LECTURE A: OVERVIEW OF ECONOMIC ANALYSIS

The first section of the course is a general introduction to "the economic way of thinking." It is important to realize several things about economics from the outset. First, economics is a *social science*, and economic theory is the foundation for most business disciplines. Second, economics is more a method of analysis or thinking, than "job training" or the study of specific "topics" like the economy, the stock market, or money.

Economists study a variety of issues, including marriage and divorce, drug addiction, prostitution, environmental decay, political economy, and government policy. For example, your professor almost exclusively studies the economic and social impacts of legalized casino gambling. Almost any social phenomenon can be studied from an economics perspective.

Economics is the only social science for which a Nobel Prize is awarded. More important than any of the specific topics discussed, an understanding of economic theory helps you to develop critical thinking skills with which you may analyze a world of interesting topics.

The political and economic climate during the past decade has been interesting: real estate bubble; financial system collapse; health insurance reform (and potential repeal); car company bailouts; record budget deficits; slow recovery from the 2007-09 recession; the 2016 election, etc. Economic events can affect your life in serious and unexpected ways, and your generation may bear the consequences of current political decisions.

A good understanding of microeconomics will help you after college when you become a taxpayer and begin caring more about what politicians do. You will be better informed and able to analyze the likely economic impacts of government policies.

There is no obvious organization to this first lecture; the purpose here is to expose you to a number of different issues that help to form the foundation of economic theory. The first thing you should learn in the course is that "economics" is all around you. Every decision that you make is an economic decision, whether or not it involves money.

- **The (Macro) Economy Today**

Before getting into the substance of the material for this course (microeconomics), it is worth taking some time to learn about what has been happening in the macro-economy during the past few years. As you should be aware, the U.S. went through a serious recession that began in Dec. 2007, just before President Obama took office. The recession "officially" ended in June 2009. However, even six years after it ended, some key economic variables were still not back to pre-recession levels. It has been a slow, weak economic recovery.

Recession is a technical term meaning negative economic growth (or negative gross domestic product [GDP] growth) for 6 months or longer. Usually increasing unemployment and falling prices are seen during recessions.

The slow recovery has worried many observers, especially since policies enacted by the federal government have seemed ineffective in helping the economy to grow.

The U.S. inflation-adjusted GDP growth rate since 2000 is shown in Figure A.1.

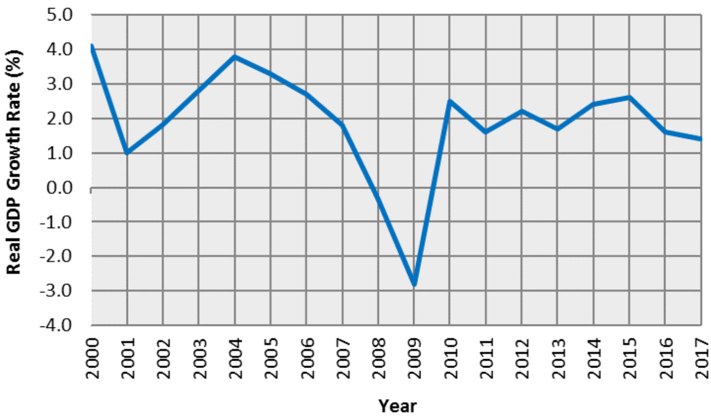

Figure A.1. U.S. real GDP growth rate, 2000-17
Data source: Bureau of Economic Analysis. The 2017 rate is for the first quarter.

During the recession the U.S. unemployment rate peaked at 10.0% in October 2009. It has since fallen to 4.4%, as of June 2017. South

Carolina's unemployment rate has been relatively high, peaking at 11.7% in December 2009. By June 2017 it had fallen to 4.0%.

Figure A.2 shows the U.S. unemployment rate since 2000. Note that the unemployment rate was between 4% and 5% from 2005 through 2007. Economists consider 5% to be a "normal" rate of unemployment.

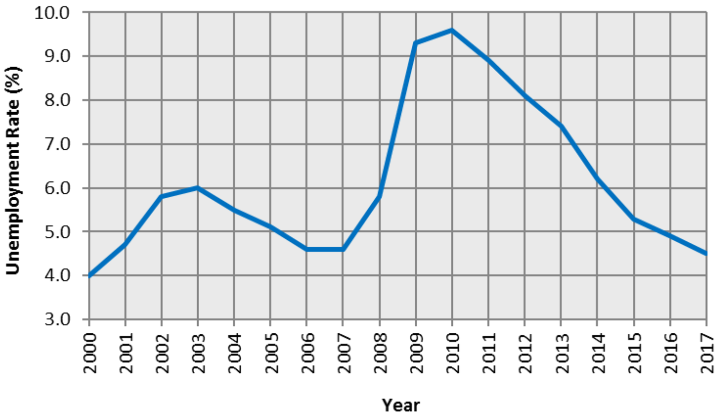

Figure A.2. U.S. unemployment rate, 2000-17

Data source: Bureau of Labor Statistics. The 2017 rate of 4.5% is the average monthly rate through June.

