

Economics 10: Economic Systems

April 27 – May 1

Time Allotment: 20 minutes per day

Student Name: _____

Teacher Name: _____

Packet Overview

Date	Objective(s)	Page Number
Monday, April 27 & Tuesday, April 28	Analyze Hayek’s arguments against command economies and the impact command economies have on an individual	2
Wednesday, April 29 & Thursday, April 30	Analyze Hayek’s arguments against command economies and the impact command economies have on an individual	5
Friday, May 1	(1) Explain why command economies are attractive (2) Explain the important role of wealth inequality in wealth creation ***Quiz***	7

Additional Notes:

Remember, Guided Instruction via Zoom on Tuesday and Thursday from 1-1:50, you can connect with me via Zoom to ask questions, discuss concepts etc... However, you can email any time! Please continue to ask questions! E-mail: Patrick.Franzese@greatheartsnorthernnoaks.org.

Again, each day’s lesson is designed to take no more than 20 minutes. If you have spent more than 20 minutes on a lesson and/or you do not have access to a computer or the internet, then have your parent sign the page next to the “student expectation” section under each lesson and you will receive full credit for the assignment.

Academic Honesty

I certify that I completed this assignment independently in accordance with the GHNO Academy Honor Code.

Student signature:

I certify that my student completed this assignment independently in accordance with the GHNO Academy Honor Code.

Parent signature:

Monday, April 27 and Tuesday, April 28: The Road to Serfdom, Pt I

Objective: Be able to do this by the end of this lesson.

Analyze Hayek’s arguments against command economies and the impact command economies have on an individual

Student Expectations: Annotate the reading and answer the questions.

Introduction to Lesson(s)

As we saw last week, there is a very strong correlation between those countries that have adopted more characteristics of a market economy and countries who are wealthier, happier, healthier and freer. Similarly, there is a very strong correlation between those countries that have adopted more characteristics of a command economy and countries who are poorer and suffer from less happiness, health and freedom. Given our previous study of early human nature, economic thought, and Adam Smith, this should not be surprising. When people are free to pursue their own interest and improve their own life, they will as a result of their own effort improve the lives of others. The question nonetheless persists as to whether command economies can succeed or whether there is something innate about them that will always cause them to fail. Our studies last week started to shed light on this question by highlighting that it is impossible for a central planner to have all the knowledge needed to efficiently run an economy. Moreover, we know that laws that are made often have unintended consequences. In fact, we saw this earlier in the course as well when studying the impact of price ceilings and price floors. Over the next four days, we will be exploring one of the most significant arguments again command economies and the centralized planning that is required, *The Road to Serfdom* by FA Hayek. Given the reading is long, both reading/annotating the excerpt and answering the questions below should take you approximately 80 minutes combined and thus will cover four lesson days. However, I have broken the reading in approximately half, so reading each part and then answering the associated questions should take approximately 40 minutes each. Please watch my introduction video and enjoy the reading!

Road to Serfdom, Pt I

Read pgs 122-132 (stop at “Why the Worst Get on Top”) and answer questions below.

1. What is the difference between power in the hands of individuals and power in the hands of the State? (see pgs 124-128) In answering, ponder Hayek’s comparison of who has more power over an individual: a millionaire or a government bureaucrat (see first full paragraph on page 125).

2. Finish this quote found in the reading, “What has always made the state a hell on earth has been precisely that man has tried to _____” (see pg 127)

3. What is the liberal way of planning? (see pgs 128-129)

4. What is the Great Utopia and why won't it work? (see pgs 129-132)

5. How has central planning changed the meaning of “freedom”? (see pg 130)

Wednesday, April 28 and Thursday, April 29: The Road to Serfdom, Pt II

Objective: Be able to do this by the end of this lesson.

Analyze Hayek’s arguments against command economies and the impact command economies have on an individual

Student Expectations: Annotate the reading and answer the questions.

Road to Serfdom, Pt II

Read pgs 132-147 and answer questions below.

1. Why do the “worst” get on top? (see pgs 132-137)

2. (Not in reading.) Consider those countries who have adopted command economies either today or in the 20th Century. Do the leaders of those countries prove or disprove Hayek’s claim that the “worst” get on top?

