Following are possible answers to the Reading Notes.

Section 2

1. *Protecting property rights, summary:* The government protects the ownership of resources, such as land, personal possessions, physical assets, and intellectual property. *Examples:* The court system, assisted by the police force, enforces property rights. The U.S. Patent and Trademark Office issues patents, copyrights, and trademarks.

2. Wheelan suggests that good government is necessary and beneficial to a market economy. Bad government, he argues, thwarts capitalism and leads to poverty.

3. Pictowords will vary.

Section 3

1. *Maintaining competition, summary:* The government works to prohibit practices that restrict competition and to prevent the formation of monopolies. *Examples:* The Justice Department and Federal Trade Commission prohibit such practices as price fixing, bid rigging, and market division. Regulatory agencies monitor activities that might lead to mergers.

   Protecting consumers, savers, and investors, summary: The government provides information about products and ensures that goods and services are safe and dependable. *Examples:* The Consumer Product Safety Commission protects Americans against undue risks associated with consumer products. The Federal Deposit Insurance Corporation insures bank deposits. The Consumer Financial Protection Bureau makes and enforces rules in markets for financial products.

   Protecting workers, summary: The government works to safeguard the interests of workers and to protect their physical well-being. *Example:* The Occupational Safety and Health Administration sets safety and health standards for industries.

2. Analogies will vary.

Section 4

1. *Addressing externalities, summary:* The government works to promote positive externalities and limit negative externalities. *Examples:* The government subsidizes consumers and producers of education. The Environmental Protection Agency sets standards for air quality and requires states and cities to meet them.

   Providing public goods, summary: The government produces goods or services that anyone can use free of charge. *Examples:* The government builds and maintains dams and provides for national defense.

2. Corrective taxes on pollution give producers an incentive to reduce their harmful waste products while having the benefit of raising government revenue. Economists generally prefer market-based policies to deal with negative externalities because these policies use incentives, rather than rules and enforcement, to change producers' behavior.

3. Answers will vary.

4. Pictowords will vary.

Section 5

1. *Promoting economic stability, summary:* The government makes sure jobs are secure, goods and services are readily available, and prices are predicable. *Examples:* The government establishes a widely accepted currency. During economic slowdowns, the government provides tax incentives to encourage businesses to invest in capital equipment.

   Redistributing income, summary: The government collects taxes from some Americans and distributes the money to others to achieve greater income equality. *Examples:* The government provides benefits, services, and work opportunities to needy families. State governments provide unemployment insurance for workers who are laid off from their jobs.

2. Government issues economic stimulus package. ⟶ Individual taxpayers receive tax rebate. ⟶ Taxpayers spend money on goods and services. ⟶ Businesses make more money. ⟶ Jobs are more secure. ⟶ Prices are more predictable. ⟶ Economy is more stable.

3. Answers will vary.