

Summer Work: Advanced Economics.

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Chapter 1.

Answer the following questions:

1. What is an opportunity Cost? How does the idea relate to the definition of economics? Which of the following decisions would entail the greater opportunity cost: allocating a square block in the heart of New York City for a surface parking lot or allocating a square block at the edge of typical suburb for such a lot? Explain.
2. Cite three examples of recent decisions that you made in which you, at least implicitly, weighed marginal cost and marginal benefit?
3. What is "utility" and how does it relate to the purposeful behavior?
4. What are the key elements of the scientific method, and how does this method relate to economic principles and laws?
5. Make
  - a. A positive economic statement of your choice
  - b. A normative economic statement relating to your first statement.
6. How does the slope of a budget line illustrate opportunity costs and trade-offs? How does a budget line illustrate scarcity and the effect of limited incomes?
7. What are economic resources? What categories do economists use to classify them? Why are resources also called factors of production? Why are they called inputs?
8. Why is money not considered to be a capital resource in economics? Why is entrepreneurial ability considered a category of economic resource, distinct from Labor? What role do entrepreneurs play in the economy?
9. Explain the typical shape of the marginal-benefit and marginal-cost curves. How are these curves used to determine the optimal allocation of resource to a particular product? If current output is such that marginal cost exceeds marginal benefit, should more or fewer resources be allocated to this product? Explain.
10. Suppose that, on the basis of a nation's production possibilities curve, an economy must sacrifice 10,000 pizzas domestically to get the 1 additional industrial robot it desires, but it can get the robot from another country in exchange for 9,000 pizzas. Relate this information to the following statement: "Through international specialization and trade, a nation can reduce its opportunity cost of obtaining goods and those move outside its production possibilities curve."
11. Starbucks has \$1billion to invest. It can either purchase a rival coffee shop chain or build additional Starbucks shops. If Starbucks chooses to purchase the rival chain, what does that say about the relative profitability of purchasing and owning the rival's existing shops versus building additional Starbucks shops? Explain.

## Chapter 2

Answer the following questions:

1. Contrast how a market system and a command economy try to cope with economic scarcity.
2. How does self-interest help achieve society's economic goals? Why is there such a wide variety of desired goods and services in a market system? In what way are entrepreneurs and businesses at the helm of the economy but commanded by consumers?
3. Why are private property, and the protection of property rights, so critical to the success of the market system? How do property rights encourage cooperation?
4. What are the advantages of using capital in the production process? What is meant by the term "division of labor"? What are the advantages of specialization in the use of human and material resources? Explain why exchange is the necessary consequence of specialization.
5. What problem does barter entail? Indicate the economic significance of money as a medium of exchange. What is meant by the state "We want money only to part with it"?
6. Evaluate and explain the following statements:
  - a. The market system is a profit-and-loss system
  - b. Competition is the disciplinarian of the market economy
7. Some large hardware stores, such as Home Depot, boast of carrying as many as 20,000 different products in each store. What motivate the producers of those individual products to make them and offer them for sale? How did the producers decide on the best combinations of resources to use? Who made those resources available, and why? Who decides whether these particular hardware products should continue to be produced and offer for sale?
8. What is meant by the term "creative destruction"? How does the emergence of self-driving cars relate to this idea?
9. In a sentence, describe the meaning of the phrase "invisible hand".
10. In market economies, firms rarely worry about the availability of inputs to produce their products, whereas in command economies input availability is a constant concern. Why the difference?
11. Distinguish between the resource market and the product market in the circular flow model. In what way are business and households both sellers and buyers in this model? What are the flow in the circular flow model?
12. How does shielding employees and suppliers from business risks help to improve economic outcome? Who is responsible for managing business risks in the market?
13. Why are price ceilings during a hyperinflation problematic? What generalizations do you draw from Venezuela's economic collapse? Would a Venezuelan-style economic collapse be less likely in the United States? Explain.