**Answers to Discussion Questions**

1.1 Name three examples of each of the following (other than those given in the text):

a. Goods that are provided centrally, by the government.

b. Goods that are provided by firms operating in decentralized markets.

c. Goods that are provided both centrally by the government and by firms operating in decentralized markets.

d. Goods that are provided through some decentralized procedure other than markets.

Answer:

Possible answers for each are indicated below

a. Police protection, fire departments, and the Coast Guard.

b. Clothing, entertainment, and furniture.

c. Education and environmental protection.

d. Free concert tickets (offered on a first-come, first-served basis).

Explanation:

Markets- Economic institutions that provide people with opportunities and procedures for buying and selling goods and services.  
  
Market economy-Allocates scarce resources primarily through markets. In a *free market system*, the government mostly allows markets to operate as they will, with little regulation or other intervention.

1.2 Which of the following statements are positive and which are normative? Why?

a. The U.S. government should eliminate the estate tax.

b. The income tax causes people to work less.

c. Public education improves the well-being of the average citizen.

d. Exercise lowers the risk of heart disease.

e. Exercise is good for you.

f. Most people would choose pizza over tacos.

g. Most people are better off with pizza than with tacos.

Answer:

a. Normative. This is stating an opinion or value judgment.

b. Positive. This is a testable hypothesis.

c. Normative. This is stating an opinion or value judgment.

d. Positive. This is a testable hypothesis.

e. Normative. This is stating a value judgment.

f. Positive. This is a testable hypothesis.

g. Normative. This is stating an opinion or value judgment.

Explanation:

Normative economic analysis- Addresses questions that involve value judgments, also known as *normative questions*. It concerns what ought to happen, rather than what did, will, or would happen.  
  
Positive economic analysis- Addresses factual questions, also known as *positive questions*, usually concerning choices or market outcomes. It concerns what did, will, or would happen. Positive statements are measurable and testable.

1.3 Every decision involves costs and benefits. As a result, some economists believe that the methods of economic analysis can and should be applied to all human decision making. Do you agree or disagree? Are there certain types of decisions that economists shouldn’t study? Justify your answer.

Answer:

Yes. Many human decisions lack the necessary requirements for much economic study.

Explanation:

Microeconomics- Often referred to as the theory of choice. While there can be much to gain from approaching every choice with economic analysis (opportunity costs, marginal cost versus marginal gain), many human decisions lack the necessary requirements for much economic study. Too often decisions, especially those that invoke many emotions, will be expressed in nonquantifiable terms. This leaves results vague and mutable from person to person.

1.4 Latanya believes that people are irrational; that each person is irrational in his or her own special way; and that the nature of a person’s irrationality sometimes changes from one moment to the next. Is her belief a theory? Does it have implications that can be verified or falsified? Is it a useful theory?

Answer:

Latanya’s statements are not a theory but merely a set of observations.

Explanation:

Scientific method- The general procedure used by scientists to learn about the characteristics, causes, and effects of natural phenomena.  
  
Theory- A possible explanation for a natural phenomenon.  
  
Latanya’s statements are not a theory but merely a set of observations. These statements do not attempt to explain the irrationality of people. These statements do not appear to be verifiable or falsifiable. If a person acts rationally one day, this could fall into the second or third statement that “this is not this person’s special irrationality” or perhaps his rationality changed. While the statements are broad and apply to all people, they are not testable and therefore not useful.

1.5 Which of the following are models? Explain.

a. Red sky at night, sailors’ delight. Red sky at morning, sailors take warning.

b. Let sleeping dogs lie.

c. What goes around comes around.

d. Cleanliness is next to godliness.

e. Absence makes the heart grow fonder.

Answer:

a. This statement is a model.

b. This statement is not a model.

c. This statement is a model.

d. This statement is not a model.

e. This statement is a model.

Explanation:

Model- A simplified representation of a phenomenon—a story or analogy that explains how part of the world works. Typically, a model provides an account of cause and effect.  
  
Statement *a* is a model of the weather at sea. Statement *c* can be considered a model of cause and effect, or karma. Statement *e* models the increased desire for something we are forced to go without. The other statements do not make an attempt to represent how things work.

