

Inter Student

One: Economic Systems, Consequences, Laws & Privileges, Laws of Behavior, How we Value

Arbiter: _____

Student: _____

Group: _____

Period: _____

Date: _____

Beginning the Cycles

Political Economy, or **Economics** is the social science that analyzes the production of wealth and who gets it. It studies how we cooperate with each other to produce the basic necessities of life.

The science poses a question rarely answered. *Why, with the enormous increase in our ability to produce, is it so difficult to make a living?*

Modern economists offer two major systems of economic cooperation, **market** and **command**. A third economy is sometimes introduced – the **traditional** economy. A good example is the **feudal** system.

However, the ‘traditional’ is less an economic than a political circumstance, so we won’t consider it at this

time. We’ll concentrate on the two major systems.

In a **Market Economy**, the exchange of goods is determined by individual people acting freely in their own interests. In a **Command Economy**, government planners reduce individual choice, redirecting production towards centrally chosen national priorities.

A **market economy** operates under the rule of **Law**. A **command economy** operates by the enactment of **Privilege** (see below).

As do other scientists, the economist looks for **consequences** – things that result from something else. He is particularly interested in a consequence that always happens, which she calls a **Natural Law**.

1a: Consequences

Argument: Two events that occur one after the other is called a **sequence**. If one is the result of the other it is called a **consequence**. When a consequence always occurs, it is called a **Natural Law**.

A sequence may look like a consequence because it’s dramatic. For example, you kick a witch doctor and the volcano erupts! You fear it’s a consequence and take care not to kick him again.

Consequences are rarely exciting. You turn the faucet, water flows. Yet, scientists search for consequences—and so shall we.

Interrogator

1. Are these (S)equences, or (C)onsequences?

a) Bill tripped and it rained. _____

b) Bill tripped and sprained his ankle. _____

Test-1: Bill tripped and his mother’s head ached. What is this relationship?

1b: Experience

Argument: A consequence that always repeats is called a **Natural Law**. When we record that B always follows A, we are writing a Natural Law.

Any Natural Law may be regarded as a recognition of experience. You know it will happen again, because it always has. Scientists look for consequences—and particularly Natural Laws. Economic scientists must search out natural laws of human behavior.

Interrogator

1. Bill tripped and immediately fell UP.

Is this true? _____

2. Must you know Bill to know he

can’t fall up? _____

3. How do you know it isn’t true?

4. You stumble when running up a stairway. Do you actually *fall up*, or *downwards*?

Test-2: a) Bill tripped and fell DOWN. This is an example of a...?

b) Spaceflights require checking, rechecking, crosschecking and checking yet once more. Nothing is left to chance, yet every mission depends on something that is accepted without any check. What?

1c: Newtonian

Argument: To ignore *Natural Law* can be a disaster. To avoid trouble, we invent Rules-which are common-sense guides to action. When people cooperate they must make Rules to govern their behavior. These rules are based on scientific laws. For example, Newton's Law of Motion indicates that (among other things), a moving body is reluctant to change direction. We need not know Newton's Laws to accept their consequences.

Interrogator

1. Must you know Newton's Laws to survive in today's world? _____
2. Might 'rules' based on Natural Law help you survive?

Test-3: You are speeding down the road. Based on the above description of a Newton Law, make up a rule to help you make a left-hand turn.

1d: Driving School

Argument: We don't always obey rules. When we drive, we don't pay enough attention to the other traffic as we talk to friends. Or, we may carelessly go through a stop sign.

Disobeying rules can be dangerous to others. So, our community may change the rules into *Laws*. A *law* is a 'formal rule' and can be recognized by its deterrent penalty. The penalty is rarely as crucial as the 'zap' of ignored Natural Law, but strangely enough, it often acts as a greater deterrent!

Interrogator

1. You're caught speeding. Do you get *mad* or *admit* (to yourself) that you were wrong to speed? _____
2. Do we agree with fair, sensible laws?

Test-4: For a law to be accepted generally, it must be seen to be, not only sensible, but fair. How would you know that a law is fair?

1e: Contracts

Argument: *The rule of Law* is the operating system of the free market. To be accepted a law must seem wise and fair. A good law should be needed and should apply equally to all. In the market, voluntary transactions may be implicit or explicit contracts.

