

*QUESTIONS FOR DISCUSSION*

- #1. “Subprime Mortgages: A Primer,” by Mara Lee. *NPR.org*, March 23, 2007.  
<http://www.npr.org/templates/story/story.php?storyId=9085408>  
(accessed 1/19/08)
- a. What is a subprime mortgage?
  - b. What is an ARM?
  - c. Why are so many subprime borrowers defaulting on their mortgages?

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- #2. “The Great American Shopper Hits a Wall,” by James C. Cooper.  
*Business Week*. Dec 22, 2008.  
<http://proquest.umi.com/pqdweb?did=1614136271&sid=3&Fmt=3&clientId=1566&RQT=309&VName=PQD> or <http://tinyurl.com/9xptkl>  
(accessed 1/15/2009)
- a. What happened to consumer spending in the third quarter of 2008?
  - b. What is the role of income loss in explaining the contraction of consumer spending? What is the role of consumer borrowing?
  - c. Can consumers lead the U.S. economy out of this recession?

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- #3. “Malnutrition is Cheating Its Survivors, and Africa’s Future,” by Michael Wines. *The New York Times*, December 28, 2006.  
<http://www.nytimes.com/2006/12/28/world/africa/28malnutrition.html> (accessed 1/19/2009)
- a. According to the article, what are the nutritional deficiencies suffered by children in Sub-Saharan Africa and what are the impacts on the children of those deficiencies? Why are these deficiencies a “nonissue” in the United States?
  - b. What is the long-run impact on productivity and on gross domestic product of the nutritional deficiencies suffered by children in Sub-Saharan Africa?
  - c. Use the production possibility frontier to illustrate the potential impact of eliminating childhood nutritional deficiencies through the provision of nutritional supplements. What difference does it make to your analysis if the supplements are provided by an external agency such as UNICEF, as opposed to being provided locally by parents, doctors, or the government?

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- #4. “The \$2 Trillion Nightmare,” by Bob Herbert. *The New York Times*, March 4, 2008.  
<http://www.nytimes.com/2008/03/04/opinion/04herbert.html> or  
<http://tinyurl.com/356b4q> (accessed 1/19/2009)
- a. According to the article, what are the estimated direct costs to the United States of the war in Iraq?
- b. Nobel Laureate Joe Stiglitz mentioned several opportunity costs of fighting the war. What are the opportunity costs Prof. Stiglitz mentioned? Can you name additional opportunity costs that are not mentioned in the article?
- c. Group all the opportunity costs into one category and give that category a name (“Social services”? “Education”? Your choice.). For now, let’s call it X. Draw a production possibilities frontier that illustrates the tradeoffs between producing warfare and producing X. Where would you put the U.S. on your PPF?

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- #5. “Prenuptial Jitters: Did Gay Marriage Destroy Heterosexual Marriage in Scandinavia?,” By M.V. Lee Badgett. *Slate.com*, May 20, 2004.  
<http://www.slate.com/id/2100884/> (accessed 1/19/2008)
- a. What happened to cohabitation rates among unmarried heterosexual couples in Scandinavia since 1980? What happened to the average nonmarital birth rate in Europe between 1989 and 2000?
  - b. Badgett’s column is countering an argument against gay marriage that links gay marriage and the decline of heterosexual marriage. But we can explain the postponement of heterosexual marriage without reference to gay marriage. Use changes in opportunity costs and comparative advantage to explain 20<sup>th</sup> century declines in heterosexual marriage.
  - c. Drawing on families and couples you have known – gay or straight – what are examples of the gains from trade that go on within these families?

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- #6. “Food Prices Are Rising Worldwide: Weather, Oil Costs among Factors,”  
by Katherine Corcoran, *Boston Globe*, March 30, 2008.  
[http://www.boston.com/news/world/latinamerica/articles/2008/03/30/food\\_prices\\_are\\_rising\\_worldwide/](http://www.boston.com/news/world/latinamerica/articles/2008/03/30/food_prices_are_rising_worldwide/) or <http://tinyurl.com/8qkgnb>  
(accessed 1/18/2009)
- a. What was happening last winter and spring to the price of food?
  - b. Identify the demand-side and supply-side forces that are increasing the price of food.
  - c. Who gains and who loses when food prices rise? Come up with a policy proposal that might mitigate the costs borne by those who “lose” when food prices rise. Would your policy negatively impact anyone? Who?