Although the unemployment rate has returned to a "normal" level, economists still worry about the stability of the economy. One reason for concern is that, although the unemployment rate has fallen, so has the "labor force participation rate." This is the percentage of the population that has or wants a job. This rate has fallen from just over 66% prior to the onset of the 2007 recession, to just under 63% in 2017. This change translates to about 9 million workers dropping out of the workforce. So now, although the unemployment rate looks better, there are lingering concerns about the shrinkage of the workforce and "underemployment" (i.e., people employed in jobs for which they are over-qualified, or they are working less than they would like). The labor force participation rate since 2000 is shown in Figure A.3.

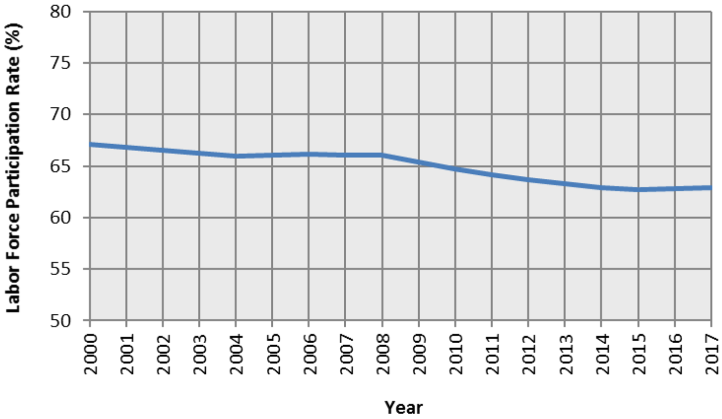

Figure A.3. U.S. labor force participation rate, 2000-17
Data source: Bureau of Labor Statistics. The 2017 rate of 62.9% is the monthly average through June.

When the labor force participation rate is shown separately for men and women, however, a slightly different picture is revealed. The rate for men has been steadily declining, from about 79% in 1972 to 69% in 2014. The rate for women increased from 44% in 1972 to 60% in 2000. It has been declining since then to about 57% in 2014.[1]

There are other continuing concerns about the state of the economy, mostly stemming from the slowness of the recovery from the 2007-09 recession. This may be due, in part, to uncertainty about the effectiveness of government policies designed to get us out of recession. One of President Obama's highest priorities during his first term was "economic stimulus." This amounts to government borrowing and spending. The theory behind increased government spending is that it will create demand for goods and services. When spending increases, production (GDP) should increase, as unemployment falls. We have been moving that way, but slowly.

The American Recovery and Reinvestment Act (aka "the stimulus plan") was passed in February 2009. However, only 64% of the $787 billion stimulus money had been spent by mid-2010. The time lag in spending caused the stimulus spending to be less effective than it might otherwise

[1] Source: Bureau of Labor Statistics

have been. There was a lot of debate among politicians and economists over whether such government spending was the right prescription at the time. I was opposed to both the stimulus package, and the $700 billion bank bailouts, called TARP (Troubled Asset Relief Program). However, other economists argue that the TARP program was absolutely essential and that the stimulus package seemed ineffective because it was not big enough.

Overall, my view is that the effects of government stimulus programs may be more political than economic. For example, the "Cash for Clunkers" program was touted by the media as being a great success. In December 2011, Congressman Barney Frank argued that the program, along with loans to U.S. auto-makers was very effective at turning around the industry.

For an enlightening perspective on the Cash for Clunkers program, do a YouTube search for "Volvo cash for clunkers," and watch what was done to cars.[2] It is hard to believe the government actually had a program that destroys valuable cars that some people would have been happy to have.