5. What is better liberal way or central planning? Why? (reflection on entire reading)

Friday, May 1 - Lesson: Why are Command Economies Attractive

Objective: Be able to do this by the end of this lesson.

- (1) Explain why command economies are attractive
- (2) Explain the important role of wealth inequality in wealth creation

Lesson Student Expectations: ***Take Quiz on page 10 after completing this lesson!***

Introduction to Lesson

Let's recall some statistics from the Council of Economic Advisors:

- 6 million deaths in 1932/33 due to starvation in the USSR
- 45 million deaths in 1959-61 due to starvation in China
- 90% reduction in the production of certain crops/livestock in Cuba, China and USSR
- 2 million people emigrating from Venezuela in the last 10 years alone

These countries had adopted a many, if not all, of the characteristics of a command economy. Economists such as Hayek and von Mises believe that a purely command economy is bound to fail. However, there are many reasons why people are attracted to command economies. Let us *briefly* consider a couple our recent lessons have touched upon:

1) Belief in Experts – Hayek discussed that experts simply cannot possess all the knowledge needed to efficiently and effectively plan the economy. Moreover, the “Law of Unintended Consequence” demonstrates how rules/laws have effects that were not foreseen or considered that either make the initial problem worse or create other problems. Nonetheless, it is tempting to think “if we can just get a group of really smart people in a room, we can come up with the perfect solutions.”

2) Lack of Understanding of the Free Market – As we have studied, free markets arose before governments did. This is not to say that government today does not have important responsibilities in operating the economy (protecting property rights and resolving disputes for example). However, because free markets occur naturally, we sometimes lack understanding of how they work. Remember, Hayek responded to the common belief that you need the government to fully operate the “free” market.

3) The Promise of Being Free from Want – Especially since there is so much material wealth that surrounds us, the legitimate question arises as to whether there can be a way to provide basic needs for everyone. If you read the Road to Serfdom closely, you will see that even Hayek (who was a champion of the free market) believed in providing people minimum standards for food, shelter, clothing, and health and social insurance. However, Adam Smith demonstrated how trade and specialization allow for wealth to permeate through an entire society. Nonetheless, many believe the best, and even only way, to provide for everyone is by adopting more characteristics of a command economy.

In today’s reading, we will further explore another reason why people are attracted to command economies, namely economic inequality. Jeff Bezos is worth approximately \$143 Billion, while the median household income in the United States is \$61,937. In other words, Jeff Bezos is worth the income of approximately 2,308,798 US households. Is this fair? Should this be allowed? Is this a defect of the free market? In today’s reading we will explore whether wealth inequality serves any purpose in a free market.

The Inequality of Wealth and Income

Read/annotate pgs 167-168 and answer questions below.

1. What are the two functions of the inequality of income distribution?

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2. Luxury consumption performs what useful functions?

3. Finish this quote found in the reading:

“The luxury of today is the _____”

Quiz – Week of April 27

(Complete without looking at your notes or packet!)

1. Which of the following arguments are set forth in *The Road to Serfdom*: (circle ALL that apply):

- (a) The liberal way of planning is better than central planning
- (b) The more centralized the power, the less heightened the power becomes
- (c) Competition is the only method which does not require the coercive or arbitrary intervention of authority
- (d) Democratic assemblies can function as planning agencies
- (e) Central planning leads to dictatorship and disregard for the Rule of Law

2. Finish this quote. According to Hayek: “What has always made the state a hell on earth has been precisely that man has tried to _____”

3. According to von Mises, wealth and income inequality are good because: (circle ALL that apply):

- (a) It justly rewards those who work harder and/or are more innovative
- (b) It provides incentives to individuals that greatly increases productivity in society
- (c) It allows for the luxury items to be created for the rich that, in time, become the indispensable necessities for everyone.
- (d) It is the fairest way to allocate the finite wealth that exists in the world

4. Finish this quote. According to Ludwig von Mises:

“The luxury of today is the _____”

5. Name two reasons why people are attracted to command economies:

(1) _____

(2) _____