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- #7. “Inaugural Tickets Scalped on Craigslist,” by Ben Smith. *Politico.com*.  
Posted 1/13/2009.  
<http://www.politico.com/news/stories/0109/17414.html> (accessed  
1/18/2009)
- a. How many tickets were distributed for President Obama’s inauguration? When first distributed, how much did the tickets cost?
  - b. Using a model of supply and demand, illustrate the market-clearing price for inaugural tickets. Are the market-clearing price and the initial price equal?
  - c. Efforts were made to ban the resale of inaugural tickets. Discuss the tradeoffs between efficiency and equity in the debate over whether inaugural tickets should be free or sold at the market-clearing price.

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- #8. “How Fuel Subsidies Drag Down a Nation,” by Robert Frank. *The New York Times*, August 16, 2008.  
<http://www.nytimes.com/2008/08/17/business/economy/17view.html>  
(accessed 1/19/2009)
- a. What is a fuel subsidy? What effect do fuel subsidies have on the worldwide price of fuel? If the worldwide price of fuel is \$5 per gallon and a government offered a \$2 fuel subsidy, what price would the consumer pay for fuel?
  - b. Use a supply and demand model to illustrate the impact of a fuel subsidy on price paid by the consumer and quantity of fuel purchased.
  - c. What are the social costs of a fuel subsidy? What are the social benefits? Are there alternative policies that countries could put in place that would have the benefits of the fuel subsidy without (so many of) the costs?

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- #9. “In Praise of Price Gouging,” by John Stossel. Posted at *Townhall.com*, September 7, 2005.  
[http://www.townhall.com/columnists/JohnStossel/2005/09/07/in\\_praise\\_of\\_price\\_gouging](http://www.townhall.com/columnists/JohnStossel/2005/09/07/in_praise_of_price_gouging) (accessed 1/19/08)

**Note the date of the article: it was written one week after Hurricane Katrina hit.**

- a. Stossel begins with a (hypothetical) story of someone paying \$20 for a bottle of water. Use a supply and demand graph to illustrate how the equilibrium price of a bottle of water might have risen, post-Katrina in New Orleans, from \$1 to \$20 a bottle. Is the increase in price a result of a change in demand, change in supply, or both?
- b. When the price of a bottle of water rises to \$20, Stossel claims “water goes to those who really need it.” Do you agree? Use economic terms and concepts to explain why you think water does (or does not) therefore go to those who really need it.
- c. Why might a government want to make a distinction between the provision of water bottles in the immediate wake of a natural disaster and the provision of carpentry services in the months and years of rebuilding that follow? Here, think about the short-run and long-run changes in supply and in demand that can take place, and about the trade-offs between efficiency and equity.

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- #10. “Mac and Cheese Sales Spike,” *UPI News Feed*. Feb 5, 2008.  
[http://www.upi.com/Odd\\_News/2008/02/05/Mac\\_and\\_cheese\\_sales\\_spike/UPI-90531202243517/](http://www.upi.com/Odd_News/2008/02/05/Mac_and_cheese_sales_spike/UPI-90531202243517/) or <http://tinyurl.com/9qc9jd> (accessed 1/19/2009)
- a. What happened to sales of Kraft Mac & Cheese in 2007?
  - b. For you, is Mac & Cheese a normal good or an inferior good? For the economy at large, is Mac & Cheese a normal good or an inferior good? What evidence supports your answer? What does this tell you about the income elasticity of demand for Mac & Cheese?
  - c. Make a list of some other goods that are experiencing a surge in demand during this recession. Make a list of some goods that are experiencing a drop in demand during the recession. What are the commonalities within and differences between your two lists? (*Bonus thought*: If you are looking for a job right now, which sort of company should you focus your efforts on?)

