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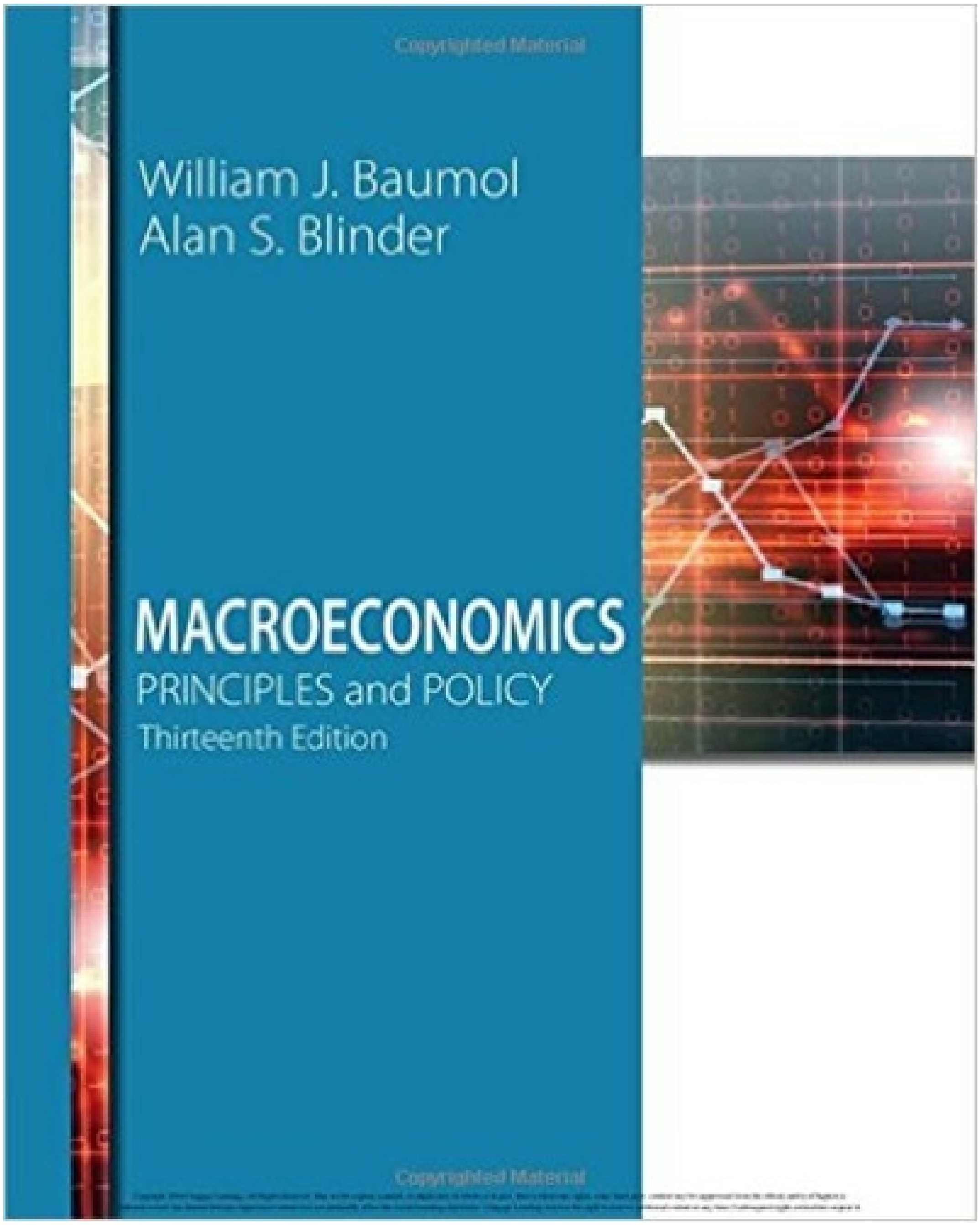

Solutions

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CHAPTER 2

THE ECONOMY: MYTH AND REALITY

DISCUSSION QUESTIONS

1. **Which is the biggest national economy on earth? Why has it remained bigger than other countries with much larger labor forces or those with higher per capita incomes?**

   The United States is the country with the largest economy in the world. The relatively large population in the U.S. is a contributing factor but productivity of workers and accumulated wealth are significant reasons why the U.S. economy is so large.

2. **What is meant by a "factor of production"? Have you ever sold any on a market?**
   A factor of production, or input, is something that is used to produce a finished good known as "output." There are several possible answers, but probably most students have been employed in some capacity (babysitter, paperboy, or a campus job), so they have sold their labor in the market to produce output.

3. **Why do you think per capita income in Connecticut is nearly double that in New Mexico?**

   There are several possible answers to this question—the question is designed to get students to think about these differences before using models. One straightforward answer is that the factors of production in Connecticut produce output that is worth more than what is produced in New Mexico. This could be because labor is more productive in Connecticut because of a better educated workforce. Another answer is that the cost of living is higher in Connecticut than it is in New Mexico.

4. **Roughly speaking, what fraction of U.S. labor works in factories? In service businesses? In government?**
   Roughly 14 percent produce goods, 70 percent are service workers, and approximately 16 percent work in federal, state, and local government.

5. **Most American businesses are small, but most of the output is produced by large businesses. That sounds paradoxical. How can it be true?**

   While there are many small businesses in the U.S. economy, the value of what they produce is relatively small. For example, a local grocer cannot produce the same amount as a large national grocery store. It would take several small grocers to match the production of a large store. So, while a large retailer like Wal-Mart is considered to be one business, its production exceeds that of a smaller business.

6. **What is the role of government in a mixed economy?**

   The government is a referee—it enforces laws and establishes order. The government is a business regulator—it imposes restrictions on businesses on society's behalf. The government provides security through national defense. The government levies taxes to finance its spending. Finally, the government redistributes income from high income households to lower-income ones.

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