**January 28th Assignment**

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**Ch1 Economics: Foundations and Models**

1.9 [related to solved problem 1.1 on page 8] late in semester, a friend tells you, "I was going to drop my psychology course so I could concentrate on my other courses, but I had already put so much time into the course that I decided not to drop it." what do you think of your friend's seasoning? Would it make a difference to your answer if your friend has to pass the psychology course at some point to graduate? Briefly explain.

**Answer:** the student is failing to think at the margin. It doesn't matter how much time has already been spent studying psychology. What matters is the marginal benefit to be received from studying psychology relative to the marginal cost, where cost is measured as the opportunity cost of lower grades in other subjects. If the course is required, that may raise the marginal benefit.

If the student is earning a C, the student uses more time to study psychology which is the marginal benefit. MB > MC

If the student is failing the course, MB < MC.

2.11 Suppose that your local police department recovers 100 tickets to a big NASCAR race in a drug raid. Police decide to distribute the tickets to residents and announces that tickets will be given away at 10 A.M. Monday at City Hall.

a. What groups of people will be most likely to try to get the tickets? Think of specific examples and the generalize.

**Answer:** The groups that are most likely to get the tickets will be those for whom the expected marginal benefit of going to City Hall on Monday morning is greater than the expected marginal costs. These might include people who have a very low opportunity cost of traveling to City Hall and standing in line, such as people who don’t have a job in the morning and those who live or work very close by. These might also include people who see a large benefit from going to get the tickets, such as die-hard NASCAR fans or professional ticket scalpers.

b. What is the opportunity cost of distributing the tickets this way?

**Answer:** The major opportunity cost of distributing the tickets this way is the cost to the people who attempt to get the tickets – the cost of travel to City Hall, the activities that cannot be done (such as earning money at work) when one is standing in line, and the costs to all those people who try to get tickets but don’t get there soon enough. (There’s also the cost of people blocking traffic in and around City Hall.)

c. Productive efficiency occurs when a good or service (such as the distribution of tickets) is produced at the lowest possible cost. Is this an efficient way to distribute the tickets? If possible, think of a more efficient method of distributing the tickets.

**Answer:** This isn’t an efficient way to distribute the tickets because it wastes so much time. Perhaps the most efficient way to distribute the tickets is to hand them out unannounced to people walking by – this would take only a few minutes. Alternatively, the city could sell them back to NASCAR and have them distribute the tickets. Auctioning off the tickets to the highest bidder would ensure that those who were willing to pay the highest price would obtain the tickets.

d. Is this an equitable way to distribute the tickets? Explain.

**Answer:** Equity is hard to define. Some people will see this as equitable, because only the deserving, true fan will put up with the hassle of getting the tickets. Some people might also argue that this system is equitable because the tickets are being distributed for free, making it possible for people with very low incomes to obtain one. Others will disagree, saying that people with a strong desire to obtain the tickets, but who are unable to be at City Hall at the designated time, would have no chance to get the tickets. Other people might argue that the system was not equitable because no money was raised for the taxpayers of the city, who deserve to get the benefits of selling the tickets because they fund the police department.

If there are ample tickets available for sale for anyone who wishes to buy one,

1. Those who have a very low opportunity cost of traveling to City Hall and standing in line, such as people who don’t have a job in the morning and those who live or work very close by will get these tickets.
2. The opportunity cost is time.
3. A more efficient method is to hand them out unannounced to people walking by.
4. An equitable way is give them free.

3.9 [Related to the Don’t Let This Happen to You! on page 15] Explain which of the following statements represent positive analysis and which represent normative analysis.

a. A 50-cent-per-pack tax on cigarettes will lead to a12 percent reduction in smoking by teenagers. positive analysis

b. The federal government should spend more on AIDS research. normative analysis

c. Rising paper prices will increase textbook prices. positive analysis

d. The price of coffee at Starbucks is too high. normative analysis

4.2 Briefly explain whether each of the following is primarily a microeconomic issue or a macroeconomic issue.

a. The effect of higher cigarette taxes on the quantity of cigarettes sold

microeconomic issue

b. The effect of higher income taxes on the total amount of consumer spending

macroeconomic issue

c. The reasons for the economies of East Asian countries growing faster than the economies of sub-Saharan African countries

macroeconomic issue

d. The reasons for low rates of profit in the airline industry

microeconomic issue

Thinking Critically

1. One important economic idea is that people are rational. Explain how this idea relates to the decline in the “move rate” of physicians over the past three years.

**Answer:** a. uncertainty about health system reform

b. economic recession between 2007 and 2009

**CH2 Trade-offs, Comparative, Advantage, and the Market System**

1.4 Draw a production possibilities frontier that shows the trade-off between the production of cotton and the production of soybeans.

a. Show the effect that a prolonged drought would have on the initial production possibilities frontier.