Implicit Contract refers to the understandings that are found among free people. For example, we don't have a written contract not to kill each other, but we believe that we have an understanding to that effect.

Explicit Contract is a specific agreement between traders. It is often written and signed by both parties.

Interrogator

1. You are asked to sign a contract in a market economy. If you intend to keep your word, will signing the contract make much difference? _____
2. If you don't intend to keep the contract, will signing the contract make much difference? _____
3. You break your word and refuse to carry out your contract. What effect will this have on others who might contract with you? _____
4. In a free market economy, contracts are not really enforced by police, or the courts. Be careful. For a 2 point bonus, where (in a place filled with concepts) is every contract *really* enforced?

Test-5: Why bother to record a contract on paper if the paper isn't needed for enforcement?

Privilege

The operating system of the Command Economy is *Privilege*. This is a 'private law' (*privilege*) which benefits some at the expense of others (tariffs, liquor licenses, and agricultural subsidies).

Almost \$4 of every \$5 in the Federal Budget are "Transfer Payments." This means that money is *transferred* from the taxpayer to the privileged.

These privileged citizens spend lots of money persuading Congressmen to pass these "transfer laws." Is this legal? Yes, but perhaps it shouldn't be!

1f: That Money Can Buy

Unlike the two-way trade of a free-market, a privilege benefit passes only one way. In normal usage privilege is used a little more flexibly. We'll restrict its meaning to *'legislation which confers a benefit to one at the expense of another.'*

Privilege legislation requires participation by **coercion** (force, or the threat of force) so no contract is involved. Any command economy action is an interference with people's normal market decisions.

Interrogator

1. Do politicians say they make laws to benefit *all* – or to benefit a *few*? _____
2. Is someone who benefits from 'privilege' likely to be grateful to the person who provides it? _____
3. Is she likely to endorse, support, and contribute to a helpful politician? _____
4. Might the politician have to rely on the support of those he has privileged? _____
5. Are legislatures likely to pass 'laws' or 'privileges'? _____

Test-6: Are politicians *good* people, or *bad* people?

1g: Two Assumptions

Argument: Sciences begin with assumptions. As we are studying people, we make assumptions about how they behave.

Assumptions are generalizations that you have every reason to believe are true. These are self-evident truths, or *axiomatic* statements. Our study of people uses two assumptions. They are:

“People's desires are unlimited.”

“People seek to satisfy their desires with the least exertion.”

Interrogator

1. Are these assumptions *judgments*, or *observations*? _____
2. Do they say that people are *greedy* and *lazy*? _____
3. Can you see any exceptions to the Basic Assumptions? _____

Test-7: Circle those who are NOT described by both assumptions. (One point for each correct circle. Minus 2 points for each wrong.) Be careful!

lady wrestler

holy man

weight lifter

marathon runner

craftsman

artist

student

scientist

1h: First Things First

Argument: Unlimited desires may mean you want more of what you have, or that you want better things than you have – or simply that you are hungry again. (You satisfied yesterday's hunger, but desire food for today.)

But, although your desires maybe unlimited, they are not equally important. You place them in order of preference, in a hierarchy.

Heading the list will be the most important desires that you can reasonably satisfy. If you have several desires of equal importance, you might first choose the one requiring the least exertion. In other words, you'll choose first the easiest to satisfy.

Test-8: What desire must always be at the top of the list?

1i: The Human Animal

Argument: We have an advantage over other animals. We can reason. Threatened by forest fire, animals will instinctively run from it. We may run away—or we may choose to move towards the fire with the intention of putting it out.

The decision is the result of our reasoning ability. We are able to see the consequences of our actions.

Unlike other animals, we can over-ride our normal biologic, or instinctive, responses – and choose a different direction.

Interrogator

1. Does this ability to 'over – ride' instinctive impulses lead to deliberate 'anti-instinctive' actions? _____
2. Our primary desire is to survive. Prompted by reason, will we take action deliberately to survive? _____

Test-9: Humanity has been around a long time. There is clear evidence of our ability (or lack of ability) to reason. What is this 'clear evidence'?