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- #11. “Americans Start to Curb Their Thirst For Gasoline,” by Ana Campoy.  
*Wall Street Journal*. Mar 3, 2008.  
<http://proquest.umi.com/pqdweb?did=1437721491&sid=1&Fmt=3&clientId=1566&RQT=309&VName=PQD> or <http://tinyurl.com/97byj9>  
(accessed 1/19/2009)
- a. As gasoline prices soared last winter and spring, what happened to consumption of gasoline in the United States?
  - b. Is there enough information in the article to determine whether changes in supply or changes in demand are the cause of the price and quantity changes? What are the various possibilities, choosing (one or more) from among shift in supply, shift in demand, movement along the supply curve, and movement along the demand curve? Draw a supply and demand graph that illustrates your answer. (You may need to draw more than one graph.)
  - c. Since the article was written gasoline prices fell back to \$2 per gallon or less. What would you predict would happen to consumption of gasoline as prices fell? Is your prediction logically consistent with the explanation you gave in part (b)?

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- #12. “Café Strikes out on Insurance,” by Lisa Welsh, *Worcester (MA) Telegram & Gazette*, January 16, 2009.  
<http://www.telegram.com/article/20090116/NEWS/901160676/0/FRO>  
[NTPAGE](http://www.telegram.com/article/20090116/NEWS/901160676/0/FRO) or <http://tinyurl.com/7ns9fm> (accessed 1/18/2009)
- a. What events led to the closure of the Grand Slam Café?
  - b. Once the owners of the Grand Slam Café decided to close the café permanently, did they immediately shut down the business or continue operating? Describe the costs and revenues that factored into their decision.
  - c. Consider two possible “events”: the ice storm, and the recession. Should the café owners have the same response in terms of closing to both events? Explain.

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- #13. “The Lemongrass War,” by Adam B. Ellick. *New York Times*, Mar 5, 2006.  
<http://proquest.umi.com/pqdweb?did=997462291&sid=1&Fmt=3&clientId=1566&RQT=309&VName=PQD> (accessed 1/19/08)
- a. How are Minangasli and Padang Raya similar? In what ways do they differ?
  - b. Based on the article, is the market for Indonesian restaurants in New York perfectly competitive, monopolistic, or a monopolistic competition? Why?
  - c. Use a graph to show the equilibrium price and equilibrium quantity of meals sold and the profit earned at Padang Raya when Ms. Tanzil worked there as a chef. Show the effect(s) of Ms. Tanzil’s decision to open her own restaurant on the equilibrium price and quantity of meals sold and the profits earned at Padang Raya in the long run .

*QUESTIONS FOR DISCUSSION*

- #14. “I like a Tipple as Much as Anyone Else - but We Should Pay More Tax on Drinks,” by Quentin Letts. *The Daily Mail*, July 11, 2007.  
<http://tinyurl.com/24mw4j> (accessed 1/19/2008)
- a. According to author Quentin Letts, what social problems in Britain are attributable to alcohol? What tax is being proposed to address these ills?
  - b. Using a supply and demand model, show how a per pint tax on ale and beer affects the equilibrium price and quantity sold of ale and beer.
  - c. Letts says a danger of the tax is it will punish blue-collar workers. Suppose there are two groups: one with elastic demand for beer and the other with inelastic demand for beer. If sellers could charge two prices – one for each group – which group would face the greater price increase? Which group would be punished the most? Do you want to know the relative income of the two groups in order to answer that question? Is it the elasticity of demand, or the income of blue-collar workers, that singles them out for “punishment” if this tax is implemented?

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- #15. “The Fight for Classroom Attention: Professor vs. Laptop,” by Jeffrey R. Young. *Chronicle of Higher Education*, June 2, 2006.  
<http://chronicle.com/weekly/v52/i39/39a02701.htm> (accessed 1/19/08)
- a. What are the problems cited in the article with the use of laptops in class?
  - b. In the language of economics, describe the negative externality created when a student uses the laptop during class for something other than note-taking. Draw a graph that depicts the market-equilibrium and social optimal quantity of laptops in class.
  - c. Is it possible to institute a policy that brings the use of laptops to the social optimum? Does the banning of laptops produce the socially optimal quantity of laptops in class?

