UNIT ONE

1

INTRODUCTION TO ECONOMIC SYSTEMS AND PRINCIPLES

KEY TERMS

capitalism
consumption
communism
distribution
economics
economy
employment
expansionism
feudalism
goods
industrialization
labor productivity
laissez faire
mercantilism
mixed economies
resources
services
socialism
value
wealth

LEARNING OBJECTIVES

- Distinguish among different types of historical and modern economic systems
- Understand how capitalism evolved into its present form
- Explain how the U.S. economy operates

WHAT IS AN ECONOMIC SYSTEM?

The Study of Real Estate Economics

Real estate economics analyzes national, regional, statewide, city, and neighborhood trends. This allows us to improve our understanding of the various effects these trends have on the real estate market, both locally and regionally. By studying real estate economics, we gain a better understanding of how a market establishes the price of goods and services and how the distribution of these goods and services in the economy affects the real estate market.

An **economy** is any system designed for the production, **distribution**, and **consumption** of necessary and desired goods and services. **Economics** is the social science that studies, describes, and analyzes that process.

As we'll see later in this unit, there is a wide range of economic systems operating in the world. Regardless of their differences, however, all economic systems share these three basic functions:

- Production
- Distribution
- Consumption

These three words form the basis of all economic systems and are the central focus of the science of economics.

Operation

Economic activities draw on the special capabilities of the human species. The means and arrangements that support the operation of economic systems include:

- *Tool*—Humans are inventive toolmakers and tool users. The creation and use of tools makes the production and distribution of goods and services more efficient.
- *Techniques and knowledge*—Human beings are learners; we learn from experience and develop techniques in response to what we learn; that's how we build bodies of knowledge. The progressive evolution

of human knowledge creates both greater efficiencies of production and greater demand for new and better goods and services.

- *Social arrangements*—Humans are social animals. We accomplish tasks by organizing ourselves, by cooperating, by taking on specialized roles, and by acting in accordance with rules that the group has agreed upon.

A CLOSER LOOK The people of a South Sea Island depend on fish in their diet. The fish are caught in a lagoon using canoes and nets (*tools*). They have developed a method of throwing the nets (*technique*) to ensure the greatest catch. The islanders have accumulated a detailed understanding over many generations (*knowledge*) about which fish are desirable. Traditional social arrangements govern who does the fishing (*roles*) and how the catch is shared by the community (*rules*).

The satisfaction of needs and wants almost always requires more than tools, techniques, knowledge, and social arrangements, however. Human effort is required because most of the things needed and wanted are not immediately at hand and freely available. Planning, cooperation, skill, and effort are required to make any economic system function.

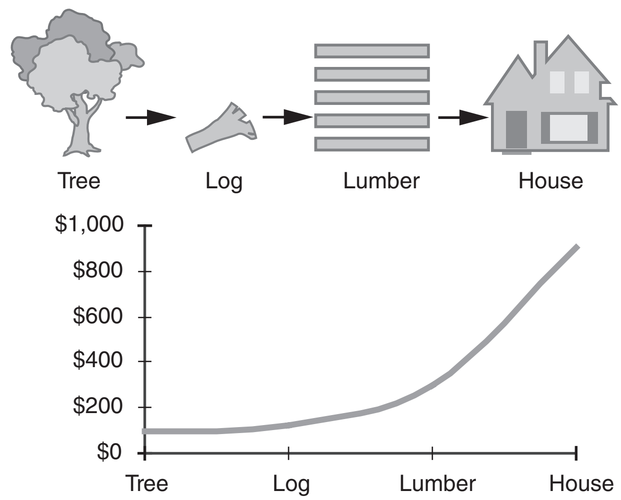
Wealth

In economic terms, the word *wealth* does not refer merely to riches. Rather, wealth is anything that contributes to human comfort and enjoyment. Strictly speaking, wealth can only be obtained through some form of labor and is characterized by being desirable by others. That is, wealth is something that is perceived by others as having value, which is evidenced by being sold or exchanged for other goods or services. Wealth, then, requires a community of at least two people and an object that is owned by one and desired by the other.

Adding Value

Wealth is not limited to what currently exists. Human productive activities can create wealth by adding **value** to existing goods or services. Often a productive process has many steps, and value is added at each step, as illustrated in Figure 1.1.