Test-10: Do we reason *pretty well*, *not very well*, or *pretty badly*?

1J: Age and Immortality

Argument: Observation and common sense tell us our first desire is survival. Survival success is measured by length of life, which has led to a quest for 'immortality' (and by reverence for age- expressed by our feelings about elephants, whales, sequoias and old houses).

These feelings about age affect our behavior. We are not immortal, but there are ways we can (in a sense) pass ourselves into the future. These methods can usefully be gathered into four classifications:

A) Family B) History C) Art D) Politics

Interrogator

1. Would discovering America (in a sense) 'immortalize' you? _____
2. Can your work of art (in a sense) make you immortal?

Test-11: You are a politician. A new bridge is built in your district. How can you make yourself 'immortal'?

Test-12: How could you use the family to pass your characteristics into the future? _____

1K: Beef and Chair

Argument: At the heart of Political Economy is *Value*. When we make choices, we are valuing. Value is the same as *worth*, and can also describe a *preference*.

The value that concerns us in Economics is *market value*. This is an *objective* value because it can be seen or acknowledged by people.

The other value is *personal value* which is *subjective* and is in the person's mind. These different values come together in trade.

Test-13: (a) Tom offers a rib of beef. Alan offers a chair. They trade! You now know some values.

i.) What is the value of the beef? _____

ii.) What is the value of the chair? _____

(b) For 2 points, did the traders believe the values of the chair and the beef were equal? Explain:

1L: Diamonds Are Forever

Argument: Personal value is not the same as market value. Something which is worth more to you has more personal value to you. You prefer something of higher value *to you*, rather than something of lower value. Market value is the cost at the market.

But, values cost you exertion and time which you dislike. So, you seek more values for less cost, which is another way of saying more desires for less exertion.

Test-14: Consider these two cases:

i.) You find a diamond on the sidewalk and no-one has a claim to it. It's value is \$50,000.

ii.) You prospect for diamonds and after working for 20 years you make a strike - a diamond worth \$50,000.

a) Which diamond [i. or ii.] has more market value? _____

b) Which diamond [i. or ii.] has more personal value?

1M: It Means More To Me

Argument: Another way to think of value is that it lets you hire the labor of others. Assume that one man's exertion to be worth \$10,000 a year- And that you own a diamond worth \$50,000.

1. Your diamond lets you hire a man's exertion for how many years? _____
2. Was the diamond you found on the sidewalk worth having? _____
3. Was the diamond you 'prospected' for over 20 years *worth* your effort- or would you say it was a *waste* of time and energy? _____

Adam Smith and Water

Adam Smith mused over an apparent paradox. Water, even though it is so useful that life without it would be impossible, has a low price.

Yet diamonds, which are not at all necessary, command a high price.

Smith pointed out that the 'use-value' of the diamond is low, yet the market value is high.

On the other hand, the *use-value* of the water is high, yet its market value is low.

How could that be?

Well, Smith had simply confused *personal value* (the usefulness of something *to you*) with *market value* (what it will exchange for).

For a 20 point bonus, what major event in history occurred when Adam Smith published his famous book "The Wealth of Nations"?

Twenty more points for the full title of the book.

Test-15: (a) The only result of 20 years prospecting is a diamond worth \$50,000.

(b) On your way home you find an identical diamond to which no one has any claim. You need money for your young brother's college.

Which diamond [(a) or (b)] would you reasonably sell to get the money you need?

1N: Personal and Market

Argument: You can't know how much anyone (including yourself) personally values something, but you can learn from how a person exhibits his preferences.

Interrogator

1. Is production a process for adding values? _____
2. Is trade part of the production process? _____
3. After a trade, what has happened to the total values of both traders? _____
4. Would there be a trade if both traders did not benefit? _____

Test-16: Circle each correct statement.

a b c d

You will keep something you own when:

- a) Personal value is greater than market;
- b) Market value is greater than personal.

You will trade something you own when:

- c) Personal value is greater than market;
- d) Market value is greater than personal.

1O: Do You Want It Or Not?

Argument: As Smith noted, 'exchange' and 'use' values are different. But, he did not make the connection between use value and personal value. He saw that a useful thing may have little market value, and that a relatively useless thing may be priced high.

