

**Department of Economics
University of Wisconsin-La Crosse
ECON110 Principles of Economics
Dr. Lisa Giddings, Associate Professor**

Homework #1 Due September 22nd

1. Many people think of their air travel as being free when they use frequent-flyer coupons. Explain why these people are likely to make wasteful travel decisions.
2. Mankiw, Chapter 1, page 19 #10. Suppose the United States adopted central planning for its economy, and you became the chief planner. Among the millions of decisions that you need to make for next year are how many compact discs to produce, what artists to record, and who should receive the discs.
 - a. To make these decisions intelligently, what information would you need about the compact disc industry? What information would you need about each of the people in the United States?
 - b. How would your decisions about CDs affect some of your other decisions, such as how many CD players to make or cassette tapes to produce? How might some of your other decisions about the economy change your views about CDs?
3. Look at a newspaper or at the website <http://www.economist.com> to find one story about the economy that have been in the news lately. For each story identify one (or more) of the SEVEN principles of economics that we focused on in this chapter that is relevant and explain how it is relevant.
4. Chapter 2, page 39 number 2, Imagine a society that produces military goods and consumer goods, which we'll call "guns" and "butter."
 - a. Draw a production possibilities frontier for guns and butter. Using the concept of opportunity cost, explain why it most likely has a bowed-out shape.
 - b. Show a point that is impossible for the economy to achieve. Show a point that is feasible but inefficient.
 - c. Imagine that the society has two political parties, called the Hawks (who want a strong military) and the Doves (who want a smaller military). Show a point on your production possibilities frontier that the Hawks might choose and a point the Doves might choose.
 - d. Imagine that an aggressive neighboring country reduces the size of its military. As a result, both the Hawks and the Doves reduce their desired production of guns by the same amount. Which party would get the bigger "peace dividend," measured by the increase in butter production. Explain.
5. Use the concept of opportunity cost to explain the following:
 - a. More people choose to get graduate degrees when the job market is bad.
 - b. More people choose to do their own home repairs when the economy is slow.
 - c. There are more parks in suburban areas than in urban areas.
 - d. Fewer students enroll in classes that meet before 10:00 am.
6. See the table and questions below:

	Minutes Needed to make 1 ounce of:		Amount Produced in 8 hours	
	Meat	Potatoes	Meat	Potatoes
Farmer	60 min/oz	15 min/oz	8 oz	32 oz
Rancher	20 min/oz	10 min/oz	24 oz	48 oz

- a) Without trade, what is the price (or you could say "cost" or even "opportunity cost" of meat in terms of potatoes for the farmer?
 - b) Without trade what is the price (cost or opportunity cost) of meat in terms of potatoes for the rancher?
 - c) Draw the farmer's production possibility curve between meat and potatoes.
 - d) Draw the rancher's production possibility curve between meat and potatoes.
 - e) Does the farmer have an absolute advantage in the production of meat and potatoes? Why or why not?
 - f) Does the rancher have an absolute advantage in the production of meat and potatoes? Why or why not?
 - g) Who has a comparative advantage in producing meat? Why?
 - h) Who has a comparative advantage in producing potatoes? Why?
- 7.. Sharp, chapter 10 page 288, number 12. How do international trade restrictions hurt the American consumer? Provide an example.

BONUS:

Production Possibilities in Two Cities in Baseballia

	Pairs of Red Socks per Worker per hour	Pairs of White Socks per Worker per hour
Boston	3	3
Chicago	2	1

- Without trade, what is the price of white socks (in terms of red socks) in Boston?
- Without trade, what is the price of white socks (in terms of red socks) in Chicago?
- Which city has an absolute advantage in the production of each color sock?
- Which city has a comparative advantage in the production of each color sock?