

ECON605, list of questions

Introduction

1. Explain the difference between normative and positive economics.
2. Give an example of a normative contribution to economic thought. In your example describe the contribution and don't forget to mention who the contributor is.
3. Give an example of a positive contribution to economic thought. In your example describe the contribution and don't forget to mention who the contributor is.

Early pre-classical economic thought

4. What is the significance of the recent discovery of Guang Zhong's work?
5. What is Taoism and what was the influence of the Taoist philosophy on ancient Chinese economic thought?
6. Answer the question based on the following quote from Xenophon (431 – 355 BC): “In small towns the same workman makes chairs and doors and plows and tables, and often the same artisan builds houses...’ whereas in the large cities ‘many people have demands to make upon each branch of industry,’ and therefore ‘one trade alone, and very often even less than a whole trade, is enough to support a man’”. Which principle of economics, attributed to Adam Smith and David Ricardo, is pointed out by Xenophon in the above quote?
7. Plato (428/427 BC – 348/347), in his book *The Republic*, advocates that all goods should be shared, including women, so that conflicts over property are avoided. Criticize Plato's proposal.
8. What challenges did religion present to Arab Islamic and Scholastic writers of economic thought? Give at least one specific example.

Late pre-classical economic thought (Mercantilists, Precursors of classical economic thought, and Physiocrats)

9. What was the main difference between the Mercantilists and the Physiocrats with regards to the role of government?
10. What was the main difference between the Mercantilists and the Physiocrats with regards to international trade?
11. What was the main difference between the Mercantilists and the Physiocrats with regards to the sources of wealth on nations?
12. What was the main contribution of Mercantilists and Physiocrats?
13. What are the main contributions of the **Quesnay Table**?
14. Why did so many economists develop the quantity theory of money around the 16th century?
15. Answer the following question based on the quote from William Petty (1623 - 1687): “The method I take to do this is not very usual. For instead of using only comparative and superlative words and intellectual arguments, I have taken the course...”. Which unusual method did Petty try to promote?

16. What is the main departure of David Hume (1711 – 1776) from the rest of the Mercantilists with regards to international trade?

Classical economic thought

17. Using modern tools from contemporary principles of economics textbooks, illustrate Adam Smith's "invisible hand" principle.
18. Give examples of government policies influenced by Malthusian thought.
19. What were the "Corn Laws" and what was Ricardo and Malthus's position about them?
20. Answer the following question based on the quote from John Stuart Mill (1806 – 1873): "That the only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant." Based on the above quote, if Mill was alive today, what would be Mill's position today on legalizing drugs, prostitution, and gay marriage?
21. Marx's evolutionary theory of economic regimes stated that there is a constant conflict that leads to the switch from feudalism to capitalism then to socialism, and finally to communism. He argued that communism will be the final stage in this evolutionary process since communism is free of internal conflicts. Discuss the possible conflicts within the communist society. (Hint: address the conflicts that arise from (a) lack of private property, (b) the idea of "from each according to their ability to each according to their needs", and (c) the "classless society").

Neoclassical economic thought

22. Describe the main difference between the Classical and the Neoclassical economic thought.
23. Draw an Edgeworth box and illustrate graphically a case of disequilibrium in both goods.
24. Draw an Edgeworth box and illustrate graphically a case of equilibrium in both goods.
25. Is it possible that in a 2-goods economy, such as the one described by an Edgeworth box, one of the markets is in equilibrium while the other is in disequilibrium?
26. State and prove the Walras' Law.
27. Discuss the advantages and disadvantages of partial and general equilibrium approaches (advocated by Alfred Marshall and Leon Walras).
28. Draw an Edgeworth box and illustrate the set of **Pareto Optimal** allocations.
29. State the 1st Fundamental Theorem of Welfare Economics.
30. Explain the importance of the concept of **Pareto Optimality**.
31. Is the allocation that gives all the goods to one person, and nothing to everybody else, considered **Pareto Optimal**? Illustrate your answer with an Edgeworth box.
32. Which concept coined by Thorstein Veblen is illustrated in the following quote from the movie "Borat": "He is my neighbor Nushuktan Tulyiagby. He is pain in my ***holes. I get a window from a glass, he must get a window from a glass. I get a step, he must get a step. I get a clock radio, he cannot afford. Great success!".

20th century economic thought

33. Irving Fisher is the first economist to clearly distinguish between **nominal** and **real** interest rates. Explain the difference between **nominal** and **real** interest rates, how they are connected and why the distinction between the two is important.
34. What is the difference between Schumpeter's evolutionary theory and Marx's?
35. In what way was Schumpeter's view on productivity different from the Neoclassical view?
36. Give an example of **creative destruction**.
37. Discuss the advantages and disadvantages of Schumpeter's methodology?
38. What is the main difference between the Ramsey model of **Optimal Saving** and the Solow model?
39. Which problem did Ramsey study in his "**Optimal Taxation**" article?
40. Keynes assumed that it is possible for the goods market to be in equilibrium, but at the same time, the labor market is not in equilibrium. Is this possible according to Walras' law? Explain why.
41. What would Keynes recommend to the government if our economy was in recession?
42. What is the main criticism of the Keynesian fiscal policy recommendation?
43. What is the main criticism of the Keynesian methodology?
44. Give an example of **normal form game** and **sequential form game**. In your example clearly describe the players, the strategies, and the payoffs.
45. Give an example of how game theory can be applied to
 - a. Economics and Business
 - b. Political Science
 - c. Biology