A more serious problem, in my view, with government programs like the TARP and auto industry loans, is the incentive effects of government bailouts. Why should taxpayers be forced to subsidize people who make bad decisions?[3]

Overall, my view is that the federal government is not very effective in "fixing" the macro-economy. However, it can have a large impact on which industries and/or firms survive. But such decisions may be corrupt. For example, Solyndra was a company that produced a solar energy technology. It received over $500 million in loan guarantees from the federal government, under the 2009 American Recovery and Reinvestment Act.[4] Then in 2011, a few months after paying large bonuses to executives, the company closed and filed for bankruptcy.[5] Critics suggest the Solyndra case is an example of "crony capitalism" that

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[2] See one example at http://www.youtube.com/watch?v=waj2KrKYTZo.

[3] For an interesting examination of the financial crisis and bank bailouts, see the 2010 documentary *Inside Job*.

[4] See http://articles.latimes.com/2011/sep/20/business/la-fi-solyndra-executives-20110921.

[5] See http://www.mercurynews.com/business/ci_19248768.

would never have happened in a free market (i.e., an economy with minimal government interference).

One certain result of our recent economic policies is a fast-growing national debt. Each year the federal government spends much more than it brings in from taxes. This is not new with the Obama administration, but spending increased dramatically during the recession. As shown in Figure A.4, the federal budget deficit averaged $1.3 trillion from 2009-12. The 2017 federal budget includes $4.1t in spending ($12,600 per resident) and $3.6t in taxes, so $500 billion must be borrowed to fund spending in 2017. This represents $1,540 of debt per resident.

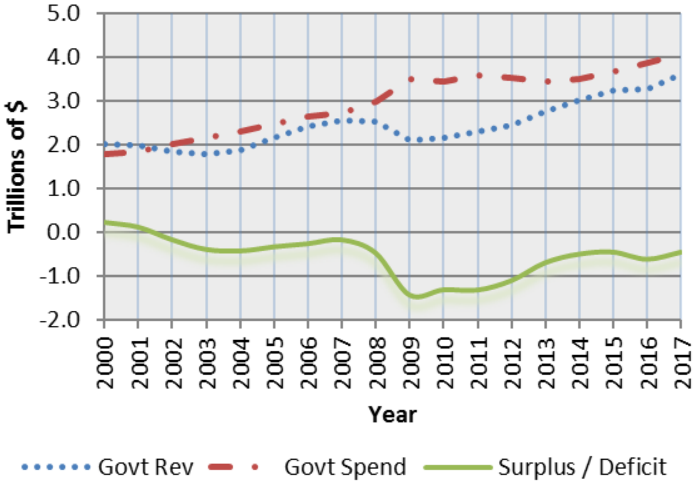

Figure A.4. U.S. federal fiscal trends, 2000-17
Data source: *2017 Economic Report of the President*, Table B-17. Figures for 2017 are government projections.

Large budget deficits are a real concern, because the money must eventually be repaid with higher future taxes. Before the Obama administration, Americans used to be concerned with $400 *billion* deficits. From 2002-08 the deficit was smaller, only close to $400 billion during two years, and we actually had a budget surplus under the Clinton administration, from 1999 to 2001. One thing is clear: Both major political parties enjoy spending other people's money – and they rarely cut spending.[6]

When you add up annual budget deficits, the total is our *national debt*. As of summer 2017, our federal debt is $20 TRILLION! That's $61,000 for each U.S. citizen.[7] Figure A.5 shows that, for the first time ever, our national debt surpassed GDP in 2013. (In Greece, this happened for the first time back in 1994; their 2015 debt:GDP ratio was over 1.75.)

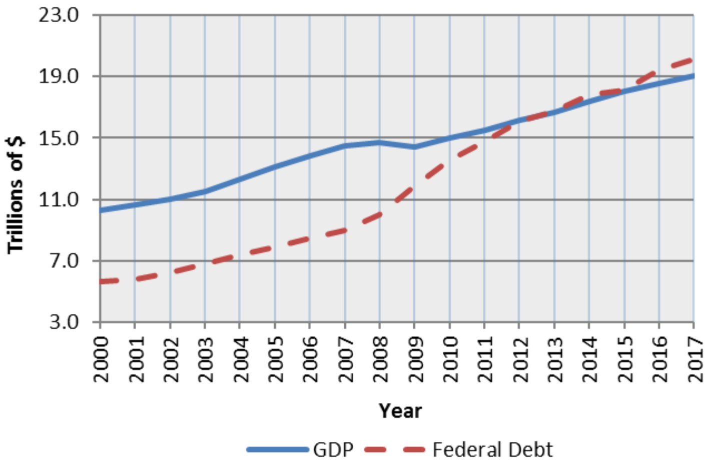

Figure A.5. U.S. GDP and federal government debt, 2000-17
Data sources: *2017 Economic Report of the President*, Tables B-2 and B-17, and the St. Louis Fed. The 2017 value for GDP is for the first quarter.