FIGURE 1.1: Adding Economic Value



In Figure 1.1, we see how a tree is cut down, the log is cut into lumber, and the lumber is used to build a house. Note how the value of the same material (wood) rises at each stage of the process. After it is cut down, its value increases only slightly. At this point, the wood's value is only *potential value;* it is a raw material waiting to become something else.

Once the log is milled into lumber, however, the value of the wood more than doubles. Once the lumber is assembled into a house, its value skyrockets. We are speaking here, of course, in purely economic terms; the tree may have other value besides economic—it has aesthetic value in its appearance, environmental value in its biological functions, and other intangible values that are real but of less interest to an economist.

Goods and Services

Wealth is used to obtain goods and services. This trading of wealth—whether composed of beads or coins or stock certificates—for goods or services defines economic activity.

The term *goods* usually refers to material things that are perceived to have monetary or exchange value. Here again, as in the case of wealth, perception is everything. Clothing, automobiles, and wheat have economic value only if they are perceived as desirable.

Services, on the other hand, are immaterial. The term *service* refers to activities that are perceived as having monetary or exchange value. Examples of services include legal advice, health care, education, and entertainment. If you are paid a wage, salary, or commission for doing your job, you are receiving money in exchange for your services.

Needs and Desires

The goods and services that are created and distributed through the economy can be classified as those that are necessary for *survival* and those that are desirable for *quality of life*.

Biological Needs Certain resources are absolutely necessary for human biological survival. These are

- food,
- air,
- water, and
- shelter.

A person who lacks these essential needs for any significant length of time will not survive. They are necessary to life.

Socially Defined Needs There are other needs, however, that are not vital to an individual's physical survival. Nonetheless, they are still necessary. These are the needs that are dictated by the society in which one lives. Clothing, for example, may not be strictly required for physical survival in some climates, particularly in parts of California. However, social conventions in many societies (including our own) demand that individuals wear clothing when walking around in public places. Failure to comply with such a rule will not be tolerated by the society, so clothing is a socially defined need; while not necessary to biological survival, it is necessary to social survival.

Socially Defined Desires In any society, but especially in consumer cultures such as our own, individuals may want things that are not necessary to their social or physical survival. This may or may not be a natural human condition. In Western industrial societies, people are taught to desire many of the goods and services they purchase. Through advertising and marketing, consumers are shown how desirable a product is and are encouraged to possess or use it.

Modern industrial economies derive much of their energy from creating and then supplying consumer wants. Throughout the industrialized world, "quality of life" is equated with material prosperity and leisure.

Such a view is not, of course, universal. Throughout history, groups and individuals have rejected materialism and consumer-style culture and have attempted to build simple communities based on ensuring the minimum essentials of life for their members. Such societies, however, have rarely been popular on a mass scale.

Rules

Rules are established principles of behavior. They are guides or regulations agreed upon by groups of individuals among themselves or imposed by an authority. Rules define the rights and responsibilities of people in society. At their best, rules express a social agreement about what is right, what is fair, what is wrong, and what is permitted. Rules also establish mechanisms for their own enforcement.

All economies are governed by rules established and enforced by the society in which they operate. The social rules that govern the functioning of economic systems may be customary and informal, or they may be written into formal law. They may be enforced by individuals, by social pressure, or by the state.

A BRIEF HISTORY OF ECONOMIC SYSTEMS

An **economy** is a system designed for the production, distribution, and consumption of necessary and desired goods and services. Throughout history, a variety of economic systems have been invented, tried, and rejected in favor of new systems. Some have been successful while others have been disastrous failures.

Human history is not a simple timeline. The overview provided here is not intended to be a complete history of the world or even to offer a substantive view of economic history. It is provided, however, to give you some idea of how economic theories and systems have evolved over time, specifically with regard to the U.S. economy.

Hunter-Gatherer Economics

The fossil record shows us that the earliest humans, called hunter-gatherers, lived by hunting and foraging for food. Foraging bands had to cover a wide territory—as much as a 20-mile radius—in order to sustain the small nomadic communities.

Agriculture

A revolutionary development took place between about 10,000 B.C. in the Middle East; some of the nomadic people settled down. Here, people began to develop agricultural technologies to control the production of their food rather than simply gather it. Agriculture requires planting, and planting meant that people stayed in one place, tending crops and, eventually, domesticating animals.

While the hunter-gatherers had congregated in small bands, the agricultural communities tended to be much larger, supported by the surpluses that resulted from controlled food production.

