

## Answer Sheet

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### **Identify your Mentor:**

The Grand Architect of the Universe

### **Establish the narrative explaining the relationship between real GDP and income per capita.**

Real GDP per capita is used to measure the total combined output of a given country with the GDP divided by the total population of the specific country. On the other hand, the income per capita is reflecting the income per person in the country during a specified timeframe.

The GDP is generally used as indicator for the standard of living and increasing GDP is said to reflect economic productivity. However, the GDP only considers productivity, i.e., the value of goods and services produced. When looking at the income per capita, which is simply based on the calculation of overall income all together divided by the population, it merely combines the income received from production in the specified economy during the specified timeframe. Another way of calculating it is to equal the GDP to the total income of a country. Nevertheless, in any case, this appears to be with a great margin of error since it provides an equal share of the country's total income to every individual as in every person of the country. Additionally, it does not reflect any indication on a disposable income since real cost and inflation are not considered. This evidently, nowadays, appears to be far from reality as a widening gap between high-end earners and low-end earners becomes visible. Undoubtedly, the true distribution of wealth is not equal in today's modern world, but rather highly distorted, with a few people owning a vast majority of it. The standards of living can therefore not be compared to any person, the income for a decent living can not be calculated simply from an overall revenue.

**Note two other macro indicators and explain their relationship with CHANGES in real GDP per capita.**

Further to the above, one can and should add certain macro-economic indicators when considering productivity, wealth distribution and life quality of a country. Here, the numbers provided in terms of economic growth (real GDP growth), inflation (preferably real inflation), unemployment, and savings, will add considerable extra data that shall serve as indicators for a real-life scenario. This shall be with the intention of using as many indicators as possible rather than only one or a few given that data analysis can be more refined under utilisation of as many factors as possible, and the limitation of indicators will lead only to a very rough result which can be seen as useless.

While the GDP simply reflects the state of industries, and that not even only within the country, but also based on their offshore operations (most likely low-cost countries), the true situation within the country does not reflect it as such. Specifically, the indication of unemployment, inflation and available savings of the population rather show a broader picture. When industries and companies within the respective country are doing well, that does not typically mean that the population of the country is doing well either. In fact, the GDP as such, including changes thereof, do not reflect nor explain the true situation “on the ground”. One should rather gather more specific data on population lifestyle and situation, which in turn will paint a different picture of a country. Depending on the governmental structure, it may well be observed that industry does well, while people do not. Increasing GDP therefore should not be resulting in an assumption that the population is living a better life.

**Using common sense and explain how economic freedom is measured.**

First of all, common sense and economic freedom may not go well with each other. Common sense already limits freedom in today’s societies. Economic freedom may work in its very first beginning, but then centralisation occurs and power will start to be unequally distributed within the given the market. While economic freedom does not appear to be widely recognised, there are some institutions looking at it. A market under economic freedom seems generally seen as what is known a free market, with limited or rather no restriction, supervision, regulation, etc. All the way back to the economist Adam Smith, the rules of the idea of economic freedom and how to measure

it go. In a world filled with theories and often driven by an understanding less related to common sense, the ideas of free trade, enforcement of private property rights, and other political-economic vehicles were seen as vital to drive economic development and general prosperity. At a later stage, moving towards the new world, attempts to quantify and thereby measure economic freedom as a concept, emerged. Powered by the increasing capacity to gather and subsequently analyse data, empirical studies and statistics were not only possible yet also used to support the previously developed theories. As more data groups and sources appeared and developed, a significant number of aspects could be made use of in term of indicators. Here it has been seen that a combination of quantitative and even to some extent qualitative data became available, which allowed statisticians not only to become an important function within industry and academics, yet also to develop a massive playground for theorists and practitioners to use and abuse the data in terms of their own agenda. Just as Winston Churchill is said to have noted “The only statistics you can trust are those that you have created by yourself.”

Anyway, the most popular factors to measure economic freedom are, according to the Heritage Foundation:

- Property Rights
- Judicial Effectiveness
- Government Integrity
- Tax Burden
- Government Spending
- Fiscal Health
- Business Freedom
- Labour Freedom
- Monetary Freedom
- Trade Freedom
- Investment Freedom
- Financial Freedom

A score apparently is assigned and a ranking is established, with high score meaning more free. (Note: Access to the relevant sources is currently not possible from China.)

**Provide two explanations that explain how differences in real GDP per capita and varying degrees of economic freedom translate in (1) lower potential to earn income per person and (2) higher potential to earn income per person.**

1. A lower potential to earn income per person can be achieved by a number of factors to be implemented. Looking at the GDP per capita as described above, the income potential for an individual in the given country is less likely related to the revenue of the industry and thereby the country. Here, high economic freedom on the one hand can allow the business to create streams of revenue which are not beneficial to the employee. Setting aside equality, it may well be taken as establish that the beneficiaries of revenue contributing to GDP are vastly outnumbered by the general population which will not benefit thereof. Thereby, the distribution of the wealth reflected by the GDP can not be seen as equal or equally distributed. On the other hand, low economic freedom, with a high level of restrictions, regulation and bureaucracy may lead to high revenue contributing to the GDP, which nevertheless does not benefit society as such.
2. A higher potential to earn income per person can be achieved by similar activities as outlined under No.1 where the generation of wealth of a small number of beneficiaries relating to the industry of said country will experience a significant increase in wealth creation, which then by simple division through the number of populations is theoretically allocated to every person. However, another way to achieve this can also be a controlled development of the market, including labour market, which would allow for a more justified distribution of wealth. In such market, the profit would not accumulate at the top of the pyramid, yet trickle down all the way to even the base stakeholders. By this, wealth would be fairly and equally distributed according to the respective contribution by any person. This way, productivity would not be allocated only to the owner of the idea, but to everyone who made the idea happen.

