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Principles of microeconomics 7th edition answers

1. 15 © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated, or posted on a publicly available website, in whole or in part. Principles Microeconomy 7th Edition Solutions MANUAL Mankiw Full Download to: Solutions-Manual-Mankiw/ Principles microeconomy 7th edition TEST BANK Mankiw Full Download to: 2 THINKING LIKE THE ECONOMIST WHAT'S NEW IN THE SEVENTH EDITION: There is a new news feature for actual economists and virtual reality. Figure A-1 has been updated. LEARNING GOALS: By the end of this section, students should understand: ◀◻how economists apply scientific methods. ▶◻how assumptions and models can brighten the world. ▶◻two simple models – circular flow and production opportunities at the border. ▶◻the difference between the microeconomic and the macroeconomics. ▶◻the difference between positive and normative claims. ▶◻the role of economists in policy-making. ▶◻why economists sometimes disagree with each other. 2. 16 ♦Chapter 2/Thinking Like an Economist © 2012 Cengage Learning. All rights reserved ID: 12355 May not be read, copied or duplicated, or made available on a publicly available website, in whole or in part. CONTEXT AND PURPOSE: Chapter 2 is the second chapter of the three sections section, which is used as a text entry. Chapter 1 sets out ten economic principles to be reviewed throughout the text. Chapter 2 describes how economists turn to problems, and Chapter 3 explains how individuals and countries benefit from trade. The purpose of Chapter 2 is to introduce students to how economists turn to economic problems. With practice, they will learn how to solve similar problems in this dispassionate systematically. They will see how economists apply the scientific approach, the role of assumptions in the design of models and the application of two specific economic models. Students will also learn the important difference between the two roles that economists can play: how scientists are, when we try to explain the economic world, and how policymakers try to improve it. 3. Chapter 2/ Thinking Like an Economist ♦ 17 © 2012 