Chapter 1

The Market Economy

Economics is the study of the market economy. The market economy refers to an abstract image of interaction among purposeful, “normal human beings,” or actors, under a given set of conditions. The set of conditions are four: (1) a system of private property rights, (2) specialization, (3) the use of money and (4) free enterprise.

To say that human beings are purposeful means that they have definite wants and that they have the goal of satisfying them as best they can under the circumstances they perceive. We know that most people are normal, although we can never be certain that any particular behavior that we observe in others is purposeful or normal. To say that human beings are normal means that they are no more handicapped in accomplishing goals than you or me. We can refer to purposeful action by normal human beings as distinctly human action. Its opposite is the behavior of robots and most non-human animals.

The aim of this introductory chapter is to set the stage for the more complete analysis of the market economy, which follows in later chapters. Part 1 elaborates on the conditions of the market economy. Part 2 describes these conditions in greater detail by telling how they seem to have evolved. Part 3 describes the different roles that individuals play in the market economy. Part 4 distinguishes the “pure” market economy, to which most of our attention in this book will be directed. Part 5 briefly discusses the reason for studying economics. Part six describes the plan for the rest of the book.

1. THE CONDITIONS OF THE MARKET ECONOMY

In this part we describe the conditions of the market economy in greater detail. Then we discuss the nature of the human beings who are assumed to interact.

The Private Property System

The private property system has two characteristics. First every separable good and resource has an individual who is assigned by law as the owner. A good is a thing or behavior that can be used to satisfy a want directly; a resource can be used to satisfy a wanted indirectly by helping to produce a good. A separable good or resource is a resource that is physically capable of being owned and controlled by a single person.

An owner has the legal right to control the good or resource’s use. If a person possesses the legal right of ownership and control, no one else can benefit from its use without first obtaining permission from the owner. On the other hand, the owner of a good or resource cannot harm anyone by its use without
obtaining permission from the harmed party. In a private property system, everyone has the initial right to not be harmed by another person’s use of that person’s good or resource.¹

The owner of a private property right to a good or resource has the sole right to benefit from its use and he is fully responsible for the costs of its use, including those that are felt by someone else. Among other things, this means that if you use your own labor and your own materials to produce something, the thing you produce belongs exclusively to you. No one else has the legal right to share in it, although you may decide to give him a part.

The second characteristic is exchangeability. Under a private property system, the owner of a right is permitted by law to exchange it. If an initial owner values the money, good or service that he is offered in exchange for a good or resource that she initially owns, she will accept the offer and transfer the right to a new owner. The exclusive ownership and exchangeability of a private property system gives individuals an incentive to specialize, since they can expect to exchange the goods in which they are specialized for the goods that others specialize in producing.

We begin our study of the market economy by assuming a complete private property system. This is a system in which all that contains only separable goods and resources. A good or resource is separable when the benefits and costs of its control and use can only be felt by a single individual. For example, if you own a banana, your eating it does not ordinarily yield benefits to others. So we say that a banana is ordinarily a separable good. However, you may throw the banana peel on the ground and increase the risk to someone else of falling down and getting hurt. Under a private property system, the right to control the use of the banana peel would also be defined. That is, either you would have the legal right to throw it on the ground or someone else would have the legal right to prevent it from being thrown. Non-separable goods include clean air, ocean whales, a fireworks display, and collective defense against an aggressive enemy. It is either impossible or very difficult for a government to define private property rights for non-separable goods or resources. Our first image of the market economy does not include items of this sort. We discuss them later because they are a basis for arguments that people could benefit from government intervention.

**Specialization**

For many goods, less effort is needed to produce them if there is specialization. We can best understand specialization by referring to its opposite. This is a situation in which all of the separate human tasks involved in causing a good to be produced are performed by the same person. Such a person would be a “jack-of-all-trades.” He would be skilled in each separate task. Specialization means that distinctly different tasks that yield satisfaction to members of a community are performed by different people. Under a private property rights system, individuals have incentives to use their own special skills to produce goods and services that they can offer in exchange. For example, a man who is especially skilled in shoe-making finds it profitable to make shoes instead of operating a farm or a grocery store. The private property system also gives individuals an incentive to acquire specialized abilities and to enhance those that they already have. Specialization enables most material goods to be produced with less human effort than would be required if the same material goods were produced by the person who planned to use them. This makes possible higher standards of living and the support of larger populations with the same amount of known resources.

