

Economics analysis flashcard



**ASSIGN
BUSTER**

Chapter 1: The Power of Markets

What are the two basic assumptions that economists make about individuals and firms? Economists have two basic assumptions which keeps the economy in check. One is that people try to make themselves as versatile as possible maximizing their overall potential. The other is that a firm would do what it needs to make the most profit possible. What is the role and significance of prices in the market economy? Prices in a market economy are very important. Price allows us to give out goods appropriately to those who are able to pay. What's so great about a market economy anyway?

Market economies are great for many reasons. A market economy makes our lives better through competition either through lowering prices or improving products. Market Economies have very little need of government interference because they are self-correcting and essentially self governing.

Chapter 2: Incentives Matter

Explain how each of the following relates to efficient outcomes in a market economy: Adverse selection, “perverse incentives”, principal agent problem, and the prisoners dilemma. Adverse selection affects the outcomes in market economies by giving workers reason to change jobs. Perverse incentives can be important in market economies because they happen essentially on the fly. Principal agent problems can drastically affect the economy when, let's say a major company, a CEO decides to make bad decision to get a large sum of money for himself. The prisoner dilemma shows how most people come straight to the conclusion that the other is going to “rat them out”.

Chapter 3: Government and the Economy

In your own words, explain what an externality is. Externality is very easy to explain. An externality is the measurement of the difference in what something costs for you and what it costs for society in economics. Besides addressing externalities, what other important and beneficial roles does government play in our economy? Governments play highly significant roles in the economy. They regulate taxes and property rights such as patents and copyrights which affects many firms decisions.

Chapter 4: Government and the Economy II

What are the main reasons why government should take only a limited role in a market economy? There are many reasons why government should have a light touch in market economies. Some government programs may be too costly and in the end backfire if not planned through thoroughly or may of even been thought up by corrupt politicians. The government also makes the struggle as a poor family harder to bare as taxes are more often then not, in the government, in favor of keeping the money where it is.

Chapter 5: Economics of Information

Basic economic models assume that all parties have “ perfect information.” How does “ informational asymmetry” undermine our market economy? Information asymmetry is great for some and awful for others. It also leads to rational and irrational discrimination. For example, it could lead to hiring a male over female, a Caucasian over African American, and other

discriminatory decisions, in these cases are understandable. (Women have maternity leave; African Americans are 28% more likely to be gone to jail.)

Chapter 6: Productivity and Human Capital

After reading Whelan's argument, do you agree that Bill Gates should be so much richer than you? Why? Not Mentioned. Evaluate the following statement from pg. 113: " We should not care about the gap between the rich and the poor as long as everyone is living better." I believe this statement has one solid meaning. I believe it means that if the poor person's life is getting better along with the rich man then there should be no need to worry about it.

Chapter 7: Financial Markets

Explain how get rich quick schemes violate the most basic principles of economics. Get rich quick schemes don't work most of the time because it violates a major economic principles. Economic principles have four requirements to make money: you need to raise money; you need to use the surplus money profitably; you need assurance against risk; and you need to be able to speculate. Get rich quick schemes bypass the first and third need. What advice about the stock market did you find most useful and or interesting? I feel like keeping open minded about advice is good. If i was to choose one piece of advise i believe was the most useful i would say it was diversify.

Chapter 8: The Power of Organized Interests

Why have mohair farmers earned a subsidy from the Federal Government for decades? Mohair farmers earned a subsidy from the federal government for 35 years. This happened because politicians who had the Mohair farmers in their district essentially traded other politicians for support.

Chapter 9: Keeping Score

Why is a nation's GDP a good measure of its economic well-being and progress? A nation's GDP is good for many things. It helps determine economic well being and progress through showing total economic prosperity by showing the GDP per capita. Why is a nation's GDP a poor measure of its economic well-being and progress? GDP is not the best at showing economic well being because of many reasons. The most important reason for this though is the fact that it does not take into account wild life destruction and pollution.

Chapter 10: The Federal Reserve

What is the primary role of the Federal Reserve? The primary role of the Federal Reserve is very important. Its primary role is to control the supply and flow of credit in to the economy. What is the significance of this role? This job is very significant in our economy. This is used mainly as a way to lessen the affects of economic downturn or major catastrophes. What is deflation, and why is it worse than inflation? Deflation is the counterpart to inflation. While inflation is caused by low interest rates, deflation is caused by high interest rates. Both inflation and deflation are caused purposely by the federal reserve . Deflation causes people to spend less and for prices on

products go down. This isn't fun by any means when you are the consumer or firm but is absolutely necessary for the business cycle to continue .

Chapter 12: Trade and Globalization

What is the “ good news about Asian sweatshops”? Asian sweatshops may seem awful to many people but it's actually good for those countries. These sweatshops actually open up good paying jobs for people and has helped many people go from poverty to middle class.

Chapter 13: Development Economics

After reading this chapter, what do you believe are the two greatest obstacles preventing poor countries from becoming rich? There are many obstacles that impede a poor country's growth. From reading the chapter i believe that one of the two biggest obstacles is poor government infrastructure, for without the proper infrastructure the economy and trade is inefficient at best. The other major obstacle is “ human capital” because many individuals in a poor country are illiterate and uneducated. The affect of this is that if a person loses their job it is enormously harder to find a new job, which, if on a large scale, causes dramatic slow downs in their economy.

Epilogue: Life in 2050

What economic question do you have about life in 2050? About today's economy? About life in general? In 2050, will there be a new way to deal with the business cycle so the growth will last longer and so that recession is unnoticeable. What are some possible consequences if today the US placed

massive tariffs on Chinese made products to bring them to the same costs as American made products?