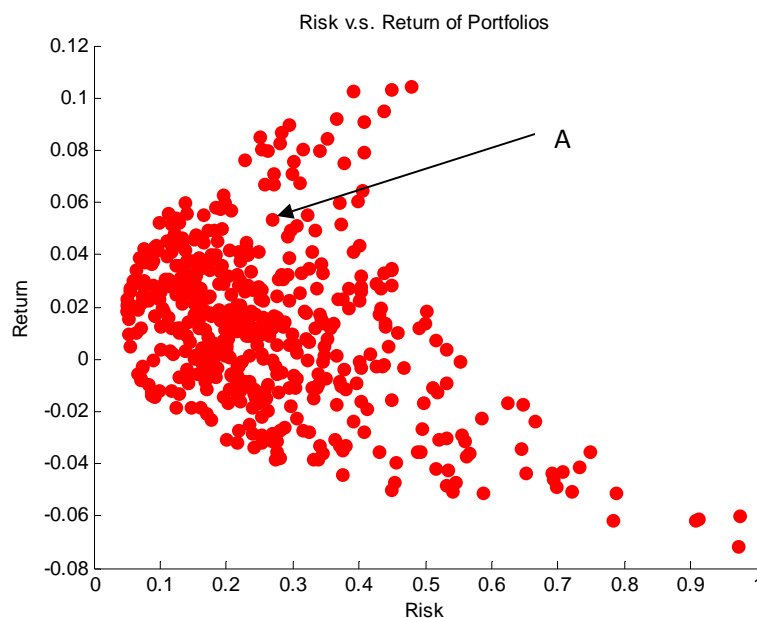
In each example clearly describe the players, the strategies, and the payoffs.

46. The following table depicts the marginal benefit of three neighbors from street lighting.

#of streetlights	Paul	Michael	Alvin
1	\$100	80	60
2	50	40	30
3	40	20	20
4	30	15	10
5	20	10	0
6	10	5	0

- a. Assuming that streetlights are **public goods** and the cost of each light is \$54, what is the optimal number of streetlights for this neighborhood?
 - b. Explain why free markets fail to provide the optimal amount of public goods.
47. Which economic model designed by Samuelson is used in evaluating different social security arrangements?
 48. What is the importance of Debreu's proof of existence of utility functions?
 49. What is the importance of Arrow and Debreu's proof of existence of competitive equilibrium?

50. What is the importance of **Arrow's Impossibility Theorem**?
51. Give a daily-life example which illustrates the **Permanent Income Hypothesis** of Milton Friedman.
52. Draw a fully labeled graph of **Expectations Augmented Phillips Curve** (by Edmund Phelps), and illustrate the **intertemporal tradeoff** between inflation and unemployment, for which Phelps received the Nobel Prize in 2006.
53. According to Phelps, does inflation determine the long run rate of unemployment? If you answered "yes", then explain how, and if you answered "no", explain which factors do affect the long run rate of unemployment according to Phelps.
54. Name three disciplines or social sciences to which Gary Becker extended the scope of economics.
55. What was Becker's main contribution to criminology?
56. What new light did Becker shed on our view of **discrimination**?
57. Marx concluded that capitalism was unstable because workers do not possess the means of production are being exploited. Discuss how Becker's concept of **human capital** weakens Marx's conclusion.
58. According to Robert Lucas, are Keynesian type models useful for policy analysis? (Hint: in your answer, refer to the **Lucas Critique**).
59. Can the central bank exploit the Phillips curve (increase inflation in order to decrease unemployment), in the short run or in the long run, according to:
 - a. Friedman and Phelps
 - b. Lucas
 Illustrate your answer with a graph.
60. Give an example that illustrates one of the points of the **Lucas Critique**, which is "**Correlation is Not Causality**".
61. The following graph depicts 500 randomly generated portfolios in the Risk vs. Return plane.



- a. Label with "H" the portfolio with the highest return.
- b. Use your pencil to draw the **Efficient Frontier**.

- c. Is portfolio labeled "A" efficient? Prove your answer.
62. Give an example, from daily life, of decision making under **Asymmetric Information**.
 63. Explain the term **Signaling**, coined by Michael Spence.
 64. Explain the term **Screening**, coined by Joseph Stiglitz, and give an example of it.
 65. Explain the difference between **Signaling** and **Screening**.
 66. According to George Akerlof, what is the inefficiency that arises due to **Asymmetric Information**?
 67. What is the solution to the problem of **Asymmetric Information** proposed by Michael Spence?
 68. Discuss the advantages and disadvantages of experimental economics.
 69. Daniel Kahneman received a Nobel Prize in economics “for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty”. Which insights from psychology did he (and Amos Tversky) integrate into economics?
 70. Give example of a **Mechanism** in economics and explain briefly what is the objective of the **Mechanism Design** field of economics.