¹There is one exception. The rule does not apply to harm that occurs as a result of market competition. Examples of harm due to market competition are (1) the opening of a new convenience store that causes an old convenience store to make losses, (2) competition from new workers that reduces wages to existing workers, and (3) competition from one consumer that raises the price to other consumers.
Money

Under a private property system and specialization, each specialized subject offers in exchange either his services or the goods he produces. He obtains goods or resources that he wants only by agreeing to produce and/or exchange goods or services with others. In a barter society, each person would trade his goods directly for those of other specialists. In the market economy, the exchange takes place with the aid of money. For this reason, we call it indirect.

Money is the item that subjects accept in exchange because they believe that others will also accept it. Unlike other items, which are wanted for their value in use, the money item is wanted for its value in exchange. Because of its value in exchange, money is often said to have three functions: (1) medium of exchange, (2) store of value, and (3) unit of accounting. Today, money consists almost entirely of paper money, token metal coins, and transferrable bank deposits. These either have negligible use value or no use value at all.

Because we define money as an item that has value in exchange, the purchasing power of money (i.e., the goods that a person can obtain in exchange for a given amount of money) at a given time derives from people’s predictions that it will be accepted by others in the future. Each person’s prediction, in turn, is based partly on his unique knowledge of the past and his unique capacity to predict the future actions of buyers and sellers.

Perhaps the most underrated function of money is its unit-of-account function. It is often useful to break down the unit-of-account function into two sub-functions. The first is reckoning, or calculating benefits and costs and therefore profit. The second is signaling, or telling others about one’s willingness to give up some good or service or to accept it in exchange.

If no particular item was widely accepted as money, there could be no market economy. The same is true if the people of a society were totally unfamiliar with money or if they did not know how to use it to calculate and signal.

Capital Accounting

Because people use money, they can make complex calculations of profit and loss through time. In other words they can engage in capital accounting -- using a rate of interest to compare the revenue and costs that are expected at one time in the future with those that are expected at a different time. Capital accounting enables businesspeople to compare the alternative uses of different resources at different times and to make more correct judgments about the prospects for earning profit in lines of business from which they expect revenue at different times in the future. It also enables a consumer to more easily compare different goods that she expects to yield services for different periods of time. For example, suppose that the interest rate on a new car is very high. They a consumer may prefer not to commit herself to making the monthly payments; she may expect to get more value from taking public transportation and using her savings for other purposes. Capital accounting also makes it easier for prospective employees to calculate the long-term benefits of taking a job and thus makes it easier to compare different jobs. Finally, it facilitates saving by enabling savers to compare the alternative investment opportunities, that they expect will enable them to more fully satisfy their future wants.

We should distinguish capital accounting from capital goods. Capital accounting is the action of comparing money revenue and costs. Capital goods refer to nonhuman resources.

Barter society: a society in which individuals acquire goods directly by trading their own goods for those of others.

Money society: a society in which individuals acquire goods indirectly by trading their goods for money and then their money for the goods of others.

Capital accounting -- using a rate of interest to compare the revenue and costs that are expected at one time in the future with those that are expected at a different time.

A token is a coin that is worth much more in exchange than the amount of materials contained in it are worth. For example, the copper in a one-cent coin may be worth only .1 cent.
Free Enterprise

Free enterprise means that, with some exceptions, individuals are free from coercion to enter into any kind of business they wish, to apply for any kind of job, to buy and sell, and to make binding contracts. Individuals have the legal right to employ their own resources or the resources obtained from others to produce and sell their products. Free enterprise rules out slavery but, with this limitation, allows individuals to enter into specific contracts that require them to perform specific services, to supply specific goods, or to pay money subject to penalties they specify. The condition of free enterprise implies that every worker, producer and consumer faces potential competition in exchange from others. Suppose that one seller of shoes is, at the moment, able to charge a very high price in relation to his costs. Free enterprise means that another seller can and probably will enter the market to compete with the first. Although the original shoe seller will be harmed by this, consumers will gain. And, as we shall see, the consumer gain, in terms of money, is greater.

2. THE ORIGIN OF THE MARKET ECONOMY

The Private Property System

The modern private property applies to all individuals, regardless of race, personal beliefs, status in the society, or power. This system emerged on a wide scale only recently in human history. Consider the rule that a person who used his own labor to produce a good or service has the exclusive right to benefit from its use. This rule could not emerge until another rule emerged, namely, that individuals are equal before the law. This rule emerged mainly in some relatively peaceful Western countries during the last three or four centuries. It is contrary to the previous system in which rights to goods were assigned by family name, race, religion, and military power.