By 4,000 B.C. populous societies with centralized governments had emerged. With a settled life and economic surpluses, complex political structures grew. With the end of subsistence farming, literacy, specialized occupations, art, and architecture flourished.

Trade and Conquest

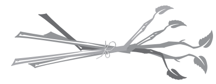
As agricultural technologies improved and surpluses fed rapidly growing populations, communities found it necessary to expand their geographical boundaries. Exploration gave rise to increased trade with neighboring agrarian cultures.

Economies based on agriculture and trade were easy prey for the armies of a succession of empire-builders, who gained control of large expanses of territory through military force. The empires and expansionist nation-states such as ancient Egypt, Greece, Phoenicia, and Rome served as resource allocators for their neighbors by providing established markets for local natural **resources** like dyes, cedar logs, and shellfish, as well as agricultural products. As the empires grew, the variety of products available rapidly expanded.

Feudalism

Following the collapse of the Western Roman Empire, a complex economic system called **feudalism** developed and flourished. Based on a complex hierarchy of loyalties, services, and land grants originating with the king and supported by a large mass of landless peasantry, feudalism dominated Europe through the end of the 13th century. So deeply did feudalism influence the society and culture of medieval England that modern real property law in both Britain and the United States still reflects much of its terminology and principles (see Figure 1.2).

FIGURE 1.2: Modern Real Estate's Links to Feudalism



MODERN	FEUDAL
Bundle of Legal Rights	Transfer of land evidenced by the passing of a handful of earth or a bundle of sticks from a tree on the property
Agency	Master-servant relationship, in which servant owed absolute loyalty
Fee Ownership	Feud or fief: an inheritable estate in land held on the condtion that the holder perform some service for the grantor

Rise of the Merchants

As urban culture slowly re-emerged during the late Middle Ages, it was accompanied by a growth in the urban merchant class—a new member of a feudal society formerly composed strictly of the aristocracy, the clergy, and peasants. The new merchant class had little need for the land-based relationships of feudalism and was more interested in maintaining a stable climate in which trade could operate freely. As the strength of the urban merchant class grew, the traditional agrarian feudal hierarchy weakened in the face of this new **mercantilism**.

Exploration and Colonialism

The search for new markets for a growing surplus of goods led to global exploration. The colonial policy was based on creating self-sustaining markets by importing raw materials and valuable resources from the colonies to be converted to finished goods for resale back to the colonies and to other trading partners. As the American Revolution demonstrated, however, there were limits to the colonies' willingness to be exploited without sharing in the economic benefits of international trade.

Adam Smith Not only was 1776 the year of the American Revolution but it also marked the publication of one of the most influential books in economic history, Adam Smith's *The Wealth of Nations*. Written as a reaction against the dominant economic theory of his time, mercantilism, Smith's book essentially marks the foundation of modern capitalism.

Mercantilism, according to Smith, was flawed in its assumption that a country's wealth was measured by the amount of gold and silver in the government's treasury. Rather, wrote Smith, wealth should be measured by a nation's annual production. Smith's ideal economic system was governed by two forces: the participants' self-interest and the demands of competition. The action of these two forces Smith called "the unseen hand of the market." Smith was convinced that the highest good of both the nation and the individual was best served by permitting the unseen hand to operate freely, with a minimum of intervention by government. This approach, called **laissez faire** or "hands off" economics, assumes that a free marketplace will be self-policing and maximally profitable.

The Industrial Revolution

Between about 1750 and 1850, the adaptation of fossil fuels for industrial use led to a flurry of new mechanical inventions that turned Europe from a collection of farms and small cities into a humming mechanized metropolis. Factory-building surged, and smoke from what the poet William Blake called the "Satanic mills" darkened the skies and rained soot on the cities. This industrialization ushered in a merchant class of factory owners who prospered while the factory workers' quality of life declined. Wages were low as mechanization reduced the number of necessary workers, and conditions in the new factories and factory towns were far from pleasant or healthy.

Political Revolutions

A combination of social and economic factors—the excesses of industrialization, the disparity between owners and workers, and the erosion of monarchies—led to wide-ranging social changes sparked by the Industrial Revolution.

The rise of democracy and the labor movement led to a more equitable allocation of resources among workers, as well as an improvement in working conditions and wages. These reforms were far from universal, however, and in many countries the tensions created by industrialization led to more violent reactions.

