

Problems Appendix

CHAPTER 1

1-1 Explain the economic problem of scarce resources and unlimited wants

1. *(Definition of Economics)* What determines whether or not a resource is scarce? Why is the concept of scarcity important to the definition of economics?

1-2 Describe the forces that shape economic choices

2. *(Rational Self-Interest)* Discuss the impact of rational self-interest on each of the following decisions:
 - a. Whether to attend college full time or enter the workforce full time
 - b. Whether to buy a new textbook or a used one
 - c. Whether to attend a local college or an out-of-town college
3. *(Rational Self-Interest)* If behavior is governed by rational self-interest, why do people make charitable contributions of time and money?
4. *(Marginal Analysis)* The owner of a small pizzeria is deciding whether to increase the radius of delivery area by one mile. What considerations must be taken into account if such a decision is to increase profitability?
5. *(Time and Information)* It is often costly to obtain the information necessary to make good decisions. Yet your own interests can be best served by rationally weighing all options available to you. This requires informed decision making. Does this mean that making uninformed decisions is irrational? How do you determine how much information is the right amount?

1-3 Explain the relationship between economic theory and economic reality

6. *(Role of Theory)* What good is economic theory if it can't predict the behavior of a specific individual?

1-4 Identify some pitfalls of economic analysis

7. *(Pitfalls of Economic Analysis)* Review the discussion of pitfalls in economic thinking in this chapter. Then identify the fallacy, or mistake in thinking, in each of the following statements:
 - a. Raising taxes always increases government revenues.
 - b. Whenever there is a recession, imports decrease. Therefore, to stop a recession, we should increase imports.
 - c. Raising the tariff on imported steel helps the U.S. steel industry. Therefore, the entire economy is helped.
 - d. Gold sells for about \$1,200 per ounce. Therefore, the U.S. government could sell all the gold in Fort Knox at \$1,300 per ounce to reduce the national debt.

8. *(Association Versus Causation)* Suppose I observe that communities with lots of doctors tend to have relatively high rates of illness. I conclude that doctors cause illness. What's wrong with this reasoning?

1-5 Describe several reasons to study economics

9. *(Studying Economics)* According to the text, economics majors on average make more money than most other majors and have more job opportunities. Are these the primary motivations one might have for studying economics? What are your motivations for studying economics?

CHAPTER 2

2-1 Describe the relationship between choice and opportunity cost

1. *(Sunk Cost and Choice)* Suppose you go to a restaurant and buy an expensive meal. Halfway through, despite feeling quite full, you decide to clean your plate. After all, you think, you paid for the meal, so you are going to eat all of it. What's wrong with this thinking?
2. *(Opportunity Cost)* You can spend spring break either at home working for \$80 per day for five days or go to Florida for the week. If you stay home, your expenses will total about \$100. If you go to Florida, the airfare, hotel, food, and miscellaneous expenses will total about \$700. What's your opportunity cost of going to Florida?

2-2 Explain how comparative advantage, specialization, and exchange affect economic outcomes (output)

3. *(Absolute and Comparative Advantage)* You have the following information concerning the production of wheat and cloth in the United States and the United Kingdom:

	Labor Hours Required to Produce One Unit	
	The United Kingdom	The United States
Wheat	2	1
Cloth	6	5

- a. What is the opportunity cost of producing a unit of wheat in the United Kingdom? In the United States?
 - b. Which country has an absolute advantage in producing wheat? In producing cloth?
 - c. Which country has a comparative advantage in producing wheat? In producing cloth?
 - d. Which country should specialize in producing wheat? In producing cloth?
4. *(Specialization)* Provide some examples of specialized markets or retail outlets. What makes the Web so conducive to specialization?