In England, the emergence of equality before the law was a consequence of the application and gradual extension of the people's, or common, law. Beginning in 1066, the King established judgships to help people in local villages resolve disputes. Over the years, judges were asked to make numerous judgments about the liability for harm due to the use of property and the right to partake in the benefits of using property. The succession of judgments over hundreds of years eventually led to a set of reasonably consistent rules for determining ownership rights. Especially important were the rules pertaining to newly discovered and newly produced resources. Through a succession of judgments, judges ultimately came to assign the rights to the discoverer or producer. They reasoned that but for the action of the producer, the new resources would not have been produced in the first place. Since a person’s discovery of new resources harms no one and typically benefits many who had no part in their discovery, judges reasoned that awarding the initial ownership rights to the discoverers was the best way to encourage new discoveries and inventions. The same was mostly true of producers. Assuming that there were no extenuating circumstances, Judges came to assign the ownership rights to a good to the producer.

Outside of England and its territories, equality under the law often emerged through revolution or through attempts to avoid a revolution by rulers wanted to avoid a revolution. In many nations today, the private property system is still not firmly established, largely because equality under the law is not a well-established principle. Of course, complete equality under the law is an ideal. It does not exist in any society. Societies differ in their approximations to this ideal.

Specialization

There seems to be only a short step from the division of labor and specialization within a family to specialization in a clan and even a larger community. Trade between members of a family seems easily extended to less personal barter between the members of different families in the same community, and then to impersonal barter between members of different communities. The basis for such barter is specialization. One family or clan specializes in producing one type of commodity while a second specializes in producing a different type of commodity. The step is longer than it first seems.

We can compare the specialization that occurs in conjunction with trade with the "gift exchange," which has existed for thousands of years and which continues in the less advanced societies even today. In an organized inter-community gift exchange, members of one community hand over goods periodically to
members of another community while the others hand over different goods to them in return. The gift exchange is a means through which members of different communities can gain from specialization. A coastal community, for example, can exchange shells, dried fish, and coconuts, for example, for the clay pottery and animal bone tools of the people in a mountain community. But the gift exchange differs from the money-based specialization and trade that occurs in a modern capitalist society. The gift exchange ordinarily implies a ritual-based obligation to reciprocate. In a modern trade of goods for money, there is often no obligation to reciprocate. If reciprocation is part of the deal, it is negotiated. It typically becomes part of a contract, although the contract need not be formal and legally enforceable. For example, the exchange of a loaf of bread for money is ordinarily simultaneous. No reciprocation is required. If a person buys a car through an installment contract, he receives the car today, but he is ordinarily obligated by the contract to make a monthly payment for, say, three years. If he fails to make a payment, the seller can reclaim the car.

If specialization exists, there is already a basis for trade. And each party will gain. But even if there is no specialization at first, the facts (1) that different individuals face different opportunities and (2) that they have the potential for specializing means that they will have an incentive to specialize in order to gain from trade. This incentive is provided by the private property system, as described above.

Money

We can best grasp the medium of exchange function of money by thinking about a society in which the barter becomes increasingly complex. We can imagine that as the number of barter exchanges increases, some item would emerge as money in order to enable traders to reduce their costs of making transactions. In a specialized system, each specialist would have to barter his specialized good or service for the specialized goods and services of numerous other specialists. When specialization became sufficiently complex, a person would quickly discover that some specialists would give him a better deal if he bartered with certain specialized goods that are more marketable than others. At this point, the exchange value of some items would come to depend not only on what people regard as their use value but also on their marketability. The more marketable items would thus emerge as money. When an item’s value to people is due partly to its exchange value, we say that it is being partly used as money.

We can best grasp money's store of value function by focusing our attention on saving. In a community of self-sufficient families, each family would be reliant on its own saving of goods. Suppose that a family wanted to store food for future use. Then, it would have to produce the food and put it aside in spite of high storage costs. Now assume that the community consists of specialists who trade. In this event, the family might expect to be better off if it did not store food. If it stored some other item for which the storage costs were low and yet was sufficiently marketable to enable it to buy food in the future, it could achieve its goal of having future food with less sacrifice. People could store marketable items when they were young and exchange them for goods when they grew too old to earn income.

