Chapter 2 Exercises

Self-Check Questions

1. Suppose Alphonso's town raised the price of bus tickets to $2 per trip (while the price of burgers stayed at $4 and his budget remained $20 per week). Draw Alphonso's new budget constraint. What happens to the opportunity cost of bus tickets?
2. Suppose there is an improvement in medical technology that enables more health care to be provided with the same amount of resources. How would this affect the production possibilities curve, and in particular, how would it affect the opportunity cost of education?
3. Could a nation be producing in a way that is allocatively efficient but not productively inefficient?
4. What are the similarities between a consumer's budget constraint and society's production possibilities frontier, not just graphically but analytically?
5. Individuals may not act in the rational, calculating way described by the economic model of decision-making, measuring utility and costs at the margin, but can you make a case that they behave approximately in that way?
6. Would an op-ed piece in a newspaper urging the adoption of a particular economic policy be considered a positive or normative statement?
7. Would a research study on the effects of soft drink consumption on children's cognitive development be considered a positive or normative statement?

Review Questions

8. Explain why scarcity leads to tradeoffs.
9. Explain why individuals make choices that are directly on the budget constraint rather than inside the budget constraint or outside it.
10. What is comparative advantage?
11. What does a production possibilities frontier illustrate?
12. Why is a production possibilities frontier typically drawn as a curve rather than a straight line?
13. Explain why societies cannot make a choice above their production possibilities frontier and should not make a choice below it.
14. What are diminishing marginal returns?
15. What is productive efficiency? Allocative efficiency?
16. What is the difference between a positive and a normative statement?
17. Is the economic model of decision-making intended as a literal description of how individuals, firms, and the governments actually make decisions?
18. What are four responses to the claim that people should not behave in the way described in this chapter?

Critical Thinking Questions

19. Suppose Alphonso's town raises the price of bus tickets from $1 to $2, and the price of burgers rises from $4 to $8. Why is the opportunity cost of bus tickets unchanged? Suppose Alphonso's weekly spending money increases from $20 to $40. How is his budget constraint affected from all three changes? Explain.

20. During the Second World War, Germany's factories were decimated, and the country suffered many human casualties, both soldiers and civilians. How did the war affect Germany's production possibilities curve?

21. It is clear that productive inefficiency is a waste since resources are being used in a way that produces fewer goods and services than a nation is capable of. Why is allocative inefficiency also wasteful?

22. What assumptions about the economy must be true for the invisible hand to work? To what extent are those assumptions valid in the real world?

23. Do economists have any particular expertise in making normative arguments? In other words, they have expertise in making positive statements (i.e., what will happen) about some economic policy, for example, but do they have special expertise to judge whether or not the policy *should* be undertaken?

Problems

Use this information to answer the following four questions: Marie has a weekly budget of $24, which she likes to spend on magazines and pies.

24. If the price of a magazine is $4 each, what is the maximum number of magazines she could buy in a week?

25. If the price of a pie is $12, what is the maximum number of pies she could buy in a week?

26. Draw Marie's budget constraint with pies on the horizontal axis and magazines on the vertical axis. What is the slope of the budget constraint?

27. What is Marie's opportunity cost of purchasing a pie?