Mark Lucernas

ECON 120 – Online

Unit ONE Assignment

Chapter ‘The Art and Science of Economic Analysis’

**Q1. What determines whether or not a resource is scarce? Why is the concept of scarcity important to the definition of economics?**

- A resource would be considered scarce once it is not freely available. In other words, everything that has a price tag on it, goods or services, albeit seemingly free so long as theres a fiscal transaction, economics considers it scarce resources. Economists use scarcity as a tool to study how people use their limited resources to satisfy their unlimited wants. Without scarcity, there would be no economic problem and no need for prices.

**Q4. Which group of economic decision makers plays the leading role in the economic system? Which groups play supporting roles? In what sense are they supporting actors?**

- Households. The household demands the goods and services produced by the market. Without the household, there would be no market or consumers to consume the goods and services. While the rest of the economic decision makers, namely the firm, government and the rest of the world, in contrast, demand the resources (man power) that households supply and then use those resources to produce the good and services households demand.

**Q5. Determine whether each of the following is primarily a microeconomic or a macroeconomic issue:**

1. **Determining the price to charge for an automobile**

- Microeconomics, because it tackles in a specific market.

**2. Measuring the impact of tax policies on total consumption spending in the economy**

- Macroeconomics, because it talks about the economy as a whole.

**3. A household's decisions about how to allocate its disposable income among various goods and services.**

- Microeconomics, as it talks about household's decisions which would affect the economic market.

**4. A worker's decision regarding how many hours to work each week.**

- Microeconomics, because the worker is a part of the household decision makers.

**5. Designing a government policy to affect the level of employment.**

- Macroeconomics, because it talks about employment.

**Q8. What good is economic theory if it cannot predict the behavior of a specific**

**individual?**

- Economic theories are never meant to predict human behavior as it is too unpredictable, but rather to study how individuals make decisions as a whole in their everyday life, and use those information to create better policies and regulations for a society to be more efficient and somewhat equitable.

**P9. Discuss the impact of rational self-interest on each of the following decisions:**

**1. Whether to attend college full time or enter the workforce full time**

- As rational human beings, we tend to lean first towards to what would benefit us the most. Whether to attend college, be an entrepreneur or to figure out the world by experiencing it yourself rather than by books. Our decisions will most likely be influenced by the end result. To sacrifice at least 2 or more years in college to hopefully boost your income in the long run, or to dive in the workforce early to save money or because of the lack thereof. The decision lies dependent on the persons economic state or self-interest.

**2. Whether to buy a new textbook or a used textbook**

- By our own self-interest, the most rational decision is to buy a used textbook because it would save you money that you can allocate for something else. However, some people still buy new books despite the relative difference in price. I can imagine the cause of this seemingly no-brainer dilemma as the effects of some factors that we neglect when buying market goods. First, the availability. It might be cumbersome to find the exact version of the textbook you are looking for in a still usable state. Besides most used books that are available in the market are outdated, because people don't sell their brand new up-to-date textbook right after at the end of the semester or school year, especially when it costs so much. The temptation of keeping it longer is greater when you acquire something valuable or expensive. Secondly, as rational as we are humans, we are suckers for the pleasures of life even the most trivial ones. The marginal difference in price can be justified by the aesthetics and the feel of a brand new book that would last longer.

**3. Whether to attend a local college or an out-of town college**

- Going to an out-of-state college seems to be a great idea. But there is a trade off in choosing it over a local college. It could be more expensive living in an apartment with a roommate rather than living with your parents. In this sense, it is economically better to go to a local college. However our rational self-interest might say to get away as far as possible from our home and experience the world independently, which will benefit the student, not to preserve some scarce resources, but for the valuable lessons along the way.

**P15. 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:**

**1. Raising taxes will always increase government revenues.**

- Raising taxes does not necessarily mean an increase in government revenues. When taxes are being raised, and is not very welcomed, market consumers tend to spend less as a whole when goods become more scarce. Consequently, reduction in economic activity means a decrease in consumer spending, which leads to a decrease in government revenues rather than an increase. This is an example of the fallacy that ignores secondary effects.

**2. Whenever there is a recession, imports decease. Therefore, to stop a recession, we should increase imports.**

- This is an example of association-is-causation fallacy. Just because two events happened at the same time, it does not necessarily mean they are related or that one caused the other. Economic recession is an ensemble of market decline, not just because of decease in imports.

**3. Raising the tariff on imported steel will help the U.S. steel industry Therefore, the entire economy will be helped.**

- An example of the fallacy of composition. Inference that the tariff on imported steel helped the steel industry, helps the entire economy of the U.S. commits the fallacy of composition and is an erroneous economic analysis.