He didn't see that usefulness does not describe something that is useful, but something that is *useful to a particular person*. The name given to this characteristic is **utility**. In other words, the utility of something is your personal valuation of it.

We spend much of our time comparing personal value and market value, as in the following examples.

Interrogator

1. I'm eager to give you a 30 carat gem quality diamond, but you don't like showing off. Will you accept the stone? _____
2. I want to give you a 40 carat gem quality diamond but it doesn't match your clothing. Will you refuse it? _____
3. I'd like to give you a 50 carat gem quality diamond but you are allergic to precious stones. Will you reject the gift? _____
4. Do these diamonds have much 'use value' to you? _____
5. What value encourages you to take the diamonds? _____
6. You have two dogs and describe how you value them. Name the kind of value you are referring to when you say:
 - a) My dog Kilroy is a pure bred stud with papers. Kilroy is valuable. _____
 - b) My dog White is valuable. She pulled my baby daughter Melissa to safety from a flooded river. _____

Test-17: Think! Does use-value (utility) describe the capacity of a product to be useful – or its capacity to be useful to you?

1P: Mother's Apple Pie

Argument: Our first desire is survival. To survive, people must produce food, clothing and a variety of other things. Human production falls into three stages.

The three stages are named **Adapting** (using environmental resources), **Growing and Making** (changing original things into more desirable things) and **Exchanging** (trading with other people).

Exchanging is the highest stage of production.

Interrogator

Name the **stage of production** for each example:

1. Trapping rabbits and picking apples. _____
2. Planting apple seeds. _____
3. Raising rabbits. _____
4. Cooking an apple pie. _____
5. Selling apple pies. _____

Test-18: Which of the above five examples are 'social' activities?

1Q: Making Yourself Understood

Argument: We cannot communicate unless we use a common language.

Next time you are convinced that the person you have been debating is an idiot, think for a moment. Even though you've used the same words, have you both been talking about the same things?

To continue the study of political economy (before we can even talk to each other!) we must define some of the terms we will be using. That isn't easy.

Test-19: My bird is small, has feathers, and flies through the air. I stop hitting it and give it to my cat to play with. Should I be condemned by animal lovers?

Test-20: Bill is honest and sensible, yet he tells you he put four suitcases and his golf clubs in his boot. You are sure he is telling the truth. You know he isn't crazy. What else do you know about Bill?

1R: Concepts

Argument: Words are the names we give to defined concepts. A concept is an idea, A notion– a mental impression. You define a concept by *putting a fence around it*. Your concept and only your concept is within the fence– everything else is outside.

If the word 'chair' crops up in conversation, each person will relate the word to a concept of a chair in his mind. Each will probably be thinking of a different chair, but all understand what is meant by the term. The name 'chair' is used to communicate the idea of a chair.

Interrogator

1. Somebody brings up the subject of whales. Does this stimulate a picture in each person's mind? _____
2. Is this picture of a particular whale, or of whales 'in general'? _____
3. Can you put your hands on something called 'whales in general'?

Test-21: Where can you find a concept?

1S: Discrimination & Prejudice

Argument: Classifying by concept lets us handle large ideas and complex relationships. Poorly considered concepts can lead to '**prejudice**' or '**racism**.' Don't confuse these with '**discrimination**,' which means making good and reasonable judgments.

Interrogator

1. Could skin pigment be a sensible basis for discrimination? _____
2. Do you eat snakes and snails and puppy-dog tails? _____
3. Are there people in the world who eat them? _____
4. Do they 'discriminate' differently from you? _____
5. Might their *reasons* for discrimination be different from yours?

Test-22: A Los Angeles doctor spends six months in Africa. He tests *every* African patient for malaria. He *never* bothers to test his Los Angeles patients for malaria. Is he showing prejudice, or discrimination?

Cycle One Ketchup

There are no penalties attached to Ketchup questions. The answers will earn you points, perhaps enough to 'Catch Up' to the front-runners or keep your lead. Choose any questions you think you can answer. (Hint! Check other materials— such as the Cycle Supplementals, a textbook glossary, dictionary, or the Internet – to find answers.)

