Macroeconomics summer reading assignment

Economics

When the price of a product alls, demand for it tends to increase, while when the price rises, it usually has a negative impact on demand. Contrarily, when the price rises, producers will work harder to obtain that product, while they will become less hopeful of a product with a low price. Chapter 2: Incentives give people a reason to do make a certain purchase or sell a certain product because they except to get a reward from it, which is positive because it’s a way to increase productivity or lessen things we don’t want.

For example, although it could be considered morally wrong to kill rhinos, the market for the killing of black winos and selling of their horns is gradually expanding because it is in high demand, which gives poachers the incentive to hunt down even more black rhinos. A perverse incentive is an incentive that has negative effects, derived from something that was meant to be positive. A high school example of this is completing a paper because you have the incentive that you will get high grade on it, only to receive a failing grade.

Chapter 3: An externalities means that the private cost of something is different from the social costs. For example, buying a specific car could mean higher payments, more expensive insurance, and more required gas?? the private costs. However, purchasing that car could also be harmful to children and use too much carbon dioxide, thus harming the polar ice caps?? the social costs that aren’t usually thought about when making a purchase. Government regulations help with this because the government eliminate or put taxes on producers that create externalities.

The government also provides our everyday needs by giving us our rights and making laws and regulations to assure as much safety as possible. Chapter 4: Government should take a limited role in market economy because, although often ell intended, their actions aren't always of help. In other words, government tends to be inefficient in decision making. Many times, when government begins to control some aspects of the economy, scarce resources are distributed to parties of the government instead of being allocated to the market.

For example, in olden times, the government of Soviet Union much preferred devoting their resources to the production of massive steel plants instead of focusing on creating birth control pills in order to lessen the abortion rate or providing healthy food for their citizens to help ring a fall to the amount of deaths due to malnutrition. It is believed that a country's government maintains a semi " laissez fairer" leadership while still enforcing rules and defining property rights.

However, this type of regulation doesn't always work because it's often considered to turn into a " grabbing hand" for bureaucrats. A " grabbing hand" is excessive regulation from the government, which often prevents entrepreneurs from making any sort of business ventures as the government, while allowing you to explicitly follow your own self-interests, also tends to look out for their own. It opposes to a " helping hand" where government regulations are present to help you while still allowing you to exploit your own self-interest. Chapter 5: Informational asymmetry is primarily used in cases of trade.

It is when one party has more information or better knowledge than the other, which leads to an imbalance in power because there isn't a fair opportunity for both parties to equally gain. This is why most of the time in a market economy, however not always; it is assumed that everyone is given the same information when one party could be more knowledgeable than the other. When this happens, it causes for a loss in equilibrium because one party has an unfair advantage and is gaining more from the transaction, while the other party is assuming that they are equally gaining.

The problem with public health insurance that health companies don't want you to know is that it jeopardizes profit for them. So by constantly charging you for medicine that they could find the cure for, they are searching to make high profits. However, public health care ruins that for them as they pay the costs for you. Adverse selection is an example of informational asymmetry because it involves buyers or sellers making a efferent choice than previously planned.

For example, in the " graduates" example from the book, future graduates have to make the decision as to whether or not a Hope Scholarship would be beneficial to them. Depending on their career plans and the income that Job will bring, they will decide if what they have to pay back from the loan is worth the risk. The program will then attract low earners, which would hurt them and potentially shut it down because they didn't know what the decision was going to be. Chapter 6: In the book, Whelan discusses the symptoms of being poor versus the illness of Ewing poor.

By these two comparisons, what is he trying to imply is that having a symptom of being poor would be not being able to find a good Job; however, having the illness of being poor is not having the skills required to perform in a specific Job field. The illness of being poor is when one lacks human capital. This is why the author claims that it is only evident that Bill Gates be so rich because of the skills he possesses that lead him to wind up where he did today. Because Bill Gates is intelligent, educated, creative, innovative etc. The labor market in some companies ill automatically search to hire him regardless of whether he was wealthy or not because they would be in need of someone with his acquired skills. All the qualities he possesses are called human capital, which are simply the characteristics and skills someone has. Chapter 7: The efficient markets theory applies directly to financial markets. This theory basically states that the price that the market has set already reflects all information available.

