

## **Issue 2**

### **Consumer Welfare**

Is It Necessary to Protect the Consumer?

### **SYNOPSIS**

Conservatives argue that consumers are best able to determine for themselves what they should buy and that efforts to improve on consumer rationality diminish satisfaction, raise prices, and lower economic efficiency. Liberals maintain that consumers do not have enough strength to protect themselves from the manipulative power of giant enterprises. Radicals go beyond mere consumer protection, raising questions about uncritical consumption as an end in itself.

### **KEY CONCEPTS**

1. consumer sovereignty
2. substitution
3. price elasticity
4. cost-benefit analysis
5. diminishing marginal utility
6. social costs
7. consumer knowledge
8. external costs
9. effect of advertising upon demand
10. irrational consumption
11. market concentration

### **CLASSROOM DISCUSSION/ESSAY QUESTIONS**

1. What is the essence of the Conservative, Liberal, and Radical positions on legally imposing established safety standards for automobiles?
2. Conservatives speak strongly on behalf of consumer sovereignty, arguing for its logic in both economic and social terms. Respond to their argument that government interference is both costly and a denial of freedom to the individual.
3. Has the expanded availability of consumer product information (e.g., through the Internet) lessened the need for government rules and regulations over product safety?
4. Why are Radicals posed with a dilemma if they support consumer protection efforts?
5. What is the foundation of the Liberal justification for expanded consumer protection activity by government?
6. What are some of the social costs of the automobile? How should such costs be paid and by whom?
7. Radicals might argue that “the safety idea” has been a vehicle for increasing corporate profits and increased corporate concentration. What is the basis for this argument? What is your response to their argument?
8. Conservative policies have attempted to reduce the level of government activity on behalf of consumers. The underlying argument of this attack was that most consumer protection did little for the consumer and actually traded off jobs and living standards for marginal consumer

benefits. Do you think this approach is correct? Does it reflect your view of the problem? Why or why not? In what areas would you either reduce or increase—depending on your view—consumer protection?

### **MULTIPLE-CHOICE QUESTIONS**

1. The argument that the consumer is sovereign holds that
  - a. consumers must be protected by government.
  - b. consumers are the real source of power in the market.
  - c. consumers are by nature irrational.
  - d. None of the above.
2. The view that *caveat emptor* must be replaced by *caveat venditor* is most closely associated with
  - a. Liberals and Radicals.
  - b. Conservatives.
  - c. Conservatives and Liberals.
  - d. Liberals.
3. According to the concept of consumer sovereignty, consumers
  - a. should be protected from defective products.
  - b. demand for goods is manipulated by advertisers.
  - c. should join together into consumer protection action groups.
  - d. are and should be the final authority in determining output and prices.
4. *Caveat emptor*
  - a. suggests that sellers really are more powerful than consumers.
  - b. is the slogan of the consumer protection movement.
  - c. means “seller beware.”
  - d. was the title of a book written by Ralph Nader.
5. Using a cost-benefit analysis, most Liberals conclude that
  - a. automakers have charged consumers too much for safety.
  - b. it is impossible to calculate the benefits from auto safety.
  - c. costs associated with safer cars have more than paid for themselves in reduced accident and damage claims.
  - d. All of the above.
6. An example of the “external costs” of auto production is
  - a. higher pollution levels.
  - b. retail costs of auto safety equipment.
  - c. increased competition due to government interference in the market.
  - d. the cost of automobiles prior to the installation of safety features.
7. Since the imposition of auto safety codes, the ratio of deaths to drivers has
  - a. increased.

- b. decreased.
  - c. stayed about the same.
  - d. cannot be determined at this point in time.
8. According to the Radical view
- a. consumer protectionism is a highly effective restraint on the growth of corporate power.
  - b. consumer protection has had little negative effect on corporate profitability.
  - c. the Conservative and Liberal views represent a sharp choice on the role of consumer activity.
  - d. higher-priced autos will mostly have an adverse impact on wealthy consumers compared to less well-off consumers.
9. When confronted with Liberal claims that the monetary benefits from auto safety have exceeded costs, Conservatives
- a. concede that may in fact be the case.
  - b. believe that new cars are less safe than they need be.
  - c. point out that factors other than auto safety may have reduced auto injuries and deaths.
  - d. None of the above.
10. Conservatives see as one of the effects of auto safety standards
- a. reduced use of unsafe cars.
  - b. increased profitability for auto producers.
  - c. an increase in demand for automobiles.
  - d. excessive growth of government bureaucracy.
11. Liberals maintain that auto safety standards
- a. add no cost to retail auto prices.
  - b. add to private costs but produce greater social gains.
  - c. would have been voluntarily introduced by auto producers.
  - d. are not important to auto safety.
12. Radicals maintain that
- a. auto safety has been used to increase corporate profitability.
  - b. auto safety is unimportant.
  - c. safety standards are too high.
  - d. auto prices should be kept low so that everyone can afford them.
13. Conservatives are against laws banning cell phone use while driving because
- a. alleged benefits are too imprecise.
  - b. they distract drivers and increase car accidents.
  - c. auto producers would increase profits.
  - d. they promote driver awareness of traffic.

## ANSWERS TO MULTIPLE-CHOICE QUESTIONS

1. b

2. a
3. d
4. a
5. c
6. a
7. b
8. b
9. c
10. d
11. b
12. a
13. a

### TRUE-FALSE QUESTIONS

1. Liberals tend to value cost-benefit analysis techniques than do Conservatives. (T)
2. Consumer sovereignty and *caveat emptor* are mutually exclusive concepts. (T)
3. Concern over third-party (e.g., auto insurance company) costs is one of the basic justifications in the Liberal argument for auto safety standards. (T)
4. If the demand for automobiles is elastic, higher prices for safety should reduce total dollar sales. (T)
5. Radicals claim automobile safety standards improve consumer sovereignty. (F)
6. The external costs of automobiles would be reduced, Liberals argue, if the price of cars were greatly increased. (F)
7. Conservatives claim that the demand for autos is inelastic. (F)
8. Radicals claim that product safety concerns divert attention from the fundamentally irrational patterns of consumption and production. (T)
9. Ford Motor Company's experience in the late 1970s indicated that consumers were willing to pay the costs for greater safety. (F)
10. Consumer sovereignty and consumer protection are roughly equivalent economic concepts. (F)
11. *Caveat emptor* means "buyer beware." (T)