While republicans are quick to point out that the national debt almost doubled while Obama was President, obviously Congress is at least as much to blame. Despite the exploding national debt, politicians seem unwilling to reign in government spending.

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[6] In 2009 Obama announced that he'd cut $100 million from the budget. For an interesting illustration that puts this amount in perspective, see here: https://www.youtube.com/watch?v=cWt8hTayupE

[7] See http://www.usdebtclock.org for the current debt.

Hopefully after you take this class you will have a much better understanding of how markets are supposed to work. Once you see how markets work and how government policies affect them, you will be better prepared to consider more macroeconomic issues. You may come to realize that government is not as important as you have thought. In particular, U.S. presidents probably get more credit and blame than they deserve for the state of the economy. What happens in the economy is mostly the product of billions of decisions by consumers and producers. Government impacts some outcomes, but often only at the margin. Regardless of its effectiveness, government is *very expensive* for taxpayers.

- **Scarcity**
  - This is <u>the</u> economic problem
    - since we have unlimited wants but limited resources, we must make choices
    - each choice implies a cost – a foregone opportunity – an “opportunity cost”
      - “drive 55, save lives”? what about “drive 125, save time”?
      - coming to this lecture? you could have been doing something else
    - economics is the study of how to allocate scarce resources to make people as happy as possible
      - it applies to individuals, as well as societies
    - the price system will be our major focus, but there are numerous other ways to allocate scarce resources
      - lottery, by force, first-come-first-served
  - Do rich people or societies face scarcity?
    - Bill Gates could buy anything he wants, but still he faces scarcity
      - good health, limited lifespan, etc.
    - how about the U.S., which is a relatively rich society?

        - when we spend more on one program, there's less available for others
        - can government provide "free healthcare" or cheap health insurance by making more regulations?
            - consider the debate over "Obamacare" (passed 2010) and repeal (debated in 2017)
            - regardless, health care must be *rationed* somehow because it's scarce

- **Landsburg, "Introduction" and "The Power of Incentives" (Ch. 1)**
    - "People respond to incentives" is one of the most fundamental ideas in economics, especially when discussing government policies
        - consider the car safety mechanism: seatbelts increase the chance of surviving a particular accident, but increase the number of accidents
            - which effect is greater determines whether deaths ↑ or ↓ overall
        - if you can't believe this, what about the opposite?
            - suppose a spear was mounted on the steering column?
            - if driving is more dangerous, people drive more safely
    - What are some other cases with similar incentive effects?
        - "diet" foods, "light" cigarettes, condoms, etc.
    - Consider economic policies from the recession
        - government bailouts signal to companies, "don't worry if you have terrible management; taxpayers are there to help you"
            - this is not a good incentive signal to be sending
            - profits and losses serve very important functions in an economy

        - $4.00 gas (July 2008) was encouraging people to get rid of SUVs, conserve gas

- **Hazlitt, "The Lesson" (Ch. 1) and "The Broken Window" (Ch. 2)**
    - "The Lesson"
        - we should focus on both the short and long run effects, and on all affected parties
            - don't just look at the short run effects on beneficiaries
        - secondary (and unintended) consequences are very important to try to understand
    - "The Broken Window"
        - the unseen is just as important as the seen
        - the broken window fallacy, e.g., "war"

- **Economic Analysis: The Basics**
    - Economics is a social science, and it uses the scientific method
        - we develop and test hypotheses about how different variables are related
            - often we're interested in how people will react to some change in incentives
            - Ex: what will happen to the consumption of gasoline if prices rise?
            - Ex: what will happen to the popularity of lottery tickets if a casino opens?
    - Theories, models, and assumptions are important components of economic analysis
        - theories – ideas about how the world works, or an expectation about the relationship between variables
            - Ex: what to do if your TV doesn't turn on
            - Ex: how people react to higher prices
            - Ex: lottery and casinos are substitutes
        - models are simplifications of reality

