Chapter One:
1. Some people have argued that the US cannot afford a volunteer army in which wages are high enough to attract competent enlistees. Instead, they suggest paying lower wages and drafting the required number of recruits. Would such a policy change lower the accounting and economic costs to the US government from maintaining an army? Explain your answer.

2. Preparation time for the typical family meal has dwindled from two and a half hours in the early 1960s to 15 minutes today. Over the same time period, brown-bag lunches for school kids have yielded to prefabricated “meal kits.” For example, Oscar Meyer launched its packaged Lunchables in 1988 and by 2000 was making nearly $600 million in meal-kit profits. Using the concept of opportunity cost, explain these phenomena.

3. In 1997, the citizens of Tucson, AZ voted on whether the minimum wage within the city should be raised to $7 per house. Explain how one would use positive and normative analysis to evaluate the desirability of this proposed policy.

Chapter Two:
1. A newspaper article points out that the price of economics textbooks is up 10% this year over last year, and yet the number of textbooks sold is higher this year. The article claims that these figures show that the law of demand does not apply to textbooks. Is there a flaw in this argument?

2. Suppose a freeze in Brazil damages Brazil’s coffee crop. Show the effects on a) the coffee market, b) the tea market, and c) the cream market.

3. Suppose that the price elasticity of demand for cigarettes is equal to 2.0. If the price elasticity of demand for Camel cigarettes is equal to 6.0, must there be at least some cigarette brands with an elasticity of less than 2.0?

4. In the antitrust case brought by the Justice Dept against Microsoft, explain why the cross-price elasticity of demand between rival operating systems such as Linux and Microsoft’s own MS-DOS system might have been of interest in determining Microsoft’s ability to control the prevailing price in the operating system market.


Chapter Three:
1. Suppose Elton John says, “To me, Coke and Pepsi are both the same.” Draw several of Elton’s indifference curves relating Coke and Pepsi.

2. When we use the composite-good convention, what do we mean by composite good and how do we measure it? What is the slope of the budget line when a composite good is used? What is the slope of an indifference curve? Does the consumer equilibrium involve equality between MRS and the price ratio when a composite good is used?

3. Is it possible for all goods a consumer buys to be normal? Is it possible for all goods a consumer buys to be inferior?

4. Marilyn spends her entirely monthly income of $600 on champagne (C) and perfume (F). The price of a bottle of champagne is $30 and the price of an ounce of perfume is $10. If she consumes 12 bottles of champagne and 24 ounces of perfume, her MRS is 1C/1F. Is her choice optimal? Explain your answer with a diagram.

5. Can a “good” ever become a “bad” to a consumer? Explain.

6. “If you are indifferent between two market baskets, then you would allow someone else to decide which basket you receive, even if that other person is your worst enemy.” Do you agree or disagree? Why?

7. Draw a set of indifference curves relating two “bads” such as smog and garbage. What characteristics do these curves have?
Chapter Four:
1. Explain how a bandwagon effect might speed up the rate at which DVD players are adapted by consumers. Do likewise for the case of cable television subscriptions.
2. When the price of gasoline in Italy is 5 lire per gallon, Fabio consumers 1,000 gallons per year. The price rises to 5.50 lire and, to offset the harm to Fabio, the Italian government gives him a cash transfer of 500 lire a year. Will Fabio be better or worse off after the price rise plus transfer? What will happen to his gasoline consumption?
3. Suppose that George Clooney is interested only in two goods: cigars and scotch. A). Employ indifference curve/budget line analysis to show a case where a decrease in the price of cigars leads to an increase in George’s scotch consumption. Does this imply that cigars and scotch are complements to George? Explain your answer. B). Repeat the preceding question but assume that a decrease in the price of cigars leads to a decrease in George’s scotch consumption. Does this mean that scotch is an inferior good in George’s case?
4. Explain why a consumer’s well-being is not constant along a demand curve.

Chapter Five:
1. At the “All You Can Eat” brunch buffet offered by Chez Paul’s Cajun Restaurant, consumers pay a price of $15 and then can consume all they want. Show a consumer’s optimal consumption point with a budget line and indifference curve. Explain the shape of both curves.
2. How can the government reduce a consumer’s consumption of schooling by providing schooling at no cost? Explain in words and show in a diagram.
3. In a two-year period, Anna has earnings of $6 million this year (year 1) and earnings of $10 million next year (year 2). She can borrow or lend at an interest rate of 25% per year. Suppose that Anna decides to borrow $1 million in year 1. Show Anna’s optimal consumption point in a diagram. Identify the amount borrowed in year 1, the amount repaid in year 2, consumption in year 1, and consumption in year 2.
4. Tony currently goes to the dentist twice a year at $50 per visit. His employer, the University of Arizona, subsidizes Tony’s purchases by paying half the cost of each dental visit in excess of one visit per year. (No subsidy is granted on the first visit) Show how this policy affects Tony’s budget line and his purchases of dental services. Identify in a diagram how much Tony spends on dental work and how much the University of Arizona spends in subsidizing his consumption.
5. Show the welfare cost of an excise subsidy. What would it cost the government to give an equivalent lump-sum subsidy?
6. College students often receive offers for credit cards even though they currently are not working. Why would banks send cards to students and why would students use them?

Chapter Six:
1. How is an equal distribution of goods shown in the Edgeworth box diagram? Is an equal distribution efficient?
2. What is meant by the term economic efficiency? Explain how voluntary exchange leads to an efficient solution.
3. After the Arab oil embargo in the early 1970s, the government set up a contingency plan that included rationing gasoline. Ration coupons were printed in case the plan was ever implemented. Some proposed that if the plan was implemented, consumers should be permitted to buy and sell coupons legally. Others disagreed and said that it should be illegal to buy and sell coupons. Which plan would be the most likely to be efficient? Why?
4. Tickets to the National Football League’s (NFL) championship game, the Super Bowl, are sold by the League at a below-market-clearing price. This policy produces a shortage. To allocate the relatively scarce tickets, the NFL typically employs a nonprice rationing scheme. For example, during a recent season, the League allowed all interested buyers to submit an application for up to two Super Bowl tickets. The NFL then conducted a lottery to determine which of the submitted
applications would be honored. Explain why the nonprice rationing scheme employed by the NFL results in an inefficient distribution of goods. Can the NFL’s insistence that the state in which the Super Bowl is played prohibit ticket scalping by justified on efficiency or equity grounds? Explain. (Hint: ticket scalping involves the operation of a secondary market and the resale of tickets by original recipients to other interested consumers).