Answers to End-of-Chapter Exercises

1. a. You use a changing room to try on clothing; you leave bags from other stores at the counter; you don’t try to negotiate price.
   b. A music store; an Internet site
   c. An acceptance of materialism; the view of workers as consumers; individualism; instrumental rationality; new worker traits such as punctuality and acceptance of authority
   d. Explicit contracts; implicit contracts; credit bureaus; quality monitoring; escrow accounts
   e. Railways; highways; air traffic control
   f. Computers; telephone lines; fax machines; radio; television
   g. Seashells; precious metals; carved stones

2. a. Wal-Mart; Safeway; Mobil
   b. New cars; new CDs; fresh vegetables
   c. Used cars; used CDs; used textbooks
   d. Unprocessed timber; assembly line equipment; crude oil, employees
   e. Drugs; cigarettes to minors; prostitution
   f. eBay; auction houses; livestock auctions
   g. Used cars; flea markets; many markets in developing countries

3. The correct matches are 1→ii, 2→vii, 3→iv, 4→vi, 5→iii, 6→v, 7→i.

4. a. Most commerce would probably grind to a halt. People would be forced to rely on barter or create a new system of money.
   b. Commerce would slow down greatly as buyers would be suspicious of the quality of all goods and services, unsure that goods will be delivered as promised, and not believe that warranties or exchange policies will be honored. Sellers will also be unsure whether checks or credit purchases will be valid. Complaints and fraud would increase, requiring greater enforcement of laws and regulations. Of course, if the regulators were also corrupt, an economic system could degenerate into social anarchy rampant with corruption and violence. Buyers and sellers might only deal with actors that have a reputation of honesty.
   c. People would likely become ill or die from poor quality or contaminated products. Some might resort to their own testing or private companies might certify the quality of products.
   d. Goods and services would mostly be traded only in local markets. People would not have access to imported fruits and vegetables or other products that could not be produced locally. Very wealthy buyers may still have access by arranging their own transportation.
   e. Again, commerce would slow down greatly. Long-distance commerce would be much more difficult, increasing reliance on local markets where personal communication is feasible. Other forms of communication (couriers, telegraph, etc.) could be revived.
New small businesses will not be formed and innovative new products would not be developed. In response, a private organization or government agency might be given this task.

This might be a tough question and is probably best assigned to students with a strong liberal arts background. The point of the question is to draw out the conflict between the neoclassical ideal of free markets and ethical systems of fairness. Ways to reconcile the two approaches may focus on letting the market determine the prices for some goods and services while relying on other means of distribution for others. For example, the market for designer clothing may well be left to market forces without significantly affecting the well-being of most people, while markets for basic necessities such as food and shelter could be governed by concerns about fairness. Ways to fairly distribute goods and services include giving low-income households coupons or rebates, provisioning through public, rather than private, entities, and price controls. Issues involved would include who would be eligible for these benefits, what goods and services would be covered, and enforcement of rules. One would also have to decide which system of equity would be pursued (see Chapter 9).