**Answer:** The production possibilities frontiers in the figure are bowed to the right from the origin because of increasing marginal opportunity costs. The drought causes the production possibilities frontier to shift to the left.

b. Suppose genetic modification makes soybeans resistant to insects, allowing yields to double. Show the effect of this technological change on the initial production possibilities frontier.

**Answer:** The genetic modifications would shift to the right the maximum soybean production (doubling it), but not the maximum cotton production.

1.6 Suppose you win free tickets to a movie plus all you can eat at the snack bar for free. Would there be a cost to you to attend this movie? Explain.

**Answer:** an opportunity: time

* 1. Use the following production possibilities frontier for a country to answer the questions.

1. Which point or points are unattainable? Briefly explain why.

**Answer:** Point E is outside the production possibility frontier, so it is unattainable.

1. Which point or points are efficient? Briefly explain why.

**Answer:** Points B, C, and Dare on the production possibility frontier, so they are efficient.

1. Which point or points are inefficient? Briefly explain why.

**Answer:** Point A is inside the production possibility frontier, so it is inefficient.

1. At which point is the country’s future growth rate likely to be the highest? Briefly explain why.

**Answer:** At point B, the country is devoting the most resources to producing capital goods, so production at this point is most likely to lead to the highest growth rate. The more capital goods the country produces, the greater the capacity of the country to produce goods and services in the future.

**Faith Can Enrich More Than the Soul**

Abstract (summary)

''Our central perspective is that religion affects economic outcomes mainly by fostering religious beliefs that influence individual traits such as honesty, work ethic, thrift and openness to strangers,'' the researchers, Robert J. Barro and Rachel M. McCleary, wrote in a recent issue of American Sociological Review. (They also happen to be married.) ''For example, beliefs in heaven and hell might affect those traits by creating perceived rewards and punishments that relate to 'good' and 'bad' lifetime behavior.''

Since the German sociologist Max Weber wrote about the Protestant work ethic and the spirit of capitalism, social scientists have argued that culture -- including religious habits -- is part of the complex mix that determines a country's economic health. What distinguishes the work of Mr. Barro and Ms. McCleary, some scholars said, is that it uses a sophisticated analysis of a huge set of data to quantify the arguments of anthropologists, sociologists and political scientists.

a) Hypothesis: religion affects economic outcomes mainly by fostering religious beliefs that influence individual traits such as honesty, work ethic, thrift and openness to strangers.

b) Not reject the hypothesis

c) The model Explain a past situation.

**First Study of Its Kind Shows Benefits of Providing Medical Insurance to Poor**

Abstract (summary)

[...] the only reason the study could be done was that Oregon was running out of money and had to choose some people to get insurance and exclude others, providing groups for comparison. There was already a safety net: emergency rooms, charity care, free clinics and the option to go to a doctor and simply not pay the bill. [...] in any case, the argument goes, if Medicaid coverage is expanded, people will still have trouble seeing a doctor because so few accept that insurance. [...] the arguments were pretty much irresolvable.

a) Hypothesis: when poor people are given medical insurance, they not only find regular doctors and see doctors more often but they also feel better, are less depressed and are better able to maintain financial stability.

b) Not reject the hypothesis.

c) The model forecast a future outcome.

**Suicide Bombing Puts a Rare Face on C.I.A.'s Work**

Abstract (summary)

Their deaths were a significant blow to the agency, crippling a team responsible for collecting information about militant networks in Afghanistan and Pakistan and plotting missions to kill the networks' top leaders. [...] in one sign of how the once male-dominated bastion of the C.I.A. has changed in recent years, the suicide bombing revealed that a woman had been in charge of the base that was attacked, Forward Operating Base Chapman in Khost Province. On Wednesday, the operational leader of Al Qaeda in Afghanistan issued a statement praising the work of the suicide bomber, Humam Khalil Abu-Mulal al-Balawi, and said that the Khost bombing, which also killed a Jordanian intelligence operative, was revenge for the killings of a number of top militant leaders in C.I.A. drone attacks.

a) Hypothesis: the suicide bombing explored that C.I.A.'s Work has some defects. (or there is no hypothesis.)

b) Did the researcher reject or not reject the hypothesis? No?

c) The model explains a past situation.

