AP Macro and Microeconomics Summer Reading Assignment, Fall 2026

Book: Capitalism and Freedom, Milton Freidman

Pick up book from Mr. Roche's classroom (330) before leaving for the summer.

You should expect to spend 5-8 hours reading, and 1-2 hours to complete the questions assigned. The answers to the questions will be a graded assessment.

You should annotate and highlight as you read.

You may not quote or paraphrase any of the study guide chapter commentary language in your written answers.

Answers to the questions are to be submitted at the start of the first class in September. Answers must be handwritten. No printed answers will be accepted. No AI tools allowed.

STUDY GUIDE & QUESTIONS

Introduction

The introduction lays out the principles of Friedman's liberal, a man who supports limited and dispersed governmental power. Friedman opts for the continental European, rather than American, definition of the term. The book was a success, defending the economic institutions of the United States prior to the Great Depression.

In fact, many of Friedman's proposals have been influential. Today, the flat tax he advocated has spread throughout former communist countries, his floating exchange rate is used throughout the world and school voucher programs are becoming more popular. Free trade has increased substantially since 1962, though not to the extent Friedman proposes. The book was widely read, selling half a million copies since 1962. As a Nobel Laureate and monetary economist, Friedman's influence extends far beyond this book, but it is in Capitalism and Freedom that many of his core economic ideas are explained most clearly to the public.

Chapter one: The Relation between Economic Freedom and Political Freedom

In this chapter, Friedman promotes economic freedom as both a necessary freedom in itself and also as a vital means for political freedom. He argues that, with the means for production under

the control of the government, it is nearly impossible for real dissent and exchange of ideas to exist. Additionally, economic freedom is important, since any "bi-laterally voluntary and informed" transaction must benefit both parties to the transaction.

Chapter two: The Role of Government in a Free Society

According to the author, the government of a liberal society should enforce law and order and property rights, as well as take action on certain technical monopolies and diminish negative "neighborhood effects." The government should also have control over money, as has long been recognized in the constitution and society

Chapter three: The Control of Money

He discusses the evolution of money in America, culminating in the Federal Reserve Act of 1913. Far from acting as a stabilizer, the Federal Reserve failed to act as it should have in several circumstances. Friedman proposes that the Federal Reserve have a consistent rule to increase the money supply by 3-5% annually.

Chapter four: International Financial and Trade Arrangements

This chapter advocates the end of the Bretton Woods system in favor of a floating exchange rate system and the end of all currency controls and trade barriers, even "voluntary" export quotas. Friedman says that this is the only true solution to the balance of trades problem.

Chapter five: Fiscal Policy

Friedman argues against the continual government spending being used to "balance the wheel" and help the economy to continue to grow. Federal government expenditures do not make the economy more stable, but have failed to balance out recession, introduced inflation, expanded government control, and failed to lighten tax burdens.

Chapter six: The Role of Government in Education

The policy advocated here is vouchers which students may use for education at a private school of their choice. The author believes that everyone, in a democracy, needs a basic education for citizenship. Though there is underinvestment in human capital (in terms of spending at technical and professional schools), it would be foolish of the government to provide free technical education. The author suggests several solutions, some private, some public, to stop this underinvestment.

Chapter seven: Capitalism and Discrimination'

In a capitalist society, Friedman argues, it costs money to discriminate, and it is very difficult, given the impersonal nature of market transactions. He suggested government should minimize fair employment practices laws, as these inhibit the freedom to employ someone based on whatever qualifications the employer wishes to use.

Chapter eight: Monopoly and the Social Responsibility of Business and Labor

Friedman states, there are three alternatives for a monopoly: public monopoly, private monopoly, or public regulation. None of these is desirable or universally preferable. Monopolies come from many sources, but direct and indirect government intervention is the most common, and it should be stopped wherever possible.

Chapter nine: Occupational Licensure

This economist argues against state licensure. The biggest advocates for licenses in an industry are, usually, the people in the industry, wishing to keep out potential competitors. The author defines registration, certification, and licensing, and explains why the case for each one of these is weaker than the previous one.

Chapter ten: The Distribution of Income

Friedman examines the progressive income tax, introduced in order to redistribute income to make things more fair, and finds that, in fact, the rich take advantage of numerous loopholes, nullifying the redistributive effects. It would be far more effective just to have a uniform flat tax with no deductions, which could meet the 1962 tax revenues with a rate only slightly greater than the lowest tax bracket at that time.

Chapter eleven: Social Welfare Measures

Though well-intentioned, many social welfare measures don't help the poor as much as some think. Friedman focuses on Social Security as a particularly large and unfair system.

Chapter twelve: Alleviation of Poverty

He advocates a negative income tax to fix the issue, giving everyone a guaranteed minimum income, rather than current measures, which he sees as misguided and inefficient.

Chapter thirteen: Conclusion

The conclusion to the book centers on how, time and time again, government intervention often has an effect opposite of that intended. Most good things in the United States and the world come from the free market, not the government, and they will continue to do so. The government, despite its good intentions, should stay out of areas where it does not need to be.

Study Questions
Please answer the questions in a paragraph format, single spaced, font size 10, and be prepared to present your paper at the start of the new school year in September.

Why does Friedman call himself a liberal? What do you think a liberal is? Which form of liberalism do you find more compelling, Friedman's or the one you are most familiar with?

What do you think of Friedman's case for capitalism over a more centrally controlled economy at a general level? Illustrate your argument with three examples from the book.

Why does Friedman think that political and economic freedom rise and fall together? Has time vindicated him?

Is Friedman right that fiscal stimulus by the government is ineffective?

Do you agree or disagree with Friedman's case for school vouchers, and why?

Do you agree or disagree with Friedman's argument against occupational licensure, and why?

What do you think of Friedman's proposal to replace the welfare state with a negative income tax?

What other topics of economic discussion that were discussed by Friedman did you recognize, and how do they differ in today's public discourse?

Identify a new term you found interesting and describe why?

Were you convinced by Friedman's argument's that capitalism and freedom are highly correlated?