Ketchup Questions

1. What is **Classical Liberalism**? _____

2. What is economic **demand**? _____
3. **Prejudice** is described as unreasonable discrimination. Bill, the Austrian, is a liar and a thief. You will have nothing to do with him. What is this behavior called? _____
4. Because of Bill, you have nothing to do with Austrians. What is this? _____
5. What are the 3 **stages of production**? _____
6. What is the most 'primitive' stage of production? _____
7. How does a **sequence** differ from a **consequence**? _____

8. What makes a consequence into a **Natural Law**? _____
9. What is the 'operating system' of a **command economy**? _____
10. What is the 'operating system' of the **free market**? _____
11. What are the two major systems of economic cooperation? _____
12. What is a **market**? _____
13. What are the two basic **Assumptions of Human Behavior**? _____

14. Politicians try to make privilege less obvious by burying it in the general body of legislation. When citizens (who don't know the difference between **law** and **privilege**) see others benefiting at their expense, their attitude to democracy may change. How might their attitudes change?

15. Where are **contracts** enforced? _____
16. Be specific. Why do you record a **contract** (agreement)? _____
17. How do humans differ from other animals? _____

Cycle One Ketchup Continued

18. See the 2nd **Assumption of Human Behavior**. Does this mean people are *sensible*, or *lazy*? _____
19. What must always be the first desire to satisfy? _____
20. What is the name of the value that belongs only to you? _____
21. It is likely you choose the 20-year diamond as being more 'valuable' than the one you picked up. This is a tricky question that will earn you a 5 point bonus. Why do most people say the 20-year diamond means more to them?

22. What are the **Classical Factors of Production**? _____
23. What are the two most widely publicized **deficits**? _____
24. What is the meaning of **price**? _____
25. What are the components of a '**mixed**' economy? _____
26. Describe the two kinds of **tariffs**. _____

27. What are two words used to describe the meaning of **value**? _____
28. When you buy a stereo for \$100 at the market, what can we assume about the way you personally value the stereo compared to the \$100? _____

29. When you don't buy the stereo for \$100 at the market, what can we assume about the way you personally value the stereo compared to the \$100? _____

30. How do **Communism** and **Socialism** differ from **Classical Liberalism** and a **Traditional** economy?

31. What is a leading question asked by **Classical Political Economy**?

ARE YOU READY TO BE JEOPARDIZED?

You need questions for the answers you'll be getting. If the Answer is:

“Barack Hussein Obama.”

Your questions might be:

“Who was the 44th President of the United States?” or

“Who wanted to ‘fundamentally transform’ America?” or

“Who promised, ‘If you like your doctor, you’ll be able to keep your doctor’”

Any of these questions would earn points. The more questions you ask in the time given by the Arbiter (generally 30-60 seconds), the more points you earn, beginning with 1 point, but rising to 20 points. So, be quick! Bonus: One point for spotting the grammatical error above.

Your Question Please!

If you watch the TV show Jeopardy, you will understand the “Question Tests.” These test the pages you completed the previous day. *InterStudent* is kind to students and will give you the answers. All you need do is come up with the precise questions that fit.

Here are the answers for Cycle One Jeopardy. Each word or phrase is an answer. You may get one, two, or ALL the answers. **Each question must be given by a different student.** The Arbiter may mark progressively. This means 1 point for the first correct, 5 for the second, 10 for the third, and so on.

Note: If the Arbiter assigns this Jeopardy for homework you may NOT write on this sheet. All questions must be numbered and written neatly in ink on a separate sheet with correct punctuation. Cycle One will be easy, later you may be jumping!

*Research using your textbook, supplementals, etc.

Pages 1-4

1. “survival”
2. “objective value”
3. “We do it pretty well”
4. “market economy”
5. “command economy”

Pages 1-6

6. “The Wealth of Nations”
7. “Something useful to you”
8. “Adapting, Growing and Making, Exchanging”
9. “Two Assumptions of Human Behavior”
10. “Scarcity”*

Bonus!

11. “Legislation that benefits some at the expense of others”
12. “a reasonable judgment”
13. “Political Economy”
14. “an unreasonable judgment”
15. “value”