QUESTIONS

The pages in parentheses are where answers to these questions can be found.

PART I: PRICES AND MARKETS

1. Can there be a growing scarcity without a growing shortage— or a growing shortage without a growing scarcity? Explain with examples. (pages 38, 47–48)

2. Can a decision be economic, if there is no money involved? Why or why not? (pages 6–7)

3. Can there be surplus food in a society where people are hungry? Explain why or why not. (pages 54–55)

4. When a housing shortage suddenly disappears, within a time period too short for any new housing to have been built, and yet people no longer have any trouble finding a vacant home or apartment, what has probably happened? What will probably happen in the longer run? Explain. (page 39)

5. Which of the following are— or are not— affected by price controls that limit how high the product's price can go: (a) the quantity supplied, (b) the quantity demanded, (c) the quality of the product, (d) a black market for the product, (e) hoarding of the product, (f) the supply of auxiliary services that usually go with the product, or (g) efficiency in the allocation of resources? Explain in each case. (a: pages 41–44; b: pages 39–41; c: pages 49–50, 51–53; d: pages 50–51, 53; e: pages 48–49; f: page 42; g: pages 52–53, 64–65)

6. Building ordinary housing and building luxury housing involves using many of the same resources, such as bricks, pipes, and construction labor. How does the allocation of these resources between ordinary housing and luxury housing tend to change after rent control laws are passed? (pages 43, 47)

7. Are prices usually higher or lower in low–income neighborhoods? Why? Include among prices the interest rate on money borrowed and the cost of getting paychecks cashed. (pages 66–68)

8. When a government institution or program produces counterproductive results, is that necessarily a sign of irrationality or incompetence on the part of those who run that particular institution or program? Explain with examples. (pages 70–72)

9. We all consider some things more important than others. Why then can there be a problem when some official government policy establishes "national priorities"? (pages 77–78)

10. We tend to think of costs as the money we pay for things. But does that mean that there would be no costs in a primitive society that did not yet use money or in a modern cooperative community, where people collectively produce the goods and services they use and do not charge each other for them? (pages 22, 28)

11. How does rent control affect the average number of persons per apartment and the average amount of time that the same persons stay in the same apartment? (pages 39–41)

12. Back in the days of the Soviet Union, the government owned and operated most of the enterprises in the economy. Most prices were set by central planners, rather than by supply and demand, and the success or failure of Soviet enterprises was judged primarily by how well they met the numerical targets for production, which were set by the central planners. Specify five ways in which this arrangement produced different economic end results from those in market economies. (pages 17, 22–23, 27, 71, 73–74)

13. How can the price of baseball bats be affected by the demand for paper or the price of catchers' mitts be affected by the demand for cheese? (page 20)

14. Why are price controls likely to cause more of a shortage of gasoline than of strawberries? (page 49)

15. How does rent control affect the quality of housing and the average age of housing? (pages 41–42)

PART II: INDUSTRY AND COMMERCE

1. Why would a big corporation pay millions of dollars in severance money to an executive who has been a complete failure, who has turned corporate profits into corporate losses? (page 145)

2. Why has Toyota manufactured cars with only enough inventory of parts to last a few hours? Why did Soviet industries have nearly enough inventory to last for a year? (page 136)

3. Why do American manufacturers of computers or television sets tend to have them transported by others while Chinese manufacturers tend to transport them themselves? (page 135)

4. How did the movement of population from rural to urban America affect the economics of retail selling in the early twentieth century? How did the later movement of population from urban to suburban America in the second half of the twentieth century affect the economics of department stores and grocery stores? Explain with examples. (pages 92–93, 96–97)

5. Why is it that General Motors can make millions of automobiles, without making a single tire to go on them, while Soviet enterprises not only tended to make all their own components, but sometimes even made the bricks for the buildings in which they operated? (pages 130, 134)

6. How did diseconomies of scale in agriculture affect the way tractor drivers plowed fields in the Soviet Union? What if agricultural enterprises had been privately owned and the tractor drivers were plowing their own fields? Would the work have been done differently and would the farm be likely to be as large? Explain why or why not. (pages 123–124)

7. When an economic project such as building a railroad or creating an airline requires far more money than any given individual can or will invest, what are some of the things that can facilitate or impede the pooling of the money of millions of people to finance the project? (pages 140–142)

8. Advertising, even when it is successful, is often considered to be a benefit only to those who advertise, but of no benefit to consumers, who have to pay the cost of the advertisements in the higher price of the products they buy. Evaluate this view from an economic perspective. (pages 120–121, 574–577)

9. "Inertia is common to people under both capitalism and socialism, but the market exacts a price for inertia." Explain how and why inertia among mail order houses, which were the leading retailers in the United States in the early twentieth century, was affected by the rise of department store chains. (pages 96–98, 182)