    - we develop "economic models" to test theories about behavior
    - consider a road map: it's a model that is useful precisely because it ignores most aspects of reality – ignore irrelevant information
    - in modeling gambling behavior, we don't care about soft drink prices, etc.
- assumptions are starting points for developing models to test theories – parameters of the model
    - two key assumptions used in all in economic models: rational behavior; *ceteris paribus*
    - rational behavior – acting in your self-interest
        - people compare expected costs and benefits (EC, EB) of a particular action, and act only if EB > EC; otherwise they're not rational
        - this doesn't rule out altruistic behavior, and it doesn't pertain only to monetary transactions
        - Ex: students coming to lecture (long-run benefits?)
        - Ex: giving money to a church/charity (self-interested, but hardly selfish)
    - *ceteris paribus* – "holding everything else constant"
        - you must isolate changes because the world is so complicated
        - with an understanding of the important individual determinants of behavior, we can better explain and predict behavior
        - Ex: considering the impact of introducing casinos on lottery sales, assume no change in people's incomes
- by using theories, models, and assumptions, economic analysis aims to explain and predict behavior
    - most interesting applications are policy changes

- **Examples of "Rationality Riddles"**
  - You should assume people are rational and know what they're doing; don't just assume they're stupid
    - Ex: why do stores practice 99¢ pricing? (and why do people do it for cars and real estate?)

Figure A.6. Costco illustrates 99¢ pricing
Source: Costco.com, 2/19/16.

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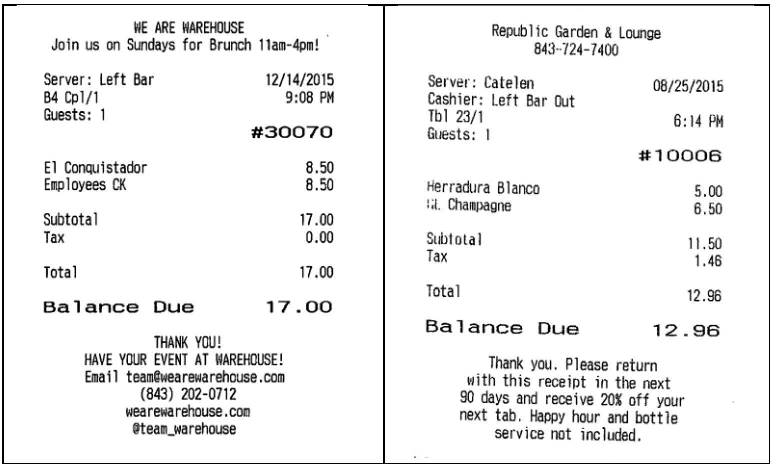
    - Ex: Why have companies advertised that their product is outdated or poor quality? (Buick, Domino's Pizza)
    - Ex: Why do some restaurants include tax in their prices (Warehouse), but others don't (Republic)?



WE ARE WAREHOUSE
Join us on Sundays for Brunch 11am-4pm!

Server: Left Bar 12/14/2015
B4 Cpl/1 9:08 PM
Guests: 1
#30070

El Conquistador	8.50
Employees CK	8.50
Subtotal	17.00
Tax	0.00
Total	17.00
Balance Due	17.00

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(843) 202-0712
wearewarehouse.com
@team_warehouse

Republic Garden & Lounge
843-724-7400

Server: Catelen 08/25/2015
Cashier: Left Bar Out
Tbl 23/1 6:14 PM
Guests: 1
#10006

Herradura Blanco	5.00
Gl. Champagne	6.50
Subtotal	11.50
Tax	1.46
Total	12.96
Balance Due	12.96

Thank you. Please return
with this receipt in the next
90 days and receive 20% off your
next tab. Happy hour and bottle
service not included.

Figure A.7. Receipts from Warehouse, which includes taxes in the prices, and Republic, which does not

        - Ex: Why do some bars put prices on menus for wine, but not beer?

- **Economic Analysis: The Basics (continued)**
    - There are two major branches of economics
        - micro and macro
    - Two types of statement
        - positive statements
            - can be tested and shown to be right or wrong
            - Ex: the unemployment rate is currently 10%
        - normative statements
            - are beliefs/opinions about what "should be" or what's "fair"
            - economists often disagree on what the proper role of government is
            - Ex: government should do more to lower unemployment
    - "Economic efficiency" is a major goal in economics
        - technological efficiency means producing the most possible given the inputs being used
        - allocative efficiency means we're producing what consumers want
    - Adam Smith's "invisible hand" concept – that individuals' behavior when acting in their own self-interest is often consistent with the "public good"
        - this is a very important insight that you should gain through learning about how markets work – a primary goal of this class

- **Opportunity Cost**
    - This may be the most important idea in economics!
    - Defined as the highest valued-alternative use of resources foregone in making any choice
    - "Cost" in economics means full opportunity cost
        - "explicit costs" are like accounting costs ($)