1.6 Economists often assume that most people are motivated only by their own material self-interest. Is this assumption always, usually, sometimes, rarely, or never a good one? Give examples to justify your answer.

Answer:

This assumption is *usually* a good one.

Explanation:

It is fair to say that people are motivated by *self-interest.* Self-interest does not have to be material and often times is not based on any material gain but benefits of another nature. The decision to exercise or play video games has little to do with material gain (for most people—excluding professional athletes and game testers). The decision to spend time with family and friends also does not lead to material gain. *However, much of our time is spent in some form of commerce; hence this assumption often yields a correct conclusion.* For example, in studying patterns of household spending on consumption goods like food, clothing, and shelter, it’s probably reasonable to assume that people care only about their material self-interest. But in studying charitable contributions that certainly is not a good assumption.

1.7 Which of the following is a natural experiment? Which is more likely to produce a reliable answer? Explain.

a . Elena wants to determine whether rain causes people to drive less. To do so, she compares the amount of gasoline sold on an average day in March in Seattle, Washington (where it rains a great deal), and in Los Angeles, California (where there is much less rainfall).

b . Annika also wants to determine whether rain causes people to drive less. To do so, she compares the amount of gasoline sold on an average rainy day in March and on an average sunny day in March in San Francisco, California.

Answer:

Both experiments are natural experiments. Experiment B is more likely to produce a reliable answer.

Explanation:

In a *natural experiment*, the circumstances of otherwise identical people differ entirely by chance. An economist attributes differences in the average outcomes for those people to the differences in their circumstances.  
  
Both of these experiments are natural experiments because they occur outside of a laboratory and no variable is directly controlled. Experiment B would produce a more reliable conclusion. By studying the same city, many variables like average distance traveled, road conditions, and drivers' preferences are naturally controlled.

1.8 Going to college involves trade-offs. What are they? Make your list as complete as possible.

Answer:

Present salary versus future salary.

Leisure time versus study time.

Less debt versus student loan debt.

Explanation:

Trade-offs are unavoidable. Economists remind us that there’s no such thing as a free lunch. Simply put, scarcity forces us to confront trade-offs. To get something we want, we must usually give up something else. Every choice involves trade-offs. In selecting one alternative, we forgo others. For example, if you want to get good grades you have to study, but since your time is scarce you socialize less.

1.9 Give some examples of how thinking on the margin is important to making good decisions. Are there times when thinking only on the margin can lead to mistakes? Give an example.

Answer:

Answers will vary. Some examples of thinking at the margin include: choosing another slice of pizza, adding more car insurance to an existing policy, studying one more hour for an economics exam.

Yes, there are times when thinking *only* on the margin can lead to mistakes; other cost values must also be considered. Marginal costs can increase total costs to an unaffordable level.

Explanation:

Good choices are usually made at the margin. While some decisions have an all-or-nothing quality, most are matters of degree. For example, registering for a course in microeconomics is an all-or-nothing choice, but preparing for a test is not.  
  
Marginal thinking is good for decisions of degree. *Will pushing the snooze button give me more energy for the day? Will having dessert with dinner ruin my diet?*  
  
Sometimes marginal thinking can cause mistakes especially when all aspects of the decision are not considered. Suppose a large purchase of some type and possible upgrades cost an additional $5,000. After marginal analysis, you decide that the upgrades are worth the money. However, when the upgrades are added to the total cost, the monthly payment is now more than you can afford. Without looking at the big picture, you would choose something you could not afford. Similarly, if a producer is operating at a loss greater than their fixed cost, they should immediately terminate operations.

1.10 Give three examples in which you or someone you know has responded to an economic incentive.

Answer:

Answers will vary, examples may include:

a. Anyone who bought a hybrid car because of generous tax rebates.

b. A child who studied diligently because he was promised money for good grades.

c. Businesses and home builders who build more energy efficient structures in response to tax incentives.

Explanation:

People respond to incentives. To determine whether an action is desirable, a good decision maker carefully weighs the benefits and costs. Benefits provide incentives to take the action; costs provide disincentives. The action becomes more attractive when benefits rise or costs fall, and less attractive when benefits fall or costs rise. Any development that changes benefits or costs has the potential to alter behavior.