Karl Marx The author of the *Communist Manifesto* (1848) and *Das Kapital* (1867) is another significant figure in economic history. While Adam Smith had prophesied the free-market capitalism that flourished during the

Industrial Revolution, Marx observed the darker side of the reality. Industrialization, according to Marx, exaggerated the normal fluctuations in the economy, creating bigger, more frequent, and for workers, more disastrous depressions. Because wages did not accurately reflect the owners' profits, Marx felt that the surplus value that the workers added to goods was being exploited by the capitalists for their personal profit. Marx's view was not pretty. According to his theory of *dialectical materialism,* capitalism would inevitably create greater and greater burdens for workers until they rose up in revolution, seized the means of production, and ended their exploitation by establishing collective ownership in a socialist society.

Roots of the Modern U.S. Economy

Prior to the colonization of North America by Europeans, the native population of the continent did little to disturb the abundant natural resources that this country possessed. The quantity of resources available for exploitation made for rapid settlement and expansion by Europeans.

The colonial movement was led by England, France, and Spain during the 17th and 18th centuries. Raw materials from this continent were exchanged for finished goods from the occupying nations, in keeping with the prevailing mercantile theory. Cleared fields, villages, and roads soon replaced much of the wilderness. The exploitation of the English colonies by the home government led directly to the American Revolution.

The New Nation Economic activity had its first restraints under the provisions of the U.S. Constitution, established in 1791. Following the Revolution, the former colonies had remained independent of one another, only loosely tied by the Articles of Confederation. After the enactment of the Constitution, the former colonies were unified with a common currency and without taxes or tariffs between states; a true common market was created.

Certain economic powers were granted to the central government: the regulation of foreign trade and commerce, the printing of money, and the granting of patents and copyrights. A central postal authority ensured continuous and reliable communication.

Divergent Philosophies The Founding Fathers were, however, not entirely unified in their vision of the new nation. There was considerable disagreement among the ranks of the framers of the Constitution about what form the new society should take. The argument was personified by two divergent points of view:

- *Thomas Jefferson* believed in small farms, an independent press, and a weak decentralized government.
- *Alexander Hamilton* looked toward an industrialized society bolstered by high tariffs and a strong centralized government.

The debate between the Jeffersonians and the Hamiltonians was intense and long-lived. Today, however, it is clear that Hamilton's view, in large part, prevailed.

Expansionism In the 19th century, land surveys were undertaken to stake out new territories in anticipation of admission of new states when adequate population had settled in the area. An infrastructure of canals, roads, and railroads facilitated the westward transport of goods and people, and the abundance of land lured settlers to seek their fortune beyond the Appalachians. This type of policy, advocating territorial gains, is known as **expansionism**.

The continuing conflict between visions of the nation was played out in the movement west. Many of the pioneers shared the Jeffersonian distaste for large cities and pervasive government regulation of commercial activities. The move west was partly spurred by the settlers' desire for isolation and for a more pure freedom from social and economic constraints on their behavior.

Industrialization In the 19th century, the United States began to **industrialize**. Cotton from the south was made into finished goods by mills in New England. Iron ore mining began in the 1850s in the Great Lakes area followed at the end of that decade by the discovery of oil in Pennsylvania.

As there was little control of the production, allocation, and distribution of wealth within the country, enterprising individuals were able to seize control of key economic resources. At the top of the pyramid were Andrew Carnegie, who had a stranglehold on the steel industry, John D. Rockefeller in oil, and Leland Stanford in the railroad business. The rise of monopolies spurred greater government regulation of the U.S. economy through enactment of antitrust laws and the breaking up of monopolistic enterprises. The government was concerned that the growing power of the monopolies created a concentration of wealth and influence in a few people and severely hindered competition and a free market.

Labor Movements As was the case throughout the industrialized nations, the rise of factories and industry also spurred the growth of organized labor. The U.S. labor movement grew in visibility and power with establishment of the American Federation of Labor (AFLA) in the 1880s by Samuel Gompers and the Congress of Industrial Organizations (CIO) in the 1930s.

The Great Depression and the New Deal The stock market crash in October 1929 and its aftermath was probably the darkest economic period in U.S. history. Unemployment rose to catastrophic levels, and the nation's social structure was severely tested. Through a series of reforms initiated by the *New Deal* program of President Franklin D. Roosevelt, a variety of new government agencies and programs were established as a means of stabilizing and revitalizing the economy. These included the Federal Deposit Insurance Corporation (FDIC) to regulate savings, the Social Security programs, and the Federal Housing Administration (FHA). The Civilian Conservation Corps and the Public Works Administration were examples of activities undertaken by the government to provide employment in various works projects that are still enjoyed by our citizens today.