        - "implicit costs" are the value of non-$ resources
        - Ex: Cru Café for dinner (parking, wait time, $)
        - Ex: coming to the lecture
        - Ex: getting a college degree
            - is it rational to be in college if you don't expect to increase your salary?
        - Ex: why do salaries vary so much for professors of the same rank but of different disciplines?
            - from CofC in 2014, faculty salaries in different disciplines[8]: English, Teacher Ed, Philosophy, Anthropology ($60K); French ($52K), Accounting/Finance ($125-135K); Economics ($85K)
            - faculty salaries may reflect what graduates' relative salaries are likely to be

- **Sunk Costs**
    - These are costs that should be ignored – they are beyond recovery at the moment of decision
        - Ex: whether to finish your college degree
        - Ex: road trip to the beach in Florida
        - Ex: chasing losses at a casino
    - Rational decisions are made at "the margin," looking into the future, not the past

- **Modeling Opportunity Cost**
    - Opportunity costs can be illustrated using a production possibilities frontier (PPF) model
    - A PPF illustrates the maximum production quantities, given the following assumptions:
        - a single input (labor)
        - no unemployment of inputs

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[8] Data source: http://www.admin.sc.gov/accountability-portal/state-salaries. College of Charleston is listed as "University of Charleston." USC's football coach Will Muschamp earns the top salary in 2017 in the state, $1.1 million. Interestingly, the highest 8 salaries in the state are paid to athletics coaches and directors at USC, for a total of $4.3 million.

    - technology is fixed
    - two “goods” are produced; people like both
- Consider an example of how you could allocate 4 hours of time, assuming you can’t “split” hours
    - suppose the data in Table A.1 represent the “output” you’ll receive from working (W) and studying (S) different combinations of task for 4 hrs.

Table A.1. Time allocation for 4 hours

Hours Spent	Income ($)	Grade (%)
4W, 0S	$36	60%
3W, 1S	$27	70%
2W, 2S	$18	80%
1W, 3S	$9	90%
0W, 4S	$0	100%

    - we draw a PPF to illustrate the data from Table A.1

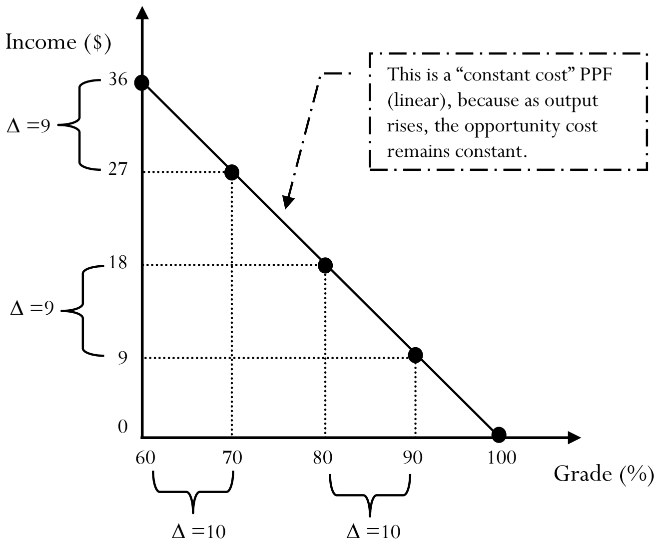

Figure A.8. PPF for a student’s 4 hours of time

APPENDIX TO LECTURE A

Economics and the "Big Picture"

Before going too far in learning economics, it might be useful to think about how economics fits into the big picture. Economic ideas apply to many important issues – much more important than, for example, giving you a framework to help decide whether you should study more or work more. In fact, no academic discipline may be more important than economics for helping you to analyze and understand how society can best be organized. Think about these questions: What type of govern-ment is best? What powers should it have? To what degree should people have freedom to make decisions? How should we decide who gets what?

Someone has to make such decisions, whether it's a brutal dictator or a large group of voters who, for whatever reason, liked Donald Trump and Hillary Clinton best out of all the possible candidates for President. An understanding of economics can help you identify which institutions and rules work – and why – and which do not, in helping people to most effectively deal with scarcity.

- **Big Economic Questions All Societies Must Answer**
  - Every society or group of individuals – whatever its history, culture, or political orientation – must address (at least) three basic questions
    - what should be produced?
    - who should produce it, and how much?
    - who should consume the stuff (and how much) once it is produced?
  - These questions would not be important if scarcity didn't exist
  - What rules and institutions will best help address the questions above? And who should make the decisions?
    - free individuals, through markets (the main focus of this course)
    - government dictators with unlimited power?
      - maybe what is happening in Venezuela?
    - committees composed of volunteers or elected officials?

