

# Assignment 1: Ch. 1 — Economic Concepts

## Question 1

Describe some of the opportunity costs when you decide to do the following.

- Attend college instead of taking a job
- Watch a movie instead of studying for an exam
- Ride the bus instead of driving your car

## Question 2

Liza needs to buy a textbook for the next economics class. The price at the college bookstore is \$65. One website offers it for \$55, and another site, for \$57. All prices include sales tax. The accompanying table indicates the typical shipping and handling charges for the textbook ordered online.

Shipping Method	Delivery Time	Charge
Standard Shipping	3–7 days	\$3.99
Second-day air	2 business days	8.98
Next-day air	1 business day	13.98

- What is the opportunity cost of buying online instead of at the bookstore? Note that if you buy the book online, you must wait to get it.
- Show the relevant choices for this student. What determines which of these options the student will choose?

## Question 3

Discuss the efficiency and equity implications of each of the following. How would you go about balancing the concerns of equity and efficiency in these areas?

- The government pays the full tuition for every college student to study whatever subject he or she wishes.
- When people lose their jobs, the government provides unemployment benefits until they find new ones.

## Question 4

Governments often adopt certain policies in order to promote desired behaviour among their citizens. For each of the following policies, determine what the incentive is and what behavior the government wishes to promote. In each case, why do you think that the government might wish to change people's behavior, rather than allow their actions to be solely determined by individual choice?

- A tax of \$5 per pack is imposed on cigarettes.
- The government pays parents \$100 when their child is vaccinated for measles.
- The government pays college students to tutor children from low-income families.
- The government imposes a tax on the amount of air pollution that a company discharges.

## Question 5

The Hatfield family lives on the east side of the Hatatoochie River, and the McCoy family lives on the west side. Each family's diet consists of fried chicken and corn-on-the-cob, and each is self-sufficient, raising their

own chickens and growing their own corn. Explain the conditions under which each of the following would be true.

- a. The two families are made better off when the Hatfields specialize in raising chickens, the McCoys specialize in growing corn, and the two families trade.
- b. The two families are made better off when the McCoys specialize in raising chickens, the Hatfields specialize in growing corn, and the two families trade.