**4. Gold sells for about $400 per ounce. Therefore, the U.S. government could sell all the gold in Fort Knox at $400 per ounce and eliminate the national debt.**

- Another example of the mistake of ignoring secondary effects fallacy. Golds are investment commodities that will grow overtime. Selling all the gold in Fort Knox will not solve the national debt of the country, but only make it worst in the long run. If it were that simple, why hasn't the country, one of the biggest capitalist country, melted all golds they can find to solve a national problem. You deserved to be fired if you make decisions like this one.

**P1. Look at Exhibit 5 and answer the following questions:**

Reference:

- ECON Macro 6th Edition

- Chapter 1: Appendix, Page 19

- Exhibit A-2: U.S. Unemployment Rate Since 1900

**1. In what year (approximately) was the unemployment rate the highest?**

- 1930

**2. In what decade, on average, was the unemployment rate highest? In what decade was it lowest?.**

- 1930 - 1940 was the highest, 1940 - 1950 was the lowest.

**3. Between 1950 and 1980, did the unemployment rate generally increase,** **decrease, or remain about the same?**

- Though not so much, It generally increased

**P2. Sketch a graph to illustrate your idea of each of the following relationships. Be sure to label both axes appropriately. In each case, explain under what circumstances, if any, the curve could shift:**

1. **The relationship between a person’s age and height**

Figure 1

This graph shows my idea of the relationship between the average person’s age and height. I would preface that this graph was a loose approximation of what I think the statistics for human height based on their age, and biased around my perspective. A fully grown male, in my opinion, averages 5’7” in their 30’s and about 5’4” for women. That’s about their age where they would stop growing and as time goes on their height would decrease due to aging. This may not be true, if at all, or applicable in every race or ethnicity as there are plethora of variables affecting a person’s growth. One would be the environment. There are some cases where the environment around a person affects his/her growth. There has been reports that an identical twin who grew up countries apart from each other resulted in a very different body structure. One taller than the other.

1. **Average monthly temperature over the course of a year**

Figure 2

This graph shows the average temperature in San Diego, CA over the course of a year. The coldest San Diego in my experience is right after Christmas and the hottest month is right around September.

1. **A person’s income and the number of hamburgers consumed per month**

Figure 3

This line graph shows the relationship between hamburgers consumed per month and an average person’s annual income.

This graph came from a perspective of a person who eats hamburger once every few weeks and earns around the lower bracket. In my perspective, an average person consumes fewer and fewer hamburgers as their earnings increase. This is because healthy and quality foods are in general more expensive than regular fast foods and that people tend to be more health conscious simply because they can afford to.

This negative relationship between hamburger consumption and income has so many flaws and variables not taken into account. One reason I can think of is household traditions. Some people just don’t like hamburgers and likes to stay in shape. Some eat hamburgers every day. In some areas of the world hamburgers are not even a thing and on some parts hamburgers are very popular.

1. **The amount of fertilizer added to an acre of land and the amount of corn**

**grown on that land in one growing season**

Figure 4

This figure shows that every 100kg of fertilizer added into an acre of land will produce a consistent 20% more in production of corns. However, this assumption ignores natural phenomena such as unexpected natural disastrous calamity, that will change the expected output of the production of corns.

1. **an automobile’s horsepower and its gasoline mileage (in miles per gallon).**

Figure 5

This graph illustrates the negative relationship between car’s horsepower and its gas mileage consumption. It shows that as horsepower power of a car increases, it becomes less efficient in gas consumption, therefore it decreases the car’s mileage per gallon.

Chapter ‘Economic Tools and Economic Systems’

**Q10. What are the major differences between a pure capitalist system and a pure command system? Is the United States closer to a pure capitalist system or to a pure command system?**

- In a pure capitalism, there is no government to regulate the flow of the market. Owners have property rights over their resources, therefore they can use their resources freely or to supply their resources in their best self-interest. Conversely, pure command system has a government who has most of the power to control and regulate the resources based its central plan. Also, in pure command system, instead of private ownership, there is public or communal ownership of property. Pure capitalist system is the closest one to the United States because although there is a government that regulates some economic activities, there are properties that are privately owned by groups or individuals and they have some laissez-faire over their use of resources.

Chapter ‘Demand, Supply and Markets’

**Q10 How do markets coordinate the independent decisions of buyers and sellers?**

* By the law of supply and demand. When the demand for a specific product or services goes up, it gives the seller the idea that the supply for the specific product or services should also increase to satisfy the consumer demand, and vice versa.