        - some mix of the above?
    - Markets, though not perfect, are the most efficient mechanism for answering all of these questions, yet they are under attack today by politicians (both republicans and democrats)
        - markets would probably occur naturally; they're not the invention of someone
        - the functions of market prices, profits, and losses are typically misunderstood
            - hopefully after taking this course, you will understand these well
    - Consider the "Hate Corporations/Love Governments" ideology[9]

- **Circular Flow Model of the Economy**
    - This is a very simple model of an economy (Figure A.A1)
        - called "circular flow" since money and resources flow in a circle
    - Everyone has a role on the supply side and on the demand side
    - The model shows the fundamentals of exchange
        - both parties benefit (or at least expect to) from the transaction

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[9] http://blog.independent.org/2017/01/19/hate-corporations-and-love-governments-an-ideological-monstrosity/

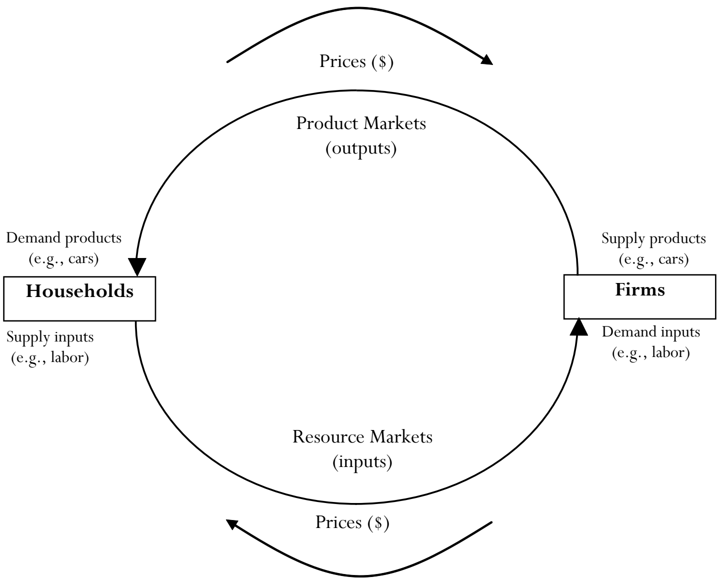

Figure A.A1. Circular flow model of the economy

- **Cooperation vs Competition in the Economy**[10]
  - Competition is a common topic in economics, but economic behavior is, by its nature, cooperative!
  - Much of this course deals with *mutually beneficial, voluntary transactions*
    - even the simplest trade illustrates that both parties expect to benefit
      - otherwise they wouldn't trade
    - Ex: $3 slice of pizza at Mellow Mushroom
      - who values what more?
  - Production, consumption, and "competition"
    - competition implies zero-sum
      - like sports: if one team wins, the other loses

[10] This section follows Rubin, "Emporiophobia (Fear of Markets): Cooperation or Competition," *Southern Economic Journal* 80(4): 875-889 (2014).

        - but production is cooperative – a lot of people must come together to build a car
        - yet, a firm does compete with others for customers
            - this may be the only sense in which competition is relevant – and it's a good thing
        - consumers may compete with each other to find the best bargains, best products, which may be scarce
    - Consumers versus producers
        - consumers like low prices, and abundance
        - producers like high prices, and scarcity (for what they produce)
        - consumers' interest in abundance is more consistent with the best interest of society
        - still, each transaction that occurs in a market is an example of cooperation, and is mutually beneficial

- **"Emporiophobia"**
    - The benefits of free markets and trade are easily distorted or misunderstood, and many people distrust or dislike "markets"
        - this may be if people see sellers' profits as coming at the expense of consumers, as if they must be losers in the exchange
        - common with international trade
            - consider Trumps rhetoric about trading with China, that we're "getting killed" by our trade deficit
                - suggests zero-sum
    - Ex: T. Boone Pickens' ("The Pickens Plan") says that our purchase of foreign oil is the "largest transfer of wealth in history." His website explains[11]:

[11] See http://www.pickensplan.com/the-plan/. The website appears to only be updated during presidential election seasons; there were quite a few updates during 2016. The "largest transfer" quote was on the webpage in 2008; the longer quotation was from August 2017.