The Second World War not only defeated fascism in Europe, it elevated the U.S. economy to a position of preeminent strength in the world. The nation experienced unprecedented prosperity in the years after the war and was lifted out of the lingering effects of the Depression.

Modern Economics

The second half of the 20th century in the United States has been defined by two rival, but related, economic theories: Keynesian and monetarist.

In 1936, the British economist John Maynard Keynes published the *General Theory of Employment, Interest and Money*. Essentially, Keynes rejected the conventional wisdom that full employment was the natural state of a stable economy. Left alone, Keynes wrote, the economy could operate in a stable state that tolerated a significant level of permanent unemployment. Keynes argued in favor of government intervention to stimulate the economy in order to create full employment. This was a radical rejection of traditional capitalist theory. It dominated American economic policy through the 1960s.

The monetarists, on the other hand, continued to advocate an unfettered free market. Led by economists such as Milton Friedman and Arthur Laffer, monetarists contend that the only legitimate role of government is to create and preserve an environment in which a free market can operate with complete freedom. Monetarists, as their name suggests, look to a steadily increasing supply of money as the key to economic stability. They reject any government actions that interfere with the supply of money (such as raising or lowering interest rates to achieve certain social, political, or economic goals). The monetarists and supply-side economists of the 1980s view the free market as the best tool for defining and creating social good.

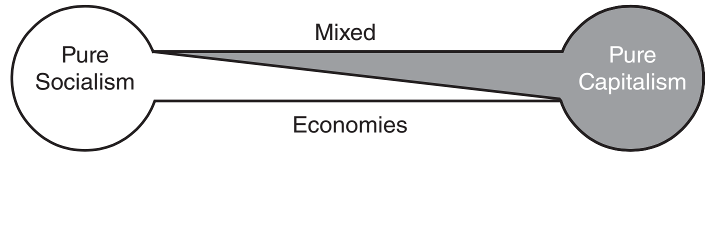
THE NEXT STEP In this brief historical discussion, we've already alluded to the principal tension underlying economic theory and history: the role of government in defining or controlling the operation of a free market. In the next section, we'll examine the distinction between the two prevailing economic systems in the world today, capitalism and socialism, as they exemplify this tension.

CAPITALISM AND SOCIALISM: THEORY AND PRACTICE

In the modern world, there are a variety of economic systems ranging from simple barter economies, in which goods and services are traded directly, to complex international market economies. They all lie, however, on a broad spectrum between two fundamental economic theories (Figure 1.3):

1. *Pure capitalism:* the complete freedom of individuals to engage in the three essential economic activities without interference from regulatory authorities
2. *Pure socialism:* the ownership, management, and control of all means of production and distribution by the community

FIGURE 1.3: The Economic Spectrum



Capitalism

Hand in hand with the industrial revolution, the concept of capitalism took shape. **Capitalism** is a market-driven economic theory fueled by the independent forces of supply and demand (discussed in detail in Unit 2). The major components of this system in its purest form are:

- *private ownership* of the means of production and distribution through which individuals have the right to own, control, and dispose of their property;
- *individual enterprise*, which is the private ownership of the majority of a nation's businesses as well as the private ownership and free control of the resources used to manufacture products;
- *the profit motive*, or the desire for personal gain that inspires individuals to take risks to produce the goods and services desired by the population (this is very characteristic of the California economy where many individuals left their employers in the late 1990s to start their own businesses; any of these individuals ultimately provided consulting services to their former employers);
- *free competition*, which allows buyers and sellers to compete equally and freely among one another to fulfill the needs of the consumer and the producers; and
- *unregulated markets*, or **laissez faire**, which holds that government should not interfere in the economic affairs of a nation.

As we have learned, capitalism's basic philosophy of free and open, unregulated markets was formalized by Adam Smith (a Scottish economics professor) in 1776, in his work, *The Wealth of Nations*. Adam Smith believed the "hands off" approach, or *laissez faire*, would stimulate the production of goods and services without government interference. Capitalism is based on free economic interaction between individuals. The capitalist assumes the *risk* of competition and is entitled to reap the rewards of market success. On the other hand, capitalism can be viewed as "hard-hearted" in its tolerance of economic failure and inequality.