**ObamaCare and the Truth about 'Cost Shifting'**

Abstract (summary)

[...] the economics of markets for health services suggests that any cost shifting that may occur is unlikely to affect interstate commerce. Because markets for doctor and hospital services are local -- not national -- the impact of cost shifting will be borne where it occurs, not across state lines.

a) hypothesis: ObamaCare let people with private insurance pay for care for the uninsured through "cost shifting" -- higher prices charged by doctors and hospitals to recover losses from uncompensated care.

b) Reject the hypothesis

c) Forecast a future outcome

**Sect Mothers Say Separation Endangers Children**

Abstract (summary)

Last Thursday, an appeals court in Austin found that the Texas Department of Family and Protective Services had illegally removed the children without sufficient evidence that they were in immediate danger.

a) Hypothesis: the state asserted that 468 children from the ranch were at risk because they were being indoctrinated into a pattern of sexual abuse -- the young girls as victims, and the boys as predators.

b) Reject the hypothesis

c) Explain a past situation

**The Case for $320,000 Kindergarten Teachers**

Abstract (summary)

These stories quote liberal groups, like the Economic Policy Institute, that argue that an education can't protect workers in today's global economy. In truth, the gap between the pay of college graduates and everyone else grew to a record last year, according to the Labor Department, and unemployment has risen far more for the less educated.

a) Hypothesis: great kindergarten teachers and early childhood programs can have a big short-term effect and the impact tends to fade when these children go to junior high and high school.

b) Reject the hypothesis

c) Forecast a future outcome

**A Surprising Secret to a Long Life: Stay in School: THE NEW AGE: Piece in a Puzzle**

Abstract (summary)

The answer came one day when Dr. [Adriana Lleras-Muney]-Muney was reading another economics paper. It indicated that about 100 years ago, different states started passing laws forcing children to go to school for longer periods. She knew what to do.

It might be expected that after a certain point, more years of school would not add to a person's life span. That, however, is not what the data shows. The education effect never wanes. But most researchers say they are swayed by Dr. Lleras-Muney's work and the studies in other countries. That, though, leaves the question of why the education effect occurs.

Dr. Lleras-Muney and others point to one plausible explanation -- as a group, less educated people are less able to plan for the future and to delay gratification. If true, that may, for example, explain the differences in smoking rates between more educated people and less educated ones.

a) Hypothesis: the secret to a long life is education.

b) Not reject the hypothesis

c) Forecast a future outcome

**Tight Budgets Mean Squeeze In Classrooms**

Abstract (summary)

Eleventh- and 12th-grade classes in those two subjects have risen, on average, to 43 students. "Because many states are facing serious budget gaps, we'll see more increases this fall," said Marguerite Roza, a University of Washington professor who has studied the recession's impact on schools.

a) Hypothesis: budget cuts are forcing schools to raise class sizes.

b) Not reject the hypothesis

c) Explain a past situation

**Mind And Matter: Is an Economist Qualified To Solve Puzzle of Autism?; Professor's Hypothesis: Rainy Days and TV May Trigger Condition**

Abstract (summary)

Prof. [Michael Waldman], who thinks television restriction may have helped rescue his own son from autism, says many noneconomists don't understand the methods he used. His paper recommends that parents keep young children away from television until more rigorous studies can be done. "I've gotten a lot of nasty emails," he says. "But if people aren't following up on this, it's a crime."

"There's a saying that ignorance is bliss," says James Heckman, an economics professor at the University of Chicago who won a Nobel Prize in 2000 for his work on statistical methods. "I think that characterizes a lot of the enthusiasm for these instruments." Says MIT economist Jerry Hausman, "If your instruments aren't perfect, you could go seriously wrong."

Also, Prof. Waldman's findings do nothing to explain the mechanism by which television would influence autism, a gap that instrumental variables are inherently unable to fill. That's one reason many autism researchers think he shouldn't have publicized his results or made recommendations to parents. "I think this is irresponsible," says Dr. [Ami Klin] of Yale. "We should not provide clinical advice unless there is scientific evidence to substantiate it."

a) Hypothesis: television restriction may lead autism.

b) Not reject the hypothesis

c) Forecast a future outcome

**Ask not what you can do for marriage; ask what marriage can do for your bottom line.**

Abstract (summary)

Perhaps women are attracted to stable, hardworking men. Employers also find such men attractive, so they want to hire and promote them. If true, we would see married men having higher wages. But it isn't that marriage caused those higher wages -- rather, the same things that caused marriage caused the higher wages.

In the correlation explanations of the marriage premium, the same factors that caused the men to marry caused them to get higher wages -- but there is no direct causal link between marriage and high wages.

Hence differences in wages between married and unmarried twins should control for most of the effects that might cause a spurious marriage-wage correlation. If a married twin has a higher wage than his single brother, the difference is probably caused by marriage, not just correlated with it.

a) Hypothesis: married men make more money than single men.

b) Not reject the hypothesis

c) Forecast a future outcome