10. Why are retired people able to get much lower priced travel rates— on cruise ships, for example— than most other people? Explain the economic reasons. (pages 125–126)

11. Why is the perennial desire to "eliminate the middleman" perennially frustrated? (pages 130–133)

12. After the A & P grocery chain cut its profit margins on the goods it sold, back in the early twentieth century, its rate of profit on its investment rose well above the national average. Why? (page 118)

13. Why would luxury hotels be charging lower rates than economy hotels in the same city? (pages 126–127)

14. What is the difference between the government's protecting competition and protecting competitors? How does that affect the consumers' standard of living through its effect on the allocation of scarce resources which have alternative uses? (pages 161–165)

15. Stores in low–income neighborhoods tend to charge higher prices, in order to try to compensate for higher costs and for slower rates of turnover in their inventory. What limits the ability of these stores to completely compensate for these higher costs, so as to make the same rates of profits as stores in higher–income neighborhoods? (pages 118–119)

PART III: WORK AND PAY

1. What have been some of the economic and social consequences of the substitution of machine power for human strength, as a result of industrialization, and the growing importance of knowledge, skills, and experience in a high-tech economy? (pages 208–209)

2. Would you expect the average hammer in a factory to drive more nails per year in a richer country or a poorer country? Would you expect the average worker to produce more output per hour in a richer country or a poorer country? Explain the reasons in each case. (pages 216–217)

3. Some studies have attempted to determine how employment has changed in the wake of a minimum wage increase by surveying individual firms before and after the increase to find out how their employment has changed, and then adding up the results. What is the problem with this procedure? (page 225)

4. What has been the effect of multinational corporations in China on wages and working conditions there? (pages 245–247)

5. In the first half of 2010, the proportion of American adults with jobs had the largest decline in more than half a century. Yet the unemployment rate did not rise. How could this be? (pages 235–237)

6. Is it possible for per capita income to rise by 50 percent over a period of years while household income remains unchanged over those same years? (pages 202–203)

7. Although maximum wage laws existed long before minimum wage laws, only the latter are common today. However, in those special cases where there have been maximum wage laws— as under wage and price controls during World War II, for example— what effects would such laws have on discrimination against minorities and women? How would maximum wage laws and minimum wage laws differ in their effects on discrimination? (pages 214, 231–233)

8. Does inequality of income tend to be greater or less in the long run than in the short run? Why do many statistics about "the rich" and "the poor" include people who are neither rich nor poor in reality? (pages 199–200)

9. When drivers of municipal transit buses are unionized and paid more than they would be paid in a free, competitive market, what effect does that tend to have on the size of the buses and the waiting time between buses? (page 215)

10. How can differences in the quality of transportation systems or in the level of corruption in different countries affect the value of labor? (page 197)

11. Why would a South African manufacturer expand production by opening a plant in Poland, when there were large numbers of workers available in South Africa, where the unemployment rate was 26 percent, and where the average output per hour of South African workers was higher than the average output per hour of Polish workers? (pages 195–196, 227–228)

12. Why is the productivity of an individual not the same as the efficiency or merit of that individual? Give examples comparing workers in Third World countries with workers in more prosperous countries, and comparing different baseball players in different kinds of situations. (pages 196–197)

13. It has often been said that, over time, a higher percentage of the nation's total income goes to high income people. In what sense is this true and in what sense is it not true? (pages 203–207)

14. Why are wages lower, and working conditions worse, in Third World countries? What are the likely consequences of various possible ways of trying to improve either or both? (pages 244–247)

15. What are the implications of the fact that most people today reach their peak earnings years at later ages than in generations past— and that these peak earnings are now usually a larger number of times greater than the earnings of beginners than in times past? What further implications does this have for the changing differences in male and female earnings? (pages 208–209)

PART IV: TIME AND RISK

1. Does it make economic sense for a ninety-year-old man, with no heirs, to plant trees that will take 20 years to grow to maturity and bear fruit? (page 292)

2. Businesses raise money by issuing both stocks and bonds but individuals usually raise money by borrowing— the equivalent of issuing bonds. In some circumstances, however, individuals acquire resources by the equivalent of issuing stocks. What are those circumstances? Give specific examples and reasons. (pages 313–315)

3. Why may the statistics on the known reserves of a natural resource provide a misleading picture of how much of that resource there is in the ground? (pages 294–301)

4. Why is it common for "payday loans" to have annual interest rates of more than 100 percent, when other loans usually have interest rates that are a small fraction of that? (pages 281–283)

5. How does commodity speculation differ from gambling? What is the effect of commodity speculation on output? On the allocation of scarce resources which have alternative uses? (pages 283–289)

