In class Naked Economics Questions 2

1. The prisoner’s dilemma

a. Represents a situation where rational individuals, while pursuing their best interests, make themselves better off.

b. Can help us understand why the market fails when there is a common resource.

c. Is only applicable to situations involving the imprisonment of criminals.

d. Answers (a), (b) and (c) are all true statements.

2. Which of the following is **NOT** an externality?

a. Josie, while studying at the library, is disturbed by two students who are talking loudly in a nearby study area.

b. Matt drank too much on Friday night and when he came home he woke up his roommates as he stumbled about the apartment.

c. Stanley produces gadgets and he finds that the cost of one of the key inputs into his gadgets has gotten more expensive.

d. Trudy loves purple and has decided to paint the exterior of her house a vibrant purple.

3. The former Soviet Union (the USSR) provides an illustration of

a. How central planning can effectively meet the needs and wants of consumers.

b. How a monopoly reduces business innovation as well as the responsiveness of businesses’ to customer desires.

c. Having the government draw up long-term production plans for the economy.

d. How incentives in a more socialistic setting are not important since the government in these settings will provide for consumer needs.

4. If economic efficiency is the primary goal in an economy, then allocation of scarce resources in an economy is best done

a. By the market.

b. By the government.

c. By the President of the country.

d. By majority rule.

5. Economists when considering regulating a market

a. Pay attention to the tradeoffs that occur when markets are regulated.

b. Always conclude that regulation is an inappropriate solution to an economic problem.

c. Recognize that regulation can result in the protection of existent firms from potential competitors.

d. Answers (a), (b) and (c) are all true answers.

e. Answers (a) and (c) are true answers.