The most suitable items for storage and exchange, other things equal, are those that are cheap to store, small in relation to their value, divisible, and capable of easy quantitative measurement. Because gold and silver possess these properties, they have been the major forms of money historically. Recognizing such valuable qualities as durability, storability, divisibility and so on; individuals found it profitable to make gold and silver into coins.

It is important to realize that the marketability of an item and its use as a means of storing value derive from the expectations that people have about the goods and resources for which the item can be exchanged. Suppose that an item functioned as money in the past but that people now expect that at some point in the future, sellers of goods will stop accepting it in exchange. Then they would not use it as a store of value. At the same time, it would become less accepted in present exchange. The prices of goods would rise in terms of the money item. There would be inflation in the modern sense of this term. The almost exclusive use of paper money today is a testament to the high degree of trust that

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people have in the future purchasing power of the paper. To a much lesser extent it is due to the low cost of producing it in convenient denominations.

In all modern societies, children learn to use money at an early age. They realize that they can more effectively satisfy their wants by first acquiring money than by trying to become self-sufficient or by using barter exchange. They also learn to predict the future prices of goods in terms of money. If this learning did not occur, there could be no market economy.

**Freedom of Enterprise**

In 17th and 18th century European towns, there was private property and specialization but the government often restricted the freedom of people to start new businesses. To become a shoemaker, for example, one's family had to already be in the business. Or a newcomer had to get permission from existing shoemakers. Sometimes, the government or existing shoemakers would permit a newcomer but only after many years of apprenticeship. The same might be true for other "professions" such as tailoring, baking, brewing beer, and building houses. Even today, many of the modern capitalist societies of the world have license requirements for doctors, nurses, hairdressers, building contractors, and so on. If there was complete free enterprise no such restrictions would be present.

As we look back into history, we observe that private property rights, specialization, the use of money, and freedom of enterprise are closely associated with material wealth. Other things equal, the people in the societies in which these conditions were present to a greater degree ordinarily experienced what they regarded as greater material wealth than those in which they were present to a lesser degree. In short the people in the market-based nations of the modern world have been more wealthy on average than their non-market counterparts.

### 3. ROLES IN THE MARKET ECONOMY

In the market economy, an individual must earn income before he can satisfy his wants. By classifying the ways to earn income, we can build an image of the fundamental roles in the market economy. First, a person may earn income by hiring out resources that he owns. This includes his work, or human resources, and his capital, or material resources. In this case, we say that he is acting in the role of a resource supplier.

Second, he can self-employ his resources and/or hire others' resources in order to produce a saleable good or service. The income he earns equals the revenue he receives minus his money costs. In this case, we say that he is acting in the role of a producer. Since no one in a market economy would produce a good without expecting to sell it, the concept of producer implies that the producer is also a seller of the good he produces.

Wants are spread out through a time dimension. When an individual makes a decision to earn income, he is thinking not only about satisfying his wants in the immediate future, he is also thinking about the more distant future. In addition, he may be thinking about paying off debts that he incurred in order to satisfy past wants. The proper economic terms to use here are "consume" and "save." When an individual plans her income-earning, she is thinking simultaneously about acting in the role of the consumer and the saver. A consumer uses her money to buy consumers’ goods and then consumes them. A saver sets some of her money aside, expecting that it will be used in the future to buy consumers’ goods. Because some people are usually willing to pay a premium to borrow money, it is possible to earn an interest income from saving.

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<th>Roles in the Market Economy:</th>
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<td>1. Resource supplier -- a person who hires out his work or other resources.</td>
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<td>2. Producer: a person who produces a saleable good.</td>
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<td>3. Consumer: a person who buys a good for the purpose of consuming it in the near future.</td>
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<tr>
<td>4. A person who sets aside some of his income in order to buy goods in the future.</td>
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We can say that action in a market economy consists of four fundamental roles: (1) resource-supply, (2) producing, (3) consuming, and (4) saving. There are many variations of these categories of fundamental economic action. Some of these are discussed later in the text.

4. THE PURE MARKET ECONOMY

In the real societies of the world, the characteristics of the market economy are present to different degrees. In some communities -- the neighborhoods of the current Hong Kong, for example -- the market economy dominates. People respect private property rights, practically everyone specializes in producing some product or service. Hong Kong dollars are used in exchange, and foreign exchange dealers are open for business around the clock to sell the dollars to visitors. In other communities, the market economy is less significant. In some remote villages of Papua New Guinea, the idea of private property hardly exists, specialization is limited or dictated by tradition, and people are unaccustomed to using money.

