

IF YOU CAN'T EARN A PROFIT, WHAT'S THE POINT?

Although Joslin didn't know it, twenty years before she started her business another young woman became responsible for an enterprise that sold similar products in another country. Natasha Volitnikov was promoted to manager of the People's Bag Enterprise in 1972. Instead of working for herself, Natasha was an employee of the government. She received plans and goals for her firm that were prepared by the central planning agency of the Soviet Union. The Soviet Union, a country that existed until 1991, had a command economic system. Below are a series of orders that Natasha was directed to follow. Explain how Joslin would make the same decisions in the mixed-market economy of the United States.

1. Natasha was told to purchase 1,000 bags a month from the Munske Bag Works at a cost of 5 rubles each.

How would Joslin decide where to buy bags and how much to pay?

2. Natasha was told to employ three clerks and pay them 1.25 rubles an hour.

How would Joslin decide how many workers to hire and what to pay them?

3. Natasha was told to charge customers 8 rubles per bag.

How would Joslin decide what price to charge for her bags?

4. Natasha was told to keep her enterprise open from 10:00 AM, to 5:00 PM seven days a week.

How would Joslin decide what hours to keep her store open?

5. Natasha received her pay of 70 rubles a week no matter how much money her enterprise took in.

What determines how much Joslin earns per week?

6. Explain why Joslin has more reason to work hard to provide quality products and service to customers than Natasha had in 1972.

7. What problems do these questions point out about command economies?

8. What does this exercise show you about the different ways command and market economies answer the three central economic questions?