Socialism

To understand **socialism** more clearly, we must understand the roots of socialism. The father of socialism, Karl Marx, wrote *Das Kapital* in 1867, in which he stated that capitalism would fail primarily because capitalists were motivated by profit and would continually pay the labor force low wages in order to attain greater wealth. This, in turn, would thrust workers into abject poverty. Marx further theorized that the impoverished workers would revolt and overthrow the capitalists and seize the wealth on behalf of the workers. Marx believed in a classless society, with the government owning all of the resources and major industries on behalf of the people. Today's modern socialism and even communism have been derived from the writings of Karl Marx.

It should be noted that the development of the socialistic economic system was the direct result of the excess of unregulated capitalism experienced by impoverished and exploited workers during the industrial revolution. In its purest form, socialism is a *command economy* (the market responds to commands from above). Under socialism, the government makes the economic decisions on how and what is to be produced as well as setting the prices for goods and services. This was very true of the former Soviet Union where the state controlled prices. Under socialism, the consumer does not influence the economics of a nation.

The major defining components of socialism are as follows:

- *Public or collective ownership* of the means of production and distribution
- *Regulated enterprise*
- Economic policies reflecting *social/political policies*
- *Economic equality* as a goal
- Resources that are administered and distributed in the *common interest*

Communism

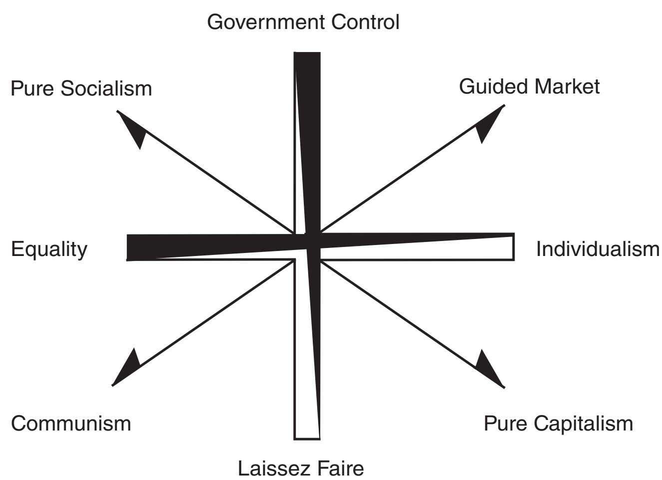
In a strict sense, **communism** is a stage of economic development said to occur when all classes in society have been absorbed into the proletariat. In this society, the state (government) would have withered away and each person would contribute according to ability and receive according to needs. This utopia envisioned by Karl Marx was seen to be the stage of economic development that follows capitalism and socialism.

Mixed Economies

Pure capitalism breeds inequality; pure socialism's equality stifles innovation. What's the answer? The answer, as it has developed in the modern world, is the **mixed economy—**neither socialism nor capitalism but a mix of elements of both. In today's world, there are no pure market economies and no pure command economies.

Look at Figure 1.4. The vertical axis defines a spectrum of government intervention in an economy, from total control to laissez faire. The horizontal axis describes whether the market is based on socialism's policy of protected equality or on capitalist principles of individual responsibility and risk-taking.

FIGURE 1.4: Modern Real Economic Systems



The old Union of Soviet Socialist Republics (USSR) might have been placed in the upper left quadrant, while the U.S. economy placed in the lower right. Note that both of them, being mixed economies, are pulled toward the center rather than toward the extremes of the spectrums. Also, note that communism and capitalism are both on the same end of the government intervention axis. This is because, under the theoretical economic system of communism, there is no government authority; all property is held and administered communally by a wholly self-directed society. In pure capitalism, all property is held by individuals but also in the absence of any government intrusion. This similarity between these two "opposed" economic systems is interesting.

THE NEXT STEP That completes our overview of economic theory. In the final pages of this unit, we will present a general outline of the U.S. economy as it operates today.

THE U.S. ECONOMY TODAY

By examining the components of production, consumption, employment, and income, we can outline a profile of our national economy.

Note that income can be examined either as national income (employee compensation, proprietors' income, rental income, corporate profits, and net interest) or as personal income (after taxes and including transfer payments such as Social Security and public assistance, as well as wages, dividends, interest, and rents). The first is somewhat analogous to national product, and the second translates more directly into purchasing power.

Employment

As mentioned previously, the U.S. economy has been moving away from manufacturing as it becomes more service oriented. *Service oriented* is best described as an economy that is primarily driven by jobs that provide services to people, such as fast food, cleaning, and other support services.

