

## Economics 105: Principles of Macroeconomics

### *Assignment set #1*

1. You are planning to spend Saturday working at your part-time job, but a friend asks you to go swimming. What is the true cost of going swimming? Now suppose that you had been planning to spend the day studying at the library. What is the cost of going swimming in this case? Explain.
2. In the *Wealth of Nations* Adam Smith said: "It is not by the benevolence of the baker that you receive your bread." What do you think he meant?
3. Why are property rights important to a market economy?
4. People respond to incentives. Government can alter people's incentives with public policy. However, sometimes public policy generates unintended consequences by producing results that were not anticipated. Try to find an unintended consequence of each of the following public policies. (Note: answers to these questions are not unique)
  - a. To help people with low skills, the government raises the minimum wage to \$25/hr.
  - b. To help the homeless, the government places rent controls on apartments restricting rent to \$150 per month.
  - c. To limit the consumption of gasoline, the government raises the tax on gasoline by \$2.00 per litre.
  - d. To reduce the consumption of drugs, the government makes drugs illegal.
  - e. To raise the population of wolves, the government prohibits the killing of wolves.
5. Is a more realistic model always better?
6. Name two reasons why economists disagree.