Answers to End-of-Chapter Review Questions

1. Customary organization uses traditions and habits to answer the basic economic questions (e.g., parts of rural Africa, Asia, and Latin America). Consensual organization occurs when people come to democratic, explicitly negotiated agreements about what, how, and for whom. While consensual organization has not arisen at the national level, the collective kibbutzim in Israel and some religious communities in the United States have been organized this way. Administrative organization involves the delegation of decision-making authority to some person or agency, often a bureaucracy. Every nation relies on administration to some degree, but administration is particularly prominent in command economies such as Cuba and China. Exchange is a mode of organization in which people trade one thing for another, often through established market institutions. Exchange is prominent in market-oriented economies such as the United States and South Korea.

2. Individual ownership is the ownership of productive assets by individuals and families, such as a business owned by an individual. Corporate ownership is the ownership of assets by shareholders, such as with Ford Motor Company or Microsoft. Cooperative ownership is ownership of assets collectively by a group of people, such as a dairy cooperative where each farmer owns an equal share of the cooperative’s assets. Government ownership is ownership of assets by an agency of government—in principle, on behalf of the people represented by that government. For example, the U.S. government “owns” National Parks and military equipment on behalf of American citizens.

3. Capitalism is a system characterized by a great deal of private ownership (either individual or corporate) of productive assets. Socialism is a system characterized by a great deal of shared, public ownership (either cooperative or state) of productive assets. In contemporary economies, corporate ownership tends to predominate over individual ownership, in terms of employment and the value of productive assets. Within the categories of shared ownership, state ownership tends to predominate over cooperative ownership.

4. The two major types of corporate capitalist systems are laissez-faire capitalism (a national system characterized by private corporate ownership and a great reliance on exchange as a mode of organization with relatively little organization by public administration, e.g., the United States and the U.K.) and administrative capitalism (a national system characterized by private corporate ownership and a substantial reliance on public administration, as well as exchange, as a mode of organization, e.g., Japan, Sweden, and France).

5. The two major types of state socialist systems are market socialism (a national system in which state ownership predominates, but much activity is organized by exchange, e.g., China) and administrative socialism (a national system in which state ownership predominates and activity is primarily organized by public administration, e.g., North Korea and Cuba).

6. In the United States and U.K., development during the Industrial Revolution began from a wealthy economic base of raw materials and commercial systems. Early economic growth
was destabilizing for much of the population, leading to social legislation to protect the poor, workers, children, and others. The trend towards an increased government role continued until the 1960s, when the pendulum shifted towards privatization and deregulation. In the European “welfare states,” state agencies actively helped private business to make use of new technologies and to adopt more efficient practices. Government provisions of health care, education, and a wide array of social services are common, generally with universal entitlement. While movement away from some programs has been evident in the last two decades, the form of capitalism in the welfare states remains significantly different than that found in the United States or the U.K. Japan and the NICs demonstrated rapid export-oriented economic growth after World War II, generally due to close partnerships between industry and government. Tariffs and other trade barriers were used to protect home markets until they could compete under world competitive conditions. Russia and Eastern Europe relied heavily on state planning, geared towards heavy industry and military production. After the collapse of communism in the early 1990s, a strategy of “shock therapy” was used to bring about a market system as rapidly as possible. This has been unsuccessful because of a lack of social, legal, and financial infrastructure. China has gradually shifted from administrative socialism to a more market-oriented form of socialism. Economic growth has been concentrated in enterprises outside of the central state sector, but problems with inequality and environmental degradation exist. Many of the less industrialized countries were initially colonies, putting them at an economic and institutional disadvantage when they finally gained independence. The state plays a significant role in many of these countries, while others are unstable, without much governance at all. Often, the economy serves the interests of a powerful elite rather than the welfare of the public.

7. High-income countries include the United States, the U.K., and Japan; medium-income countries include Russia and Brazil; while low-income countries include China, Indonesia, India, Vietnam, and Nigeria. Child mortality is low in the United States, the U.K., and Japan, although the rate is slightly higher in the United States. Child mortality is moderate in Russia, Brazil, China, and Vietnam (despite a low income level). Child mortality is highest in countries such as India and Nigeria. Environmental impacts are the highest in the United States (as measured by carbon dioxide emissions per capita), moderate in Japan, the U.K., and Russia, and (comparatively) low in China, Brazil, and especially Indonesia, India, Vietnam, and Nigeria.

Answers to End-of-Chapter Exercises

1. This question is essentially the same as the second end-of-chapter review question. Individual ownership is the ownership of productive assets by individuals and families, such as a business owned by an individual. Corporate ownership is the ownership of assets by shareholders, who own ownership rights in proportion to the number of shares they hold. For example, Ford Motor Company is owned by its shareholders, with those owning the most shares having more power in company decisions. Cooperative ownership is ownership of assets collectively by a group of people, such as a dairy cooperative where each farmer owns an equal share of the cooperative’s assets. Government ownership is ownership of assets by an agency of government—in principle, on behalf of the people represented by that
government. For example, the U.S. government “owns” National Parks and military equipment on behalf of American citizens.

2. You may need to help students locate relevant articles. Potential sources include periodicals like *The Economist* magazine or the *Wall Street Journal*. Students can use search electronic engines, such as Lexis-Nexis, and focus on keywords such as “capitalism” and “socialism.” Probably most of the articles students locate will be packed with ideological arguments. You could ask them to identify those statements which are purely ideological and which are primarily objective and supported by facts.

3. Basic statistical and descriptive information about countries can be found in library and web resources published by the World Bank and United Nations. The graphs in this chapter were taken from the *World Development Indicators* electronic database—you may want to see if your library subscribes to the electronic version, or at least has a paper copy. Another useful starting point is a country’s embassy to the United States. The web site www.embassy.org provides information about all countries that maintain embassies in the United States, generally with links to more information about the country. The *CIA World Factbook*, published annually, is available on the Internet and includes a summary of the economic system and conditions in each country.

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