

**Chapter 1**

**Power of Markets:**

***Who Feeds Paris?***

1.  What happened to Coca Cola profits in the short run?  What eventually happened and why?

2.  What does economics study?

3.  How does the concept of “utility” vary amongst individuals?

    (Explain how individuals maximize their utility.)

4.  How would a smoker define costs?

5.  Why doesn’t Brad Pitt sell auto insurance?  Find and explain another example from your own

    experience.

**Chapter 2**

**Incentives Matter:**

***Why you might be able to save your face by cutting off your nose***

***(if you were a black rhinoceros)***

1.  Why do people kill black rhinos, sell drugs or cheat on their taxes?

2.  What does Adam Smith say in *The Wealth of Nations* about self-interest?

3.  What are “perverse incentives” or “the law of unintended consequences”?  Provide an example.

4.  Why do fast food restaurants post signs at the register that say, “Your meal is free if you don’t get a receipt”?

5.  What is the “prisoner’s dilemma” and how can it be applied to real-world situations?

**Chapter 5**

**Economics of Information:**

***McDonald’s didn’t create a better hamburger***

1.  Explain “The Market for Lemons” theory and give an example.

2.  How could science and information in the marketplace hurt the consumer?

3.  Why do companies spend so much on “branding”?

4.  How does Oprah and Roger Ebert alter consumer spending?  How do they have that ability?

5.  Explain whether a student who attends Harvard is better off in life than a student who attends

    Tulane.  How does this analysis relate to “branding”?

**Chapter 6**

**Productivity and Human Capital:**

***Why is Bill Gates so much richer than you are?***

1.  Explain how Israel, with virtually no natural resources compared to highly rich Saudi Arabia with all their oil, earns a higher per capita income.

2.  Why is America better off today than at any other point in our history?

3.  If Americans are so productive, explain why basketball shoes are sewn together in Vietnam.

4.  Explain the effect on America if 500 million people in India became more productive and gradually moved from poverty to the middle class.

5.  Explain why international trade is a powerful force for good in the long run but has victims in the short run.