**11.3 *The Undercover Economist* by Tim Harford**  
**Text Comprehension Questions**  
**Note:** The page numbers in *italics* refer to the old edition

**Introduction & Chapter 1:**  
1) What does the story of the Soviet official tell us about the free market? (*p.2* / *p.2*)

* *The Economy is not controlled by the government*

2) How do you explain the high price of coffee at railway stations? (p.7-8 / *p.7-8)*

* *Location (better Location better price)*

3) What is the core message of Ricardo’s model of economics? (p.9-10 / *p.9-10*)

* *Strength of scarcity (Knappheit)*

**Chapter 2:**  
1) What is the real reason for the large range of products at coffee shops? (p.40 / *p.34-35*)

* *Special offers with high prices and the same cost for production for targeting price-insensitive customers.*

2) What was unfair about Café Costa’s fair trade coffee? (p.37-38 / *p.33*)

* *Of the extra money Costa charged for the fair-trade coffee only 50% reached the farmer.*

3) What strategies are used by companies to target customers? (p. 40-45 / *p.36 -40*)

* *Individual target Strategy*
  + *Evaluate each costumer as an individual and charge according to how much he is willing to pay*
  + *“Money on” voucher (Amazon let you pay more on special products)*
  + *“Money off” voucher like discount cards (Supercard)*
* *Group target strategy*
  + *Discounts for groups like Students or locals*
* *Self-incrimination strategy (selbst belasten)*
  + *Customers into confessing that they are not price sensitive.*
  + *Binding to company (apple cause its apple)*

**Chapter 3:**  
1) Why is there “truth” in prices in the free market? (p. 70-71 / *p.62*)

* *The fact that stores and customers do not have to buy or sell at a given price.*

2) What are “marginal costs”? (p.72 / *p.63-64)*

* *This is the Price witch a product costs to produce inclusive Staff, equipment and location but without profit.*

3) What two elements (to firms and to customers) do prices represent? (p.76 / *p.67*)

* *Costs to firms*
* *Value to customers*

4) Which problem of taxation does Tim Harford describe? ( p.78-81 / *p.68-72*)

* *We can’t chose for what we would like to send our taxes.*
* *Non Market System*
  + *Lose of Information about wants, needs, desires, inconvenience and costs.*
  + *This could lead to waste and confusion*

**Chapter 4:**  
1) What are the three main reasons for the fact that the free market does not always  
work? (p. 90-91 / *p.80*)

* *Scarcity power*
* *Missing information (needs, desires)*
* *Side effects on bystanders(pollution in city cause of heavy traffic) //Unbeteiligte*

2) What is Tim Harford’s main objection (Einwand) to the current car taxation? (p. 93-94 / *p. 82-83*)

* *Tax for a car per year instead of driven km is forcing you to drive as much km as possible for making your taxes worth it.*

3) What are externalities and what is an externality charge? (p. 90-95 / *p. 80-85* )

* *Externalities ->extern effects -> pollution co2*
* *Externality charge*
  + *Paying for your selfish behaviour like traffic caused pollution*
    - *Co2 taxes etc.*

4) How did the City of London solve the disastrous traffic situation in the inner city? (p.109-110 /*p. 98*)

* *With a congestion- zone(stauzone)*
  + *Every car get charged when he enters the inner city this leaded to a change on public transportation.*

**Chapter 5:**  
1) Why is it difficult to buy a good second-hand car? (p.124-125 / *p.112-113*)

* *Trust issue*
  + *Inside Information. Seller wants to get the best price for his car so he cloaked information about the history of the car*

2) What are the effects of inside information on the free market? (p.127-128 / *p. 115-116*)

* *Trust issue*
* *Missing information*

3) What are the three factors that prevent the market from working perfectly? (p.155 /*p.138*)

* *Scarcity power*
* *Inside Information*
* *externalities*

**Chapters 6 and 7 will not be tested in the exam.**

**Chapter 8:**  
1) Why do certain poor countries e.g. Cameroon stay poor? (p.215&229 / *p.188&200*)

* *The rot starts with the government but it afflicts the entire society. There’s no point investing in a business because the government will not protect you against thieves.*
* *Doubts on the honesty of the dictator.*
* *Corruption is wide spreaded*

2) Where is economic wealth said to come from? (p.208 / *p. 182* )

* *man-made resources (roads, factories, machines, communication systems)*
* *human-made resources(hard work and education)*
* *technological resources(technical know-how or simply high-tech machinery)*

3) Explain the theory of “diminishing and increasing returns” and the “big push” theory? (p.209 – 211 / *p.182-184*)

* *“catch-up” theory*
* *More reward in investing in poor countries than in richer ones.*
  + *A new road can open a whole new area for trade*
  + *A little more education can make all the difference*
  + *communication*

**Chapter 9:**  
1) What is the effect of trade barriers? (p.238-241 / *p. 209 -211*)

* *More harm than good to have trade barriers.*
* *If there were no trade barriers it would be possible to trade with each other and both would be better off.*

2) What are the five most prominent features of globalisation? (p. 244 / *p.214*)

1. *Trade of goods and services*
2. *Migration of people*
3. *Exchange of technical knowledge*
4. *Building or buying factories and companies abroad*
   1. *“foreign direct investment”*
5. *Cross-border investments in financial assets like shares and bonds*

3) Harford argues that increased globalisation does not cause increased pollution. What reasons does he give? (p. 247-248 /*p.217-219*)

* *Race to the bottom*
  + *Companies rush oversea to produce goods cheaper under easier environmental laws*
    - *Overwhelming majority of trade between rich countries*
    - *Companies seeking cheap labour not a pollution haven.*
    - *Newest technics is environmental friendly and efficient.*
* *Physically moving goods*
  + *Moving goods around the world cause pollution*
* *If trade promotes economic growth it must also harm the planet.*

4) What does the development of South Korea illustrate (p.257-258 / *p. 226*)

* *South Korea opened up to multinational companies for building factories*
* *Competition between existing firms, for hiring workers with the best skill*
* *Locals firms learn the latest production technics and become big employs too*
* *Functions, Infrastructure, health clinics and school improves*
* *Poverty falls (Armut)*

**Chapter 10**  
1) What characterised Mao’s economic policy? (p.268-270 /*p. 235-237*)

* *Mao conducted economic policy on the hidden premise that if people tried hard, the impossible would happen*
  + *Destroy knives to produce knives*
* *Central planning*

2) In what ways did Deng Xiaoping change industrial and agricultural policies? (p.271-277 / *p.238-245*)

* *Deng had begun to travel along the so-called capitalist road*
* *Agricultural reforms*

*3)* How does Harford explain the extreme economic growth in China? (p.279 -282 / *p.245-247)*

1. *The commitment to freeze the size of the plan*
2. *The plan was keep fixed which guaranteed a certain stability*
3. *The market operated exactly where it needs to: at the margin*

4) What are the 3 main benefits China gained from opening its economy to the world?  
(p.283 / *p. 248*)

* *China could tap into world markets for labour-intensive goods, toys, shoes, clothes*
* *The foreign currency those exports earned could be spend on raw materials and on new technology to develop the economy*
* *By inviting foreign investors the Chinese could learn modern production and business techniques from them*

5) How does Harford justify the terrible conditions in sweatshops in China and other Asian countries? (p.256-257 & 288 -289 / *p. 224-225 & 253-255*)

* *Sweatshops (Ausbeuterbetrieb) are the Symptoms but not the cause of the global poverty. (ARMUT)*
* *People go to there voluntarily, because the alternatives are much worse. (Less wage in local firms,..)*