6. Why does it pay an insurance company or a commodity speculator to offer a deal in which they guarantee to pay a given sum of money to someone under given circumstances? And why does it pay for that person to accept the offer? (pages 288, 289, 316–317)

7. Why would a bus company owned or controlled by the government charge fares too low to replace existing buses as they wear out? What if the executives of a privately owned and privately controlled bus company decided to divert part of the money they received from bus fares toward paying themselves higher salaries, instead of setting aside enough money to replace buses as they wear out? What would happen to the value of the stock in their company and how would the stockholders be likely to react? (pages 337–338)

8. Many poor countries have confiscated businesses or land owned by wealthy foreign companies. Why has this seldom made the poor country more prosperous? (pages 340–341)

9. Can complex international commodity markets have much impact on small farmers in a Third World country? Can those Third World farmers, who are often poor and poorly educated, participate in international commodity markets? (pages 286–287)

10. Why does it make sense for an individual driver to get insurance on his automobile? Why then doesn't Hertz buy insurance for its automobiles? (pages 316–317)

11. How can government regulation of insurance companies improve the efficiency of the industry? How can it make the industry less efficient? Explain with examples of both. (pages 320–323)

12. Why do manufacturers in some countries keep an inventory of many months' supply of the materials needed in production, while manufacturers in some other countries do not keep an inventory of such materials sufficient to last all day? What are the implications for the allocation of scarce resources which have alternative uses? (pages 135–137, 289–291)

13. What kinds of income are called "unearned income" and why? (pages 278–280)

14. How does the interest rate allocate resources among contemporaries and between different present and future uses? (pages 273–276, 280–281)

15. Why would a state's bonds be downgraded by a bond-rating agency like Standard & Poor's, when that state was paying its bondholders regularly and had a surplus in its treasury? (page 292)

PART V: THE NATIONAL ECONOMY

1. How does the consumer price index tend to exaggerate the rate of inflation and how does that affect our attempts to measure real income? (pages 353–355)

2. Does the presence or absence of property rights make any difference to people who own no property? For example, are tenants affected economically by whether the community in which they rent apartments or houses allows unbridled property rights or reduces those property rights through zoning laws, open space laws, height restrictions on buildings, or rent control laws? (pages 400–404)

3. How does the level of honesty or corruption in a country affect the effectiveness of its economy? How do economic policies affect the level of honesty and corruption? (pages 394–396)

4. During the Great Depression of the 1930s, both Republican President Herbert Hoover and his successor, Democratic President Franklin D. Roosevelt, tried to keep up the prices of goods and labor. What was the rationale for these policies and what are the economic and social problems with such policies? (pages 375–376)

5. During a period of inflation, does money circulate faster or slower— and why? What are the consequences? What do you suppose happens during a period of deflation— and what are the consequences then? (pages 370–374)

6. During an all–out war, how can a country's military consumption plus civilian consumption add up to more than its output, without borrowing from other countries? (page 351)

7. Why is it difficult to make meaningful comparisons between the standard of living in a country whose population is, on average, many years younger than the population of another country with which it is being compared? (page 356)

8. In medieval times, the British economy lagged behind that of some economies in continental Europe but, in later centuries, Britain had the leading economy in Europe and led the world into the industrial age. How and why did foreigners play a major role in developing the British economy? (page 398)

9. Those who favor increases in tax rates are often disappointed that the additional revenue turns out to be less than they expected. Conversely, those who fear that cuts in tax rates will substantially reduce the government's revenues have often been surprised to find the government's revenues rising. Explain both phenomena. (pages 426–428)

10. Even if detailed statistics are available, why is it difficult to compare the national output at the beginning of the twentieth century with the national output at the beginning of the twenty-first century, and say by what percentage it has increased? Why is it hard even to say how much prices for particular goods have increased from one century to another? (pages 352–354)

11. Why would an Albanian bank, with 83 percent of the country's bank deposits, refuse to make any loans? And what were the consequences for the Albanian economy? (page 387)

12. Explain "the fallacy of composition" and give economic examples. (pages 346–347)

13. Since "money talks" in the marketplace, why would rich people want to shift some decisions out of the marketplace and have these decisions made politically or by the courts? (Hint: housing is a classic example.) (pages 402–403)

14. Under what conditions is the burden of the national debt passed on to future generations? Under what conditions is it not? (pages 437–438)

15. From time to time there are conflicting estimates of how much of the total taxes are paid for by various individuals and organizations. Why is it not easy to tell who is really bearing the burden of taxation? Explain with specific examples. (pages 428–432)

PART VI: THE INTERNATIONAL ECONOMY

1. If laws restrict the importation of a particular foreign product, in order to protect the jobs of domestic workers who produce that product, how is it possible that this can end up reducing domestic employment? (page 491)

2. Although Africa is more than twice the size of Europe, the European coastline is longer than the African coastline. How can that be, and— more important— what are the economic implications? (page 533)