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- #16. “Study Spotlights Bleak Effects of Poverty,” by Elizabeth Fernandez, *San Francisco Chronicle*, April 18, 2008.  
<http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2008/04/18/MN8K107HDN.DTL> or <http://tinyurl.com/9z874a> (accessed 1/19/2009)
- a. What connections between health and poverty did the Alameda County Public Health Department document in their report? Give examples of the differences in health for people living in the Oakland Hills and people living in the flatlands of Oakland.
  - b. What are the connections between health, income, education, and wealth?
  - c. Propose a policy that could address the health disparities documented in the report. Discuss any trade-offs between efficiency and equity that are inherent in your policy proposal.

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- #17. “Income Inequality, Writ Larger,” by Daniel Gross. *New York Times*, June 10, 2007.  
<http://www.nytimes.com/2007/06/10/business/yourmoney/10view.html> (accessed 1/18/2009)
- a. What are the changes in income inequality mentioned in the article?
  - b. What are the arguments the economists mentioned in the article offer for the increase in inequality of incomes in the U.S.? Of the arguments offered, which relate to workers’ marginal product of labor? Which arguments relate to other factors?
  - c. Some argue that economic policies should focus only on efficiency even if the result is rising inequality. Others argue that a nation is defined by more than simply its economic policies and that equity must also be considered in designing the nation’s “best” policies. Enter this debate. Should the economic policies of the Obama Administration consider only efficiency, or both efficiency and equity?

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- #18. "The Menace of an Unchecked Housing Bubble," by Dean Baker. *The Economists' Voice*: 3 (March 2006).  
<http://www.bepress.com/ev/vol3/iss4/art1> (accessed 1/19/08)
- a. What is the "housing bubble"?
  - b. What would be the macroeconomic effects of the bubble bursting?
  - c. What could the Fed have done to "check" the housing bubble? Should they have?

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- #19. “Luxury Prices Are Falling; the Sky, Too,” by Guy Trebay. *New York Times*. Dec 4, 2008. pg. E.1  
<http://www.nytimes.com/2008/12/04/fashion/04SHOPPING.html>  
(accessed 1/15/2009)
- a. According to the article, what was happening to prices of luxury goods and other retail items during December 2008?
  - b. If the trend described in the article extended well beyond luxury goods, to nearly all goods consumers purchase, what would be the effect on the Consumer Price Index? What if it was only luxury goods whose prices fell – then what would be the effect on the CPI?
  - c. How can consumer behavior affect the nation’s price level? If the U.S. economy does experience price deflation in 2009, is it the consumer’s fault?

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- #20. “Plight Deepens For Black Men, Studies Warn,” by Erik Eckholm. *New York Times*, Mar 20, 2006.  
<http://proquest.umi.com/pqdweb?did=1005980901&sid=1&Fmt=3&clientId=1566&RQT=309&VName=PQD> or <http://tinyurl.com/yp4wqr>  
(accessed 1/19/08)
- a. What share of Black male high school dropouts in their 20's were jobless in 2000? In 2004? Do jobless rates of male high school dropouts vary by race? Is “jobless” the same as “unemployed”? That is, are the unemployment rates of Black male high school dropouts in their 20's the same as these “jobless” rates?
- b. The high school dropout rate in 2004 for 14 - 24 year olds, according to the U.S. Census Bureau as cited in the *Statistical Abstract* Table 261, were 7.9 percent for White population, 9.2 percent for Black population, and 18.6 percent for Hispanic population.  
(<http://www.census.gov/prod/www/statistical-abstract.html>). What is the dropout rate for Black males cited in the article? What explanations are offered for the difference between the rate estimated by the Census Bureau and the rate in the article?
- c. What two factors have economists Harry Holzer and his co-authors offered to explain why employment of Black men in particular is so low?