### **Define market failure.**

Market functionality is based on a balanced supply and demand with a reasonable price development, each of which is considered to be natural and unmanipulated. This includes an artificial creation of demand, a restricted supply, inflated prices, and individual interest plays above collective interest. A general reason for market failure is often found in human nature, named greed.

**Explain its role in helping people prosper.**

Market failure is a wonderful, and these days widely used tool to help people prosper. In fact, it appears to be the most effective way for especially individuals to accumulate considerable fortune in a short time. Market failures allow for acquisition of resources and assets at a significantly low price. As markets will never vanish, yet only develop, a following reshaping of the market with resources and assets at hand will create a wonderful empire of businesses, i.e., suppliers, producers, and consumers before the end user, which turn out to often even pay a premium in turn. Looking at the current market situation, we see that already many businesses are grouped together with only a selected few centers of specialty, which again are generally funded, and thereby owned by only a few people who again are funded by even less people.

**Identify how government can help address market failure.**

Strong control, supervision and regulation by a government that puts the people first, and not its own interests, will successfully prevent market failure. Strategic planning ahead of time, with control mechanisms in certain time intervals, like five years, 10 years, 15 years, 20 years, 30 years and 50 years, will provide a solid framework for agile and sustainable development and growth.

**Provide two country- or industry-specific examples drawn from your country of choice.**

Countries: US and China

Industries: telecommunication and medical research

**Define government failure.**

A government is supposed to be a structure that assists the people to run, develop and protect their country. A government is supposed to represent all people in a way the people are represented within the country. A government is expected to serve the people, with the people being the country. Therefore, a government should be by the people and equally for the people. The government, however, may not be mistaken with the private sector, which nowadays often takes over responsibilities for government-related functions, which it often fails to fulfill due to profit-oriented approach rather than service, yet which it should rather compliment in public-private-partnerships based on serving country and communities. Private companies, however, may also serve the people through corporate governance and corporate social responsibility activities.

Government failure nevertheless, is not only defined by failing to doing all of the above, but also specifically when governments fail to successfully intervene during economic inefficiency and abuse of resources, especially scarce resources, and thereby fail to prevent a socio-economic emergency, resulting in a potential collapse of the country's macroeconomy.

**Identify the three sources described in Common Sense Economics (2016: Part 3).**

1. Information to make decision is not present or misinterpreted.
2. Political interests precede interest of the people.
3. Assets including money are wrongly allocated.

**Provide examples of each from your country or industry of choice.**

1. Many under-privileged countries without sufficient infrastructure especially relating to information technology, experience that data which is required to make a decision, is either absent or corrupted.
2. It has been observed over time that some countries, where the political influence is in the hand of a few, the same gets abused and results in market failure.

3. Again, in under-privileged countries, it is generally observed that assets that are available in the country including assets provided outside the country rather find their way into the hands of a few people who established themselves in power, rather than to the benefit of the people, of the country.

**Summarize the research on this topic and present two extreme rankings in economic freedom.**

No access to the relevant data from China.

**Use Common Sense Economics (2016: Part 3) to identify the key differences in (1) property rights and (2) role of government in markets.**

Property rights are generally considered to be individual rights of a person. The role of government is, as extensively outlined above, in the function of a mediator, representative and enabler of all people, i.e. the community and all the people of the country as such. Hence, the government represents all people. In order to be able to restrict or regulate the individual rights of property assigned to an individual in the country, the government will have to effect the action in terms of being beneficial to the larger community and the country itself. Thereby, the interest of the community and the country would find a higher value than the mere individual interest of one person. The idea of “one for all, all for one” should therefore be part of the culture in that country, as otherwise, dissatisfaction and potentially unrest may be the response.

**Explain and give examples of market and government failure in your country.**

There is no example available.

**Provide citations.**

Not applicable.

**Describe the relationship between economic freedom and life expectancy across countries.**

No relevant data available in China.

**Provide examples at the two extremes (low and high economic freedom rankings) to a country partner – key importer for your country. Yes, a country partner...**

No relevant data available in China.

**Tackle the relationship and explain why high degrees of economic freedom correlate positively with diverse and inclusive civil liberties using economic reasoning.**

This seems to be doubtful rather, see above, as this might lead to a market failure followed by a government failure.

**Provide examples for two countries – yours and one that is very different.**

No relevant data available in China.



**Cite two credible sources.**

No relevant data available in China.

**Using credible sources, define each with respect to how scarce resources are allocated.**

No relevant data available in China.

**Identify two strengths and two weaknesses.**

No relevant data available in China.

**Using credible sources, identify which has a better record of helping humans flourish on various fronts, with attention drawn to social, environmental, and governance.**

No relevant data available in China.