3. If country ***A*** can produce a given product more cheaply than country ***B***, what economic reason would cause it to buy that product from country ***B***, instead of producing it itself? (pages 479–483)

4. Australia manufactures automobiles, but these are cars developed by Japanese or American car companies. Why would an advanced and prosperous country like Australia not design and produce its own cars? (pages 483–484)

5. What is meant by a "favorable balance of trade"? Why was it considered favorable? Is it also favorable to producing prosperity in the economy? (pages 476–478)

6. What economic effects do mountains have on (a) the people living in those mountains and (b) the people living below on the lands near those mountains? Explain why these economic effects are what they are. (pages 536–539)

7. What are some of the reasons for restrictions on international trade that economists usually recognize as valid? (pages 492–493)

8. In the absence of restrictions on international trade, would low-wage countries tend to take jobs away from high-wage countries through lower production costs that would allow them to sell at lower prices? Explain. (pages 486–489)

9. The United States has often been a "debtor nation" owing more to people in other countries than people in other countries owe to Americans, while Switzerland has often been a "creditor nation," to whom others owe more to the Swiss than the Swiss owe to others. What tends to lead to this difference and is it economically beneficial or harmful to Americans or Swiss? (pages 506–507)

10. How did the cultural universe and the disease universe of Europeans differ from that of the indigenous peoples of the Western Hemisphere, as of the time when they first came in contact with each other? Explain why— and the economic implications of those differences. (pages 539–541, 565–566)

11. If, instead of having international trade restrictions that save perhaps 200,000 jobs, the European Union allowed free trade and paid $100,000 to each individual who lost a job as a result, would the European Union come out ahead financially? (pages 498–499)

12. "Theoretically, investments might be expected to flow from where capital is abundant to where it is in short supply, much like water seeking its own level." What are some of the reasons why countries with abundant capital seldom invest much of it in countries where capital is much more scarce? (pages 503–505)

13. Name five reasons why one group of people might be more culturally isolated than another, and explain the economic implications of that isolation. (pages 536, 537–541, 549–551)

14. What are some of the problems in applying laws against “dumping”? (pages 493–495)

15. Why is free trade likely to be more valuable to producers in a small economy than to producers in a large economy? (pages 483–485)

PART VII: SPECIAL ECONOMIC ISSUES

1. Costly safety devices or policies have often been defended on grounds that “if it saves just one life, it is worth it.” What is the problem with that reasoning? (pages 586–588)

2. What are some of the reasons why different prices are charged for things that are physically identical? (pages 572–573)

3. How did the mercantilist economists differ from classical economists such as Adam Smith? (pages 598–601)

4. What is the point of having different brands of the same product if in fact all the brands are of pretty much the same quality and sell for about the same price? What would happen in this situation if laws did away with brands, so that each consumer could only identify what the product was, but not who made it? (pages 574–578)

5. For about a century— from the 1770s to the 1870s— most of the leading economists believed that the relative prices of goods reflected their relative costs of production, especially the amount of labor they required. What are some of the problems with that theory? (pages 607–611)

6. Explain how the presence or absence of the profit motive affects an organization's likelihood of achieving the purpose for which it was created, to the maximum extent possible with the resources at its disposal. (pages 578–580)

7. During the era before there were laws against racial discrimination in employment, were black chemists more likely to be hired in profit-making businesses or in non-profit organizations such as colleges and universities— and why? (pages 581–582)

8. Critics have claimed that profits exceed the value of the services performed by those who receive those profits. What empirical evidence could be used to test this belief? (pages 582–583)

9. When fighting a war leads to a diversion of a substantial amount of resources from civilian to military purposes, most people would be more concerned to see that the poor could still get bread than that the rich could still get caviar. Then why not put price controls on bread but not on caviar? (pages 628–629)

10. Some people regard economics as just the opinions of economists, reflecting their various ideological biases. Examine that belief in the light of the history of economics. (pages 621–622)

11. Can government–imposed prices for medical care reduce the costs of that care? (page 573)

12. It is common for politicians to set out to create a law or policy to solve a particular economic problem, and many in the media and among the public urge them to do that. In the light of economic theory in general, and general equilibrium theory in particular, what is wrong with that approach? (pages 612–613)

13. Where do natural disasters like earthquakes or hurricanes do the most damage in terms of financial costs and in terms of loss of human lives? (page 587)

14. A government official in India said: "I don't want multinational companies getting rich selling face creams to poor Indians." What does that statement imply? (pages 589–590)

15. Nobel Prizewinning economist F.A. Hayek said: "We shall not grow wiser before we learn that much that we have done was very foolish." What do you consider to be the three most foolish policies discussed in this book? Would you have considered those policies foolish before reading ***Basic Economics***?