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- #21. “Is Government Spending Too Easy an Answer?,” By N. Gregory Mankiw.  
*New York Times*, January 10, 2009  
[http://www.nytimes.com/2009/01/11/business/economy/11view.html?\\_r=1&partner=rssnyt&emc=rss](http://www.nytimes.com/2009/01/11/business/economy/11view.html?_r=1&partner=rssnyt&emc=rss) or <http://tinyurl.com/8k5ldl> (accessed 1/19/2009)
- a. What are the two tools of fiscal policy described in the article?
  - b. According to Mankiw, what are estimates of the sizes of the government spending multiplier and of the tax multiplier? Are these two estimates from the same source? Does Mankiw provide any cautions when comparing the two estimates? Should he?
  - c. What are the short run *and long run* effects of a tax cut? Of government spending increases? Should the Obama Administration advocate for one or the other – tax cut or spending increase – or should they advocate for both? (Depending upon what has happened by early April, you may need to rewrite that last question as “Did the Obama Administration . . .”) Does it matter what sort of things the government is buying when it spends?

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- #22. “Mexican Housing Markets Boom Despite US Crisis.” *The Star Online (Malaysia)*, January 20, 2008. <http://tinyurl.com/2q2nak> or <http://biz.thestar.com.my/news/story.asp?file=/2008/1/20/business/20080120115738&sec=business> (accessed 1/19/2008)
- a. What share of houses in the United States are bought with borrowed money (mortgages)? What share of houses in Mexico are bought with borrowed money?
  - b. How high were home mortgage rates in Mexico in 1995? In November 2007? What has happened to the housing market between 1995 and now?
  - c. When interest rates decline, what effect do we usually expect this to have on housing construction? Would you expect a drop in rates to produce the same size of effect in Mexico (expressed as a percentage growth rate) as it would in the United States? Explain.

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- #23. “Crisis-hit Iceland Sees its Future in Fish,” by Jill Lawless (AP).  
*International Business Times*, December 16, 2008.  
(<http://www.ibtimes.com/articles/20081216/crisis-hit-iceland-sees-its-future-in-fish.htm>, or <http://tinyurl.com/7rnqto>, accessed 1/15/2009)
- a. What was the traditional economic activity of Iceland? In recent years, what activity did Icelanders focus on?
  - b. Using the concepts of comparative advantage, discuss the changes in Iceland’s economic activity both as they shifted away from fishing, and as they have more recently shifted back to fishing. How did recent economic events impact the mix of economic activity in Iceland?
  - c. Economic theory tells us there are gains from trade when countries specialize in their comparative advantage and then trade for other goods. If Iceland had specialized completely in banking, would that have been a good thing? Why or why not?

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- #24. “The Importance of Education” Remarks by Federal Reserve Board Vice Chairman Roger W. Ferguson Jr. at the commemoration of Black History Month, The John’s Hopkins University Applied Physics Laboratory, Laurel, Maryland, February, 24, 2006.  
<http://www.federalreserve.gov/BoardDocs/Speeches/2006/20060224/default.htm> (accessed 1/19/08)
- a. What is the definition of an “education premium”? How large is the education premium? Has the education premium increased, decreased, or stayed the same over the last 25 years or so?
  - b. What reasons have economists identified for the racial gap in high school drop out rates? For differences by race in college completion rates?
  - c. What is the connection between education and economic productivity? Between education and economic growth? What are the potential impacts on productivity and economic growth of the patterns-by-race that Dr. Ferguson outlines in his talk?

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- #25. “Acting White: the Social Price Paid by the Best and Brightest Minority Students” by Roland G. Fryer, *Education Next*, (2006).  
<http://www.hoover.org/publications/ednext/3212736.html> (accessed 1/19/08)
- a. What does Figure 1: Popularity and Grades show? How did Ronald Fryer gather the data and construct this graph?
  - b. What evidence does the author present of black and Hispanic students “acting white?”
  - c. What qualifications does the author provide of the pervasiveness of “acting white?”
  - d. How does the methodology of the author (an economist) differ from that of ethnographers who study the same subject?