Chapter 1

*Introduction*

Answers to End-of-Chapter Problems

1. Today the vast majority of economic activity worldwide is organized by **market transactions**, which areactivities that produce and exchange goods and services that other people are willing to pay for. From poor rice farmers in Cambodia to multi-millionaire investment bankers on Wall Street, the market rules.

2. Technological change is uneven, moving much faster in some industries than others. Although information technology has evolved rapidly in recent decades, the pace of change in energy technologies has been much slower.

3. For a rich country like the United States, a big benefit of foreign trade is access to cheaper goods and services.

4. Most people justifiably have mixed feelings about financial markets, which can experience violent swings. For Americans who have a lot of their retirement money in the stock market, these downturns can seem devastating. Over the long run— say, 20 years—the stock market has historically almost always gone up. But in the short run it is subject to wide swings that can create large fortunes or steal hard-earned investments. Pick the right stock, and you can turn a small stack of money into a much larger pile. But make a bad investment or get caught in a stock market crash, and you can see your life savings disappear.

5. a. Government intervention represents the actions taken by government to affect the

economy.  
b. Economic competition is the effort by people and businesses to achieve a

desirable outcome given what everyone else is doing.  
c. Government intervention represents the actions taken by government to affect the

economy.

d. Economic competition is the effort by people and businesses to achieve a

desirable outcome given what everyone else is doing.

6. Without a medical degree and its associated education and training, there would be no assurance of the quality of medical services delivered. Consumers would have to determine skill through trial and error, which could result in increased fatalities.

7. There are plenty of ways to measure an economy. But one key indicator is known as the gross domestic product (GDP), which is the dollar value of the total output of a national economy over a year.

8. The safety net makes an enormous difference in the well-being of low-income households. The food stamp program, for example, provided low-cost food to roughly 47 million Americans in 2014, with the average person getting $1,500 in benefits. The Medicaid program helped about 54 million low-income people with medical costs. And the earned income tax credit—a tax program designed to help low-income wage earners—gave an average benefit of over $2,500 to 27 million U.S. tax filers.

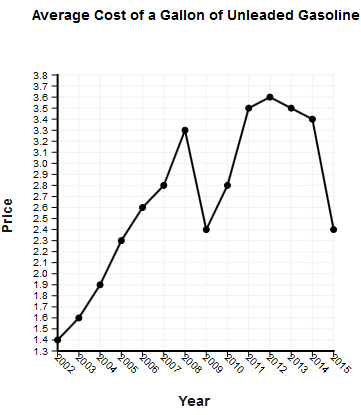
9. In some areas of economics there is little disagreement. However, plenty of important policy questions divide economists when it comes to the right amount of government intervention in the economy.

10. False. Reputable economists disagree about whether the government’s response to the Great Recession was too big, too small, or just right. There is debate over how big the government’s role should be in health, education, and retirement. Likewise, there is no consensus among economists — or anyone else, for that matter—about how best to improve the educational system. An important ongoing controversy concerns the right level of federal taxes.

Answers to APPENDIX Problems

1. Reviewing the graph and focusing on 2007, the bar reaches the height of 7 million.

2. a. See graph below



b. From 2004 to 2008, the line is upward-sloping.

3. There is an inverse relationship between the price per ticket and attendance. This graph is downward-sloping.

