Answer Key to Homework #1

Chapter 1
Problems:

1.  Answers will vary widely. Here are some possibilities:

   a.  A society is democratic only if wealth and power are equally distributed.  
        (Normative)
        Wealth and power are not equally distributed in the United States.  
        (Positive; but how is power to be measured? This is partly normative.)

   b.  European filmmakers have more training than American filmmakers.  
        (Positive)
        European accents are more agreeable than American accents.  
        (Normative)
        Europeans are more artistic than Americans.  
        (Normative; but how is artistic to be measured? This is partly normative)

   c.  Larger cities have more news events to report, and more news is better 
        news.  (Normative)
        Bigger cities attract better reporters.  (Positive)
        Bigger city newspapers have more subscribers and, therefore, can afford 
        more news-gathering resources.  (Positive)

2.  a.  This is a statement of how the economy works, and does not involve value 
        judgments about how the economy should work. Hence, it is an example of 
        positive economics.

   b.  The appearance of the word “should” signals that this is a normative 
        statement. It involves a value judgment about how economic policy ought 
        to be formulated.

   c.  This comment, reminiscent of the kind of argument one hears in actual 
        economic debate, is a subtle amalgam of both positive and normative 
        elements. Statements about the role of small business in past economic 
        growth are, in principle, positive; they are questions of fact that can be 
        answered by recourse to the relevant data. Even here, however, some 
        judgment is inevitable. For example, what constitutes small business? How 
        one defines small business directly determines which data one examines, 
        which may in turn influence the answer to the original question about the 
        role of “small” business in promoting growth. Likewise, what constitutes a 
        “severe damper”? This is a speculative statement; it implies that the small 
        business sector performed worse than it would have had various 
        regulations not been in place. Were these regulations therefore excessive? 
        Did they stifle the economy? Each of these questions involves an implicit 
        value judgment, even when the facts surrounding the issue are not in 
        dispute.

   d.  The second sentence in the statement is clearly positive; it deals with what
is, or, more accurately, what was. But whether increasing income inequality is inherently bad, let alone disastrous, is inevitably a normative question. Hence, like the statement in part (c), this statement is a hybrid of both positive and normative

Chapter 2

Review Questions:

1. *False.* Even Warren Buffett doesn’t have unlimited resources. Very wealthy or high-income individuals have to make decisions about how to spend their funds, just as lower-income consumers do. And everyone, no matter how wealthy, faces a scarcity of time—spending time doing one thing means sacrificing something else.

5. One has an absolute advantage in the production of some good when he or she can produce it using fewer resources than someone else, while one has a comparative advantage in the production of some good when he or she can produce it with a smaller opportunity cost than someone else. Comparative advantage is more important from an economic standpoint because total production of every good or service will be greatest when individuals specialize according to their comparative advantage.

Problems:

2. The opportunity cost of playing the computer game all weekend is the sacrifice of the Colorado ski trip, since that is the alternative that is the next most attractive to you.

6. a. You have an absolute advantage in outlining since you can produce four more outlines each day than your friend. You also have an absolute advantage in typing since you can type ten more pages per day than your friend.

b. If you spend a full day doing research, you can produce 6 outlines, but must give up 20 pages of typing; the opportunity cost of each outline is $20/6 = 3 \ 1/3$ typed pages. On the other hand, your friend could produce 2 outlines, and would have to give up 10 typed pages; for him, the opportunity cost of each outline is $10/2 = 5$ typed pages. Thus, your opportunity cost of research is lower than your friend’s—you have the comparative advantage in research. (By similarly calculating the opportunity cost in terms of “outlines foregone” of one typed page for both you and your friend, you find that your friend has a comparative advantage in typing.)

c. According to the principle of comparative advantage, you should specialize in research, leaving all the typing to your friend.