In other words, any new development of information about an investment is immediately shown in the asset price. This is why it is nearly impossible to choose freedom and allows them to do the things that they personally want at all time. A con would be to stock buyers that wouldn’t be able to figure out what to invest in because their chances of beating the market are slim. This idea of MET is inconvenient to Wall Street types because they often try to cheat people out of their money and don’t want a set market price.

The coin flipping example relates to investment diversification because when you flip that coin, you could either triple your money by landing on heads, or you could lose all of it with tail. However, when you flip 10 coins, the possibilities of losing all your money by landing on tails for ten straight flips are slim. This is what diversification is about?? maintaining a diverse portfolio of different stocks which will cause a level of risk reduction. Chapter 8: In 1955, the Mohair subsidy was created in order to ensure that there would be a sufficient amount of yarn available for military uniforms if war broke out.

This subsidy(a sum paid by the government to assist a business) stuck around for a while and even in 1960, when the military began using synthetic fibers rather than yarn for heir uniforms, the Mohair subsidy was still present. For close to 40 years, this subsidy was eliminated but made its reappearance back in 2008, where it was present in the farm bill. The reason why this subsidy is still around to this day is simply because the cost to pay for them is such a small portion of the government that it is overlooked.

Taxpayers only have to pay a certain amount of cents to add up to the Mohair yearly income. It can become a negative thing because there can be an overcapacity of groups lining up to get subsidies, and it is also a problem that affects he rest of the population that isn’t a part of that particular subsidy because they could end up paying a large sum of money only to satisfy some% of the population. However, it can also be positive when it brings income to the group it is intended to bring income to.

For example, the ethanol tax subsidy increases the demand for corn, thus bringing profit to the farmers. Chapter 9: The average American is three times as rich as he/she would’ve been in 1950 because we have become more productive. We, as a country, have gotten better at time management skills, and with the help of new technological inventions, our radioactivity rate has only been increasing. The work time required to be able to buy goods has dropped since 1950. The most effective knock on GAP is that it is an imperfect measure of how wealthy we consider ourselves to be.

Although it is assumed that the richer we are makes us better off in life because we can do/have more things we enjoy, economics proves different. In fact strangely enough, sometimes the richer we are actually takes a toll on our happiness. Regarding fiscal policy, the author feels that there is nothing wrong with the idea, but the dilemma is that fiscal policy is made in Congress. He feels that for fiscal policy to work, Congress and the president must agree on a common plan and, the plan should be put in action at the right time and have an immediate effect, but in his opinion, the chances of this all happening at once are slim.

Chapter 10: Ineffective monetary policy can cause a reduction of the general level of prices in an economy, which would destabilize the world and could potentially lead to economic crisis, revolts, or even wars in the long run. And although people consider fixing this problem by having low interest rates, that could even lead to greater problems dad, there would be a shortage of supply, which would cause prices to increase. Chapter 11(12): Productivity is what we gain money from. Specializing is what makes us productive.

And by trading what we are productive in making, we are specializing. In my opinion, globalization can be both helpful and destructive to the economies of nations. For example, studies showed that globalization certain countries helped countries have 30 to 50 percent higher rates of growth over the past 20 years than countries less integrated into the world economy and noninvolved in globalization. These 30-some countries also enjoyed political freedom with that aid of globalization. This is example, however, also shows the negative effects of globalization.

With higher globalization rates comes income inequality, corruption in the country, and environmental degradation. The strongest point to be made though is the studies that show that countries that do not invest in trading with other countries or want to integrate with the global economy never successfully develop. Chapter 12(13): To help make poor countries wealthier, we could first make use of specialization. When countries take advantage of their own skills while exploiting another country's skills, it almost always results in gains.

The problem is that with the ideologies of protectionism, poorer countries have lost a sense of trade over time because they believe that refraining from exchanging with other countries will make them richer, which barely ever proves to be true. However, third-world countries can't rely on other nations to better their economy. There are measures that they must take too in order to help themselves. For one, effective government institutions must be developed.

This includes reasonable and enforced laws, along with basic infrastructure, and a healthy respect from the citizenship, not only for these factors but also between themselves. Poor countries should also avoid excessive regulation. Often times, the government tries to intervene positively only to worsen matter. Also, investing in human capital could help developing countries because human capital increases productivity, and as discussed earlier, being productive is what helps countries gain their money. Finally, countries can most make positive drastic changes for themselves when they have an actual political will to do so.