

Lesson 09: Entrepreneurship and Competition

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1. Lesson 09: Entrepreneurship and Competition

4. Chapter: Lesson 09: Entrepreneurship and Competition

1. Lesson 09: Entrepreneurship and Competition Questions

4.1.1. Why is the entrepreneur the "driving force" of a market economy?

Author: Robert Murphy

Why is the entrepreneur the "driving force" of a market economy?

- It is the entrepreneur who directly organizes economic affairs, deciding how resources will be combined and which goods will be produced in what quantities.

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4.1.2. In the real world, why are all capitalists also entrepreneurs?

Author: Robert Murphy

In the real world, why are all capitalists also entrepreneurs?

- In textbooks we neatly isolate the various functions (entrepreneur, capitalist, laborer, landowner, etc.). However in reality, an entrepreneur is ultimately someone who surveys the status quo and takes risky or uncertain actions to strive for a better future. Specifically, anyone who invests in a venture is acting as an entrepreneur, because the capitalist must believe in the project and stands to lose everything if the forecast is wrong.

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4.1.3. What motivates and regulates entrepreneurs in a market economy?

Author: Robert Murphy

What motivates and regulates entrepreneurs in a market economy?

- Competition.

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4.1.4. How does the competitive process unfold through "imitation and inno...

Author: Robert Murphy

How does the competitive process unfold through "imitation and innovation"?

- No entrepreneur starts from scratch. He or she first sees what others are doing, and then tries to make improvements in order to attract customers from others. Even someone who starts a completely new business is still competing (ultimately) against all other entrepreneurs, for the scarce dollars of potential customers. For example, a movie theater owner competes not merely with other theater owners, but also with the owners of amusement parks, and even the owners of restaurants and gyms. Whenever a customer spends money at one business, that is less money available for other shops.

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4.1.5. How does competition protect workers?

Author: Robert Murphy

How does competition protect workers?

- If a particular worker is being paid less than his or her marginal product, there is an opportunity for a competing entrepreneur to offer a higher wage and pocket the (smaller) gap. The only logical stopping point for this process is when all workers are paid in line with how much they contribute.

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4.1.6. Explain how entrepreneurs are the driving force of a market economy.

Author: Robert Murphy

Explain how entrepreneurs are the driving force of a market economy.

- Entrepreneurs perceive an opportunity to hire workers and buy other resources, in order to create a product or service for consumers. If the entrepreneurs are successful, they earn a profit, meaning that (in a sense) they are transforming resources into finished goods/services that have a higher value than what was used up in making them. It is the entrepreneurs who make the day-to-day decisions on how resources will be used.

Sample Partial Credit Answer

Entrepreneurs start new businesses

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4.1.7. Explain how an employer calculates the marginal productivity of a w...

Author: Robert Murphy

Explain how an employer calculates the marginal productivity of a worker.

- The employer estimates how much income or profit he would earn with the worker, compared to how much he would earn without the worker. (These estimates don't count the additional expense of hiring the worker.) The difference is the marginal productivity of the worker, and represents the most that the employer would pay to hire her.
Sample Partial Credit Answer
The employer pays the worker how much she is worth to the company.

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4.1.8. Explain how competition protects workers.

Author: Robert Murphy

Explain how competition protects workers.

- If a worker isn't being paid his marginal product, there is a "gap" making it worthwhile for a rival employer to make a better offer. In the long run, we therefore expect workers to make (close to) their marginal products.

Sample Partial Credit Answer

A worker can always quit her job if she doesn't like it.

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4.1.9. Explain how competition protects consumers.

Author: Robert Murphy

Explain how competition protects consumers.

- If a firm is making a low-quality or high-priced product, a rival firm can capture market share by offering higher-quality and/or lowerpriced items. No business can force consumers to buy its products or services.

Sample Partial Credit Answer

Consumers can shop around.

Check the answer of this question online at QuizOver.com:

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