Productivity is a measure of economic efficiency that shows how effectively economic inputs are converted into output. (Economists view productivity as the ability to produce more with the same or less input.) Relative to the production of goods and services, advances in productivity (such as technological advances) have resulted in a significant increase in national income. The U.S. economy has been able to produce more goods and services over time, not by requiring an increase in labor time, but by making production more efficient. According to the U.S. Bureau of Labor Statistics, output per hour of all persons (**labor productivity**) is the most commonly used productivity measure. Labor is an easily-identified input to virtually every production process. Since our economy is constantly changing, so is our approach to becoming much more productive. For example, many U.S. companies now outsource or offshore much of their production to overseas countries due to lower labor costs. Outsourcing and offshoring have the potential for greater effect on labor productivity at the industry level.

THE NEXT STEP Now that you have a general idea about the history of economic theory and about what a market economy is, you're ready for more specific economic ideas. In the next unit, we'll look at how the forces of supply and demand interact in a market economy.

SUMMARY

- An **economy** is *any system designed for the production, distribution, and consumption of necessary and desired goods and services*. Economics is the social science that studies, describes, and analyzes that process.
- The word **wealth** describes *anything that contributes to human comfort and enjoyment* that is *perceived by others as having value*, evidenced by being *sold or exchanged for other goods or services*. This *trading of wealth for goods or services* defines economic activity.
- The **goods** and **services** that are created and distributed through the economy can be classified as those that are *necessary for survival* and those that are *desirable for quality of life*.
- Throughout history, a variety of economic systems have been invented, tried, and rejected. Some have been successful, while others have been disastrous failures. Some historical systems include hunter-gatherer, agricultural, feudal, mercantile, colonial, industrial, and monetarist.
- Modern economic systems lie on a spectrum between **capitalism** (a *market-driven* economic theory based on *private ownership* of the means of production and distribution) and **socialism** (a theory that calls for a *command-economy* with *public or collective ownership* of the means of production and distribution). Most world economies are **mixed economies**: a combination of these two theories with one or the other tending to dominate.

REVIEW QUESTIONS

1. What is the definition of *economics?*
2. Define the role of government in both a capitalistic and a socialistic economy.
3. What role does government play in your local real estate market?
4. Have social programs in your area primarily affected real estate in your area?
5. What types of government subsidy programs for the purchase or rent of real estate are in your community?
6. What types of businesses or industries have moved out of your area due to outsourcing or offshoring to other countries, and how has that affected your local economy?
7. What types of businesses has your community been able to attract in recent years, and in what kind of industries are they?

UNIT QUIZ

1. An economy is
   a. the social science that studies, describes, and analyzes any system of production, distribution, and consumption.
   b. any system designed for the production, distribution, and consumption of necessary and desired goods and services.
   c. anything that contributes to human comfort and enjoyment.
   d. any system based on a complex hierarchy of loyalties, services, and property transfers.

2. The trading of wealth for goods or services defines which of the following?
   a. Feudalism
   b. Production cycles
   c. Redistribution of wealth
   d. Economic activity

3. All of the following represent modern real estate's links to feudal economies *EXCEPT*
   a. agency.
   b. fee ownership.
   c. escrow closings.
   d. the bundle of legal rights.

4. Who of the following is considered the founder of modern capitalism?
   a. Karl Marx
   b. Adam Smith
   c. Thomas Jefferson
   d. John Maynard Keynes

5. Productivity is the measure of
   a. economic efficiency.
   b. outsourcing.
   c. offshoring.
   d. service oriented employment.

6. Which of the following is a market-driven economic theory?
   a. Socialism
   b. Communism
   c. Capitalism
   d. Command economy

7. Who of the following argued in favor of free and open, unregulated market economies?
   a. Karl Marx in *Das Kapital*
   b. John Maynard Keynes in the *General Theory of Employment, Interest and Money*
   c. Thomas Jefferson in the *Preamble to the Declaration of Independence*
   d. Adam Smith in *The Wealth of Nations*

8. Economic equality is the goal of which type of economic system?
   a. Capitalism
   b. Socialism
   c. Feudalism
   d. Mercantilism

9. The dominant economic system in the world today is best characterized as
   a. capitalist.
   b. communist.
   c. laissez faire.
   d. mixed.

10. The fastest-growing sector of the U.S. economy is which of the following?
    a. Goods producing
    b. Manufacturing
    c. Service providing
    d. Real estate