

## BASIC ECONOMICS

### CHAPTER 6: The Role of Profits — And Losses

#### QUESTIONS

1. Explain how both profits and losses can provide helpful information to a producer or seller of goods.

A positive profit means that the price of the good is higher than the average cost of production, which implies that the producer or seller is efficient and competitive.

Losses show how much value a producer or seller is destroying for themselves and for their customers.

2. Which of these is the main and universal motivator that makes **most humans** around the world work hard, innovate, and make difficult discoveries?
  - A. to help their country advance, and its people prosper
  - B. to achieve the reward that profits will bring
  - C.** to make sure that people who aren't working hard, innovating, or discovering will still have food, housing, transportation, and healthcare
  - D. to earn the same pay as the person who isn't employed
3. Explain why a socialist/communist economy discourages innovation and a free-market economy encourages it.

a socialist/communist economy discourages innovation because it reduces the incentives for individuals to invest in research and development, to take risks, and to compete with others.

a free-market economy encourages innovation because it allows individuals to pursue their own interests, to keep the rewards of their efforts, and to respond to the signals of supply and demand.

4. Explain the idea that “When businesses compete, consumers win.”

The idea that “When businesses compete, consumers win” is based on the assumption that competition in the market leads to better outcomes for consumers. According to this idea, when businesses compete with each other, they have to offer lower prices, higher quality, more variety, and more innovation to attract and retain customers. This benefits consumers by giving them more choices, more value, and more satisfaction.
5. Capitalism has a cost, which is profits. Presumably this cost does not exist in socialism (although in reality it does). But there is a different cost under socialism. What is it?

the cost of socialism is the loss of economic freedom and efficiency. According to some sources, socialism reduces the incentives and opportunities for individuals and businesses to pursue their own interests, to innovate, and to compete in the market. This can lead to lower productivity, lower growth, lower quality, and lower diversity of goods and services. It can also result in higher taxes, higher deficits, higher inflation, and higher corruption.