

## Questions for Review

1. Give three examples of important trade-offs that you face in your life.
2. What items would you include to figure out the opportunity cost of a vacation in Ooty?
3. Water is necessary for life. Is the marginal benefit of a glass of water large or small?
4. Why should policymakers think about incentives?
5. Why isn't trade between two countries like a game in which one country wins and the other loses?
6. What does the "invisible hand" of the marketplace do?
7. What are the two main causes of market failure? Give an example of each.
8. Why is productivity important?
9. What is inflation and what causes it?
10. How are inflation and unemployment related in the short run?
11. You win Rs 100 in a bet. You have a choice between spending the money now and putting it away for a year in a bank account that pays 5 percent interest. What is the opportunity cost of spending the Rs 100 now?
12. The company that you manage has invested Rs 5 million in developing a new product, but the development is not quite finished. At a recent meeting, your salespeople report that the introduction of competing products has reduced the expected sales of your new product to Rs 3 million. If it would cost Rs 1 million to finish development and make the product, should you go ahead and do so? What is the most that you should pay to complete development?
13. In what ways is your standard of living different from that of your parents or grandparents when they were your age? Why have these changes occurred?
14. Explain whether each of the following government activities is motivated by a concern about equality or a concern about efficiency. In the case of efficiency, discuss the type of market failure involved.
  - a. regulating cable TV prices.
  - b. providing some poor people with vouchers that can be used to buy food.
  - c. prohibiting smoking in public places.
  - d. imposing higher personal income tax rates on people with higher incomes.
  - e. enacting laws against driving while intoxicated.