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BASIC ECONOMICS

CHAPTER 5: The Rise and Fall of Business

QUESTIONS

1. Dr. Sowell gives A&P, U.S. Steel, and Boeing as examples of businesses that once saw large profits, but which have shrunk drastically as the economy has changed over time. Give an example of a *new* business which has become very big in a relatively short amount of time (less than 10 years). What factors do you think contributed to this business's rapid success?

   Turo - the personal car rental business. It uses a resource that many people have, their own car. It is simple and technologically easy/accessible. It is localized to the area in need. It promotes small businesses which is a trend. It helps with additional income for the renter and saves the rentee money compared to big car rental companies. It also allows people to purchase a car such as a sports car that they might not be able to afford w/o 'renting' it out to make the payments. On the other hand it caters to the minimalists that think 'owning' a car is wasteful and only use one occasionally.

2. Name two reasons why profits dwindle for businesses even as demand remains high.

   Because other people will invest or produce the same product, so competition creates price changes and less profit individually.
   Changes in society like growth of a city, improved transportation can alter consumer purchasing

3. Think about the people who started J.C. Penney, Wal-Mart, and Ford Motor Company. Why is it that the ruling class has seldom matched the track record of economies based on competition and prices?

   The ruling class gets arrogant and they don't take into account the knowledge and insight of others that are in the communities they serve and can see the changing needs.

4. In Chapter 6 of the Economics textbook, we read that Adam Smith redefined the wealth of a nation as the prosperity of its people, not the stockpile of its government. How does a free market, coordinated by prices and operating under incentives, create a higher standard of living for the people?

   There is increased production when there are incentives to individuals with results of increased wages and then they spend more to improve their own lives eventually improving the standard of living

5. Name the factor of production that Sowell predominantly discusses in Chapter 5.

   Business leadership