Incomplete Property System

No society perfectly satisfies the conditions of the market economy. Private property rights are always “incomplete.” There are four reasons. The first is that it is either physically impossible or very costly to enforce the private property rights that would be necessary to enable producers to appropriate the full benefits of their property and to fully compensate others who are harmed by the property’s use. Consider such material property as clean air and an ocean full of minerals and food materials. Or consider the sound, light, radio and TV waves. It is either impossible or very costly to establish and enforce private property rights in these things.

Second, people pass laws or follow traditions that make otherwise private property common property. One example is a collective of community members who agree to pool their money to buy a piece of land for a government building, park, or school. A second is a developer of a new housing community. He agrees to donate to a civic association, the streets, parks, a sewer system and other property that homeowners use in common. Each home buyer is automatically a member of the association.

A common property resource refers to a resource for which members of a community have not decided to incur the costs of establishing and enforcing private property rights. As a result the resource is the common property of the members of the community instead of their private property. Some police services, such as locating lost children or intervening in family disputes, also fit into this class. The distinguishing feature of a common property resource is that no single person can decide how it will be used by others. Either each person uses the resource independently at his own discretion or a collective decision is necessary to regulate use. To make a collective decision requires some kind of collective decision making-rule, such as a majority vote.

A third reason why private property rights are incomplete is the presence of public goods. This term is usually employed to refer to a good that possesses two characteristics. On the one hand, if a person produces it, his action will benefit a number of people simultaneously. On the other hand, the producer cannot exclude the beneficiaries from sharing in the benefit; or the costs of doing so are very high. Examples are a dam or flood control project, a new marketing technique, and a discovery in basic science or technology. National defense is often cited as a public good. So is a lighthouse.

A fourth reason for the incompleteness of private property rights is personal freedom. In a free society no human being can own another human being or order the other to perform some action. Consider the case of an employer. An employee always can always refuse to follow an order. The employer may refuse to pay wages that would otherwise be due but he cannot force the employee to work.

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<th>Why a private property system must be incomplete:</th>
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<td>1. It is physically impossible or very costly to enforce some private property rights.</td>
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<td>2. There are common property resources.</td>
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<td>3. There are public good.</td>
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<td>4. Personal freedom means that no one can completely control another person's actions.</td>
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Market economies contain common property resources and public goods. To treat the market economy fully, we shall have to discuss them. We also will have to consider the special problems that arise in an employment agreement because an employee has the freedom to not follow an employer's orders and to quit. However, it is best to deal with these cases after we have illustrated other properties of the market economy. Thus, we define the pure market economy as a situation in which such things do not exist. In other words, we assume that in the pure market economy, the private property system is complete.

**Enforcement of Private Property Rights and Other Goals**

The market economies of everyday life are mixed with other forms of social interaction, isolated action, and non-action. Modern capitalist societies also contain family interaction, peer group interaction, political interaction, barter, routine behavior, and purposeless behavior. In open, market-oriented democracies like the U.S., the respect for private property is partly institutionalized in a formal legal system. However, the same legal system that helps to enforce private property rights also enforces laws that help a country to defend against an external threat, to redistribute income, to regulate behavior, and to enforce other taxing and spending projects decided by democratically-elected representatives. It is inevitable that conflicts between the enforcement of private property rights and the administration of these other programs will arise. In such cases, the enforcement of private property rights may not be the first priority. In the image of the pure market economy, we disregard these other programs. We assume that the only goal of the legal system is to enforce private property rights.

**Government and Cultural Intervention**

In all countries, the government owns some enterprises that would otherwise be private businesses. It also regulates various industries and often sets prices. The traditional term in economics for government ownership of enterprises and regulation is *government intervention*. Because of it, the scope of the market economy is less than it could be.

Another type of intervention is cultural intervention. Cultures and religions often have taboos or prohibitions against various kinds of activities, such as prostitution, gambling, and various sexual activities. Even if there are no laws against these things, the people themselves may threaten violence or other social sanctions against those who supply or demand them. As in the case of government intervention, there is less scope for the market economy than there could be.

To build an image of each government and each culture would present us with a formidable task. Fortunately, economists have already built a number of images of otherwise pure market economies that contain interventions. We shall consider some of these later in the text. For the next few chapters, however, we shall discuss only the pure market economy in which we assume no such interventions exist.

