**ECON-1740 U.S. Economic History**

**Free to Choose**

**By: Milton Friedman and Rose Friedman**

1. According to the authors, Adam Smith wrote of the three (3) essential roles of government.

What are these three (3) roles?

What is the fourth role of government that the authors added to Adam Smith’s list?

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| Role #1 | The duty of protecting the society from the violence and invasion of other independent societies. |
| Role #2 | Protecting every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice. (law and order) |
| Role #3 | Erecting and maintaining certain public works and certain public institutions which cannot be effectively provided for by the private markets. |
| Role #4 | Protect members of the community who cannot be regarded as “responsible” individuals such as children and the mentally ill or mentally handicapped. |

2. What are the four (4) arguments in favor of tariffs?

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| Argument #1 | Government security of foreign trade on behalf of National Security. |
| Argument #2 | To protect Infant Industries that could crash unless otherwise safeguarded. |
| Argument #3 | The “beggar-thy-neighbor” argument. |
| Argument #4 | Practicing free trade if other countries are also practicing it respectively, the US cannot afford free trade otherwise. |

3. To solve the problems of welfare programs, the authors proposed two (2) essential components of reform. What are they?

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| Component #1 | Reform the present welfare system by replacing the ragbag of specific programs with a single comprehensive program of income supplements in cash-a negative income tax linked to a positive income tax |
| Component #2 | Reduce Social Security while satisfying contemporary commitments, obliging people to assemble their own arrangements for their individual retirement. |

4. The Friedmans discuss countries/governments that experienced hyperinflation at various times in history? List the countries/governments that were affected during the historical periods below:

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| **1860’s**  | United States |
| **After World War I**  | Germany and Russia |
| **After World War II** | Hungary and China |
| **1970’s**  | Chile and Argentina |

5 The authors wrote that liberty is enhanced when government promotes personal equality or equality of opportunity. Alternatively, when the government promotes “fair shares for all,” liberty is reduced. Using the “fair shares for all” concept to calculate class grades, all students would receive an average grade (C+). This would be accomplished by taking points away from students earning A’s & B’s to give to students earning D’s & E’s. Distributing points equally would result in “fair grades for all.”

  Would you approve of this method in calculating your final grade? Why or why not?

  How would this differ from “fair shares for all” economically?

I would not approve of the “fair shares for all” concept.