"In addition to putting our security in the hands of potentially unfriendly and unstable OPEC nations, we are jeopardizing our economy. In 2013, we imported 1.35 billion barrels of oil from OPEC at a cost of $147 billion. Over the next 10 years, this addiction will be $2 trillion. In the history of mankind, no country has ever sent this much wealth out of its borders."

    - Our own Sen. Lindsey Graham sympathizes with this view, according to his statement during the "happy hour" debate among republican presidential candidates (8/6/15):

"…we're going to become energy independent. I am tired of sending $300 billion overseas to buy oil from people who hate our guts. The choice between a weak economy and a strong environment is a false choice."

    - but it's not a "wealth transfer"; we get something of greater value than the money we spend! (Otherwise we wouldn't buy it.)
  - Politicians love to blame bad outcomes on markets, often when government had a hand in making things worse

- **How Would You Organize a New Society?**
  - Imagine we were tasked with organizing a new society
    - establish rights, rules, laws, etc.
    - we want a high standard of living (consumption), which requires production
      - we have to somehow decide what should be produced, who should produce it, etc.
  - Economics deals mostly with *efficiency*, but there is often a conflict with *fairness*
    - what is "fair" is subjective
  - Human nature is mostly good, and most voluntary behavior with others benefits society
    - yet, with complete freedom, some people would take advantage of the system and other people

- Government is the only institution with the legal right to use force against people
  - laws and regulations often represent coerced behavior – either direct force of the threat of force
    - as an example, the U.S. Constitution outlines rights of people and the limitations of government power
- John Rawls presented a thought experiment for considering how to design a just society[12]
  - "justice as fairness"
  - citizens choose jointly principles to assign basic rights and duties
  - Rawls suggests these principles of justice should be established from behind the "veil of ignorance":

  "No one knows his place in society, his class position or social status, nor does anyone know his fortune in the distribution of natural assets and abilities, his intelligence, strength, and the like."

  - the initial status quo is called the "original position"
  - would you want some basic social safety net?
    - Ex: minimum amount of food or income provided, financed by taxes?
    - Ex: basic health insurance?
    - Ex: simply equal treatment under law?
- In "Why Does Johnny So Rarely Learn any Economics," Heyne argues that most people do not understand how an economy works, so they should not have input in making the rules affecting the economy
- Libertarians argue for a minimal role of government
  - enforce contracts
  - provide national defense
  - a basic "social safety net"
- Others argue for a much larger role of government

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[12] This section is based on John Rawls, *A Theory of Justice*, revised ed. (1999 [1971]).

        - provide "free" health care
        - guarantee a "fair wages" for everyone
        - limit salaries of CEOs, etc.
    - The U.S. Constitution outlined the rights of people and the limitations to government power
        - we've moved far away from the Constitution
        - consider "You're Afraid of Power, Not Trump"
    - A solid understanding of economics is important for understanding how a just society could be organized

- **Forms of Government**[13]
    - Although we will not go into much detail about various forms of government, it's worth defining a few
        - Anarchy – lawlessness or political disorder brought about by the absence of government authority
        - Authoritarian – state authority is imposed onto many aspects of citizens' lives
        - Communist – the state plans and controls the economy and a single – often authoritarian – party holds power; state controls are imposed with the elimination of private property and capital, while claiming to make progress toward a higher social order in which all goods are equally shared by the people (i.e., a classless society)
        - Democratic Republic – the supreme power rests in the body of citizens entitled to vote for officers and representatives responsible to them
        - Dictatorship – a ruler or small clique wield absolute power, not restricted by a constitution or laws
        - Federal republic – the powers of the central government are restricted, and the component parts (states, colonies, or provinces) retain a degree of self-government; ultimate

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[13] This is a very short discussion of a very complex topic. These definitions are quoted or paraphrased from the CIA's *The World Factbook*, https://www.cia.gov/library/publications/resources/the-world-factbook/docs/notesand defs.html?fieldkey=2128&term=Government%20type.

sovereign power rests with the voters who choose their government representatives

- Marxism – Karl Marx viewed the struggle of workers as a progression of historical forces that would proceed from a class struggle of the proletariat (workers) exploited by capitalists (business owners), to a socialist "dictatorship of the proletariat," to, finally, a classless society (Communism)
- Socialism – the means of planning, producing, and distributing goods is controlled by a central government that theoretically seeks a more just and equitable distribution of property and labor; in reality, most socialist governments have ended up being no more than dictatorships over workers by a ruling elite.
- Totalitarianism – government seeks to subordinate the individual to the state by controlling not only all political and economic matters, but also the attitudes, values, and beliefs of its population