**5. WHY STUDY ECONOMICS**

Why study economics? The answer is that we want to be able to identify situations in which government intervention in the market economy will improve or worsen matters. Politicians, government officials, and ordinary people often recommend laws that they believe will correct for problems caused by market interaction. Or they recommend that market interaction be supplemented by government programs that have effects on market interaction. Examples are laws that aim to correct for natural monopoly, for external effects such as pollution and congestion, and for the insufficient market supply of public goods, such as city streets and parks. In addition, laws that are made for other purposes often have indirect effects on the market economy. An example is taxes on the rich in order to benefit the poor. The rich may respond by reducing their productive activities in general or, more specifically, by diverting some of their activity toward the avoidance of taxes. The poor may respond by also reducing their productive activities and by diverting their activity toward establishing and maintaining their eligibility for benefits. We need a framework, or theory to help us predict the effects of such laws.
In evaluating laws, the abstract image of the market economy is such a framework, or starting point. To complete the work, we must make specific assumptions and hypotheses about the people and how they will behave. Economists may disagree about these assumptions or hypotheses. Thus there is scope for conflict and consensus. However, if we succeed in identifying the general characteristics of the market economy, there should be little disagreement over the abstract theory.

6. PLAN OF THIS BOOK

Chapters Two to Five of this text introduce the most fundamental concepts of economics. Chapter Two defines wants, goods, and related concepts. Chapter Three does the same with resources. Chapter Four introduces specialization. It shows how people gain from specialization and, therefore, why they choose to specialize. Chapter Five expands the discussion of the most important resource in the modern market economy: human capital.

Chapters Six to Eight deal with the question of how the various resources in a market economy come to be coordinated. Chapter Six sets the stage by comparing coordination as it occurs in the solitary actor and in the hypothetical command society with a preliminary discussion of how it occurs in the market economy. Chapter Seven shows the special coordinating character of human capital. And Chapter Eight defines the role of the entrepreneur, which is ultimately responsible for all coordination and planning in the market economy.

To comprehend the crucial role of the entrepreneur, we must first contemplate the routine or automatic coordination that economists have traditionally represented in their models of markets. Because these models have played such a large role in the teaching of elementary economics, Chapters Nine to Twelve give a rather detailed description of the most basic model. This is a model of a entrepreneurless economy. Chapter Nine introduces the notions of demand and supply. Chapter Ten describes the relationship between the routine firm and the industry. Chapter Eleven shows how this model is used to represent the effects of economic change. And Chapter Twelve shows how the model can be used to elucidate the effects of a particular form of government intervention: price controls.

Chapters Thirteen and Fourteen return to the theme of coordination by introducing the pure entrepreneur and the modern firm. Chapter Thirteen builds an image of a pure entrepreneur economy in order to supplement the model of competition in the entrepreneurless economy. It emphasizes creativity and invention in the functions of identifying and appraising resources, undertaking a production-sales project, and uncertainty-bearing. Chapter Fourteen expands the discussion of entrepreneurship to introduce the modern theory of the firm. It provides a sharp contrast with the concept of the firm presented in Chapter Ten.

Chapters Fifteen, to Eighteen discuss three common arguments for government intervention in the market economy. Chapter Fifteen presents the case for regulating or otherwise trying to control monopoly. Chapter Sixteen discusses the case of regulations to deal with the externality problem – the problem that because property rights are always incomplete, ordinary production actions have external effects. Chapter Seventeen discusses the common property resource problem. Chapter Eighteen presents the theory of public goods.
Questions for Chapter 1

1. Define the following terms (each is a separate question): economics, specialization, indirect exchange, capital accounting, signaling, reckoning, resource supplier, producer, consumer, saver, common property resource, public good.

2. What do we mean when we say that human beings are purposeful?

3. Could there be an economics of animals? Explain.

4. Tell the four conditions of the market economy under which economists assume people act.

5. Tell the two characteristics of the private property system.

6. Tell the meaning of the statement “Susan owns and controls the trees within 50 meters of a Mountain Lake.”

7. What is the opposite of indirect exchange?


9. What are the three functions of money?

10. Explain how money helps in capital accounting.

11. Distinguish between the reckoning and the signaling function of prices.

12. Distinguish between a gift exchange and an economic exchange.

13. Tell why private property rights are always incomplete.

14. Give an example of a public good and show that it has the two characteristics that a public good must have.

15. Distinguish between government intervention and cultural intervention in a market economy.

16. According to the text, why should one study economics?
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