand

For Question 9, consider the continuum between the economic systems of Pure Socialism and Pure Capitalism illustrated below.

1

9. Based upon the discussion in lecture, along the continuum illustrated above the economy of the United States currently would most accurately lie at .
- A. Point A
 - B. Point B
 - C. Point C
 - D. Point D

10. In a free market economy, households
- A. are the ultimate consumers of most finished goods/services.
 - B. are the primary suppliers of labor to firms.
 - C. do behave as “rational decision makers.”
 - D. More than one (perhaps all) of the above answers is correct.
11. Which of the following is an example of a “Natural Asset”?
- A. The “college education” which has been acquired by approximately 27% of the U.S. population.
 - B. The 1.7 trillion tons of coal reserves in the United States.
 - C. The Volkswagen manufacturing plant near Chattanooga, TN.
 - D. More than one (perhaps all) of the above answers is correct.
12. is the subfield of economics that compares and contrasts the structure and performance of different types of economic organization.
- A. Comparative Economic Systems
 - B. International Trade
 - C. Industrial Organization
 - D. Public Choice
13. Adam Smith was
- A. a 17th century English mercantilist.
 - B. an 18th century Scottish economist.
 - C. a 19th century German philosopher, economist, and revolutionary.
 - D. a 21st century American community organizer.
14. The economy of the “former Soviet Union”
- A. achieved Karl Marx vision of an “ideal communist society,” since the ownership and use of all resources was in the hands of “the people” without any intervention whatsoever by the government.
 - B. functioned so efficiently that the country produced a combination of goods beyond its production possibilities curve year after year after year.
 - C. perhaps provides the best example of a large society with an economic system close to “pure socialism.”
 - D. More than one (perhaps all) of the above answers is correct.

15. On September 4, 2009, California Governor Arnold Schwarzenegger offered a

\$100,000 reward for anyone who could provide information leading to the arrest and conviction of the arsonists who set a wildfire in southern California which claimed the lives of two firefighters. In this situation, Gov. Schwarzenegger was attempting to obtain the desired information by

- A. coercion.
- B. command planning.
- C. moral suasion.
- D. offering a material incentive.

16. traces its philosophical roots to the work of 19th Century Philosopher Karl Marx.

- A. The “Invisible Hand”
- B. Capitalism
- C. Communism
- D. Feudalism

17. refers to the freedom of an individual to choose to purchase (or to choose to not purchase) a good or service at a price determined in a free market.

- A. The Invisible Hand
- B. Command Planning
- C. Consumer Sovereignty
- D. Indicative Planning

18. In the writings of Karl Marx, the “bourgeoisie” referred to the and the “proletariat” referred to the .

- A. business owners; working class.
- B. unskilled workers; entrepreneurs.
- C. government planners; tax collectors.
- D. colonialists; nobility.

19. The present economic system of the United Kingdom would be most accurately described as , while the present economic system of Spain .

- A. a Mixed Economy: would be most accurately described as Pure Socialism.

- B. a Mixed Economy; would also be most accurately described as a Mixed Economy.
 - C. Pure Capitalism; would be most accurately described as Pure Socialism.
 - D. Pure Socialism; would be most accurately described as Communism.
20. Consider the costs of complying with bureaucratic regulations to economic decision makers in Singapore, Poland, and Venezuela. According to the results of the “Ease of Doing Business” study, of these three countries, such costs are:
- A. lowest in Singapore and highest in Venezuela.
 - B. lowest in Singapore and highest in Poland.
 - C. lowest in Poland and highest in Singapore.
 - D. lowest in Venezuela and highest in Poland.
21. In a typical modern economy, it is common for Government to have an impact on economic outcomes by
- A. defining and enforcing property rights.
 - B. regulating the behavior of business.
 - C. redistributing income.
 - D. More than one (perhaps all) of the above answers is correct.
22. first said “From each according to his ability, to each according to his need.”
- A. Adam Smith
 - B. Karl Marx
 - C. Louis Blanc
 - D. Egon Neuberger
23. Economic Man (aka, *homo economicus*) is
- A. both rational and self-interested.
 - B. rational, but not self-interested.
 - C. self-interested, but not rational.
 - D. neither rational nor self-interested.
24. While playing baseball in their front yard, Wally and his little brother break the windshield of Ward’s car. Wally and his brother concede that it is right for them to cover the costs of repairing the broken windshield. In taking this position, they are recognizing that Ward has a in regards to his car windshield.

- A. right to control
- B. right to transfer
- C. right to restitution
- D. right to contract

Answers to Multiple Choice Questions:

- 1. A
- 2. B
- 3. A
- 4. D
- 5. B
- 6. C
- 7. B
- 8. C
- 9. B
- 10. D
- 11. B
- 12. A
- 13. B
- 14. C
- 15. D
- 16. C
- 17. C
- 18. A
- 19. B
- 20. A
- 21. D
- 22. C
- 23. A
- 24. C