Answers to End-of-Chapter Review Questions

1. The two main functions of public purpose organizations are regulation (setting rules or standards) and direct provision (taking on economic activities).

2. The three main types of public purpose organizations are government organizations, domestic nonprofit organizations, and international organizations.

3. Some of the main activities of state and local governments include providing: health services, public schools, police and fire protection, utilities, local transportation, parks, roads, social welfare and economic development programs, and courts.

4. Some of the main activities of the U.S. federal government include: providing national defense, international diplomacy, regulating commerce, administrating taxes and transfers, regulating interstate transportation, guaranteeing loans to university students, funding basic research, and administering social welfare programs. The federal government is also involved in the postal service, parks, and conservation of natural resources.

5. The four main types of domestic nonprofit organizations are public-benefit service and action, member-serving, religious, and funding intermediaries.

6. Some of the major characteristics of U.S. policies regarding social welfare in the time periods:
   i. Before the late 1800s—Problems were either left to religious charities and local municipalities or not addressed at all.
   ii. The late 1800s till the early 1920s—Many government programs concerned with social welfare and economic regulation, such as resource conservation, workers rights, and the regulation of food safety, were enacted during the Progressive Era.
   iii. The 1930s—The beginning of many federal social welfare programs under the New Deal, including Social Security, workers’ compensation, and increased labor union protection. However, the programs were limited in scope and failed to provide a safety net for many groups.
   iv. The 1960s—The “War on Poverty” program as part of Lyndon Johnson’s “Great Society.” The era saw more federal involvement in employment and training, social service and housing aid for the disadvantaged, and the financing of health care for the elderly and the poor.
   v. Since the 1970s—Federal spending on the poor has declined, while spending on nonmeans tested programs and health has grown.

7. Federal regulation of U.S. businesses first came about in response to the excessive power of monopolies (such as railroads and Standard Oil) in the late 19th century. The Sherman Antitrust Act (1890) outlawed price fixing and forbade monopolization. The Clayton Antitrust Act (1914) prohibited certain practices that created barriers to entry
and outlawed mergers that threatened competition. The Federal Trade Commission (FTC) was established in 1914 to investigate and act on violations of the law.

8. International trade coordination first came about to reduce tariffs and settle trade disputes after World War II. The General Agreement on Tariffs and Trade (GATT) followed, superseded by the World Trade Organization (WTO) in 1995.

9. In the early years of the 1900s a particularly severe spate of bank failures and bank panics led to the establishment of the Federal Reserve. In the 1980s, massive failure of many Savings and Loan Associations after deregulation cost the government billions of dollars in guarantees on deposits.

10. The Securities Act of 1933 was the first federal act to regulate trading in stocks and bonds. It specified full disclosure to protect investors from fraud and promoted “efficiency, competition, and capital formation.”

11. Some important events in the history of environmental protection include the conservation movement during the early 20th century leading to a doubling of the number of national parks under Teddy Roosevelt; the publication of Silent Spring in 1962 leading to increased public awareness of the problems of pesticides and other pollutants; the formation of the Environmental Protection Agency in 1970 leading to improvements in many aspects of environmental quality; and the issue of global warming in the 21st century leading to all industrial counties except the United States to agree to reduce their emissions of greenhouse gases.

12. Some arguments for making government smaller include businesses can provide some services at less cost and of higher quality than the government, because of the profit incentive and government regulation is unduly burdensome on business. Some arguments for having a large role for government in the economy include the following: some services are difficult to define in terms of dollar values of inputs and products; it is hard to induce the business sphere to provide sufficient public goods, or to set prices to take account of externalities; and the government may be less likely to cut costs or reduce quality for some services.

13. Three theories about the behavior of organizations in the public purpose sphere are the theory of pure public service (organizations act in the interests of the common good), the theory of pure special interest “capture” (organizations are taken over by special interests), and the theory of civic responsibility (public-oriented values and active citizen participation are possible, and are vital for the healthy functioning of public purpose organizations).

Answers to End-of-Chapter Exercises

1. a. Both are “nonexcludable,” but open access resources may be diminishable, while public goods are not. Examples of open access resources include the atmosphere’s ability to absorb pollution, the fish in the oceans, and the water in a river.
Examples of public goods include national defense, air (in general), and knowledge.

b. Regulations are sets of laws or standards to govern the behavior of economic actors, while direct provision is undertaking an economic activity directly. Examples of regulations include air pollution laws, standards for financial transactions, and meat inspection rules. Examples of direct provision include charities distributing money, Social Security, and tuition grants.

c. *Tax-exempt* means an organization does not have to pay any tax. *Tax-deductible* means that a donor does not have to pay taxes on contributions to an organization. Examples of tax-exempt organizations include charities, religious organizations, and organizations that are not heavily involved in lobbying and political campaigning. Examples of tax-deductible donations include contributions to most charities and religious organizations.

2. a. False—Other nonprofits can regulate economic activity, especially setting standards.

b. False—Only about 1% of U.S. federal employees are involved in education and research.

c. False—Nonprofits include a wide range of organizations, such as hospitals, trade associations, political parties, funding intermediaries, and educational institutions, supported by fees and government funds as well as donations.

d. False—The U.S. Social Security system was set up during the Great Depression in the 1930s.

e. False—The federal government decided to regulate markets in stocks and bonds to promote competition and capital formation.

f. True

3. Depending upon which issue a student chooses, data may be scarce or abundant. A good place to start may be an Internet directory of nonprofits, such as idealist.org or Guidestar. Students can also search trade association directories and lists of government agencies (which should be easy to locate for most states). A directory of unions is available at unions.org. Other directories can be located for religious organizations, environmental groups, and educational institutions.

4. The correct matches are a→viii, b→x, c→iv, d→iii, e→vii, f→i, g→ix, h→v, i→ii, j→vi.

5. Government employment data at all levels can be found at from the U.S. Census Bureau at [http://www.census.gov/govs/www/index.html](http://www.census.gov/govs/www/index.html). Students may need to combine data from different sources on this page. A “Compendium of Public Employment,” published every five years, contains all the necessary information. However, more recent annual data may be available on the web site.