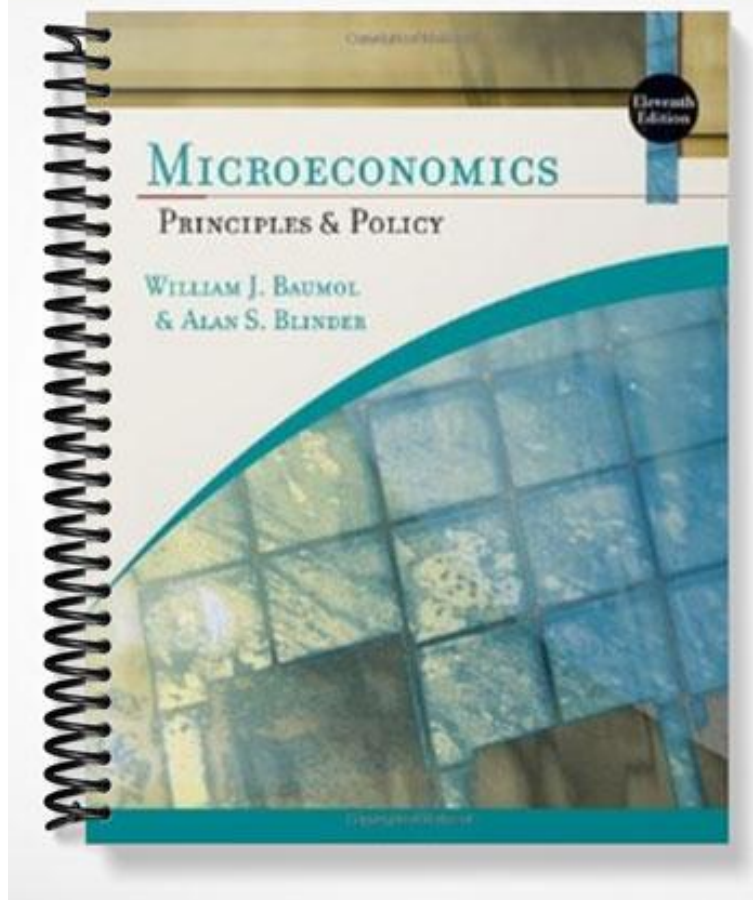


SOLUTIONS MANUAL



CHAPTER 2

THE ECONOMY: MYTH AND REALITY

DISCUSSION QUESTIONS

1. The United States and Japan are the two largest economies. They are so much larger because they produce more output per capita than other countries. While China and India are the most populous nations, they do not produce as much as the United States and Japan.
2. 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. 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 West Virginia. This could be because labor is more productive in Connecticut because of a better educated workforce.
4. Roughly 16 percent produce goods, 68 percent are service workers, and approximately 16 percent work in federal, state, and local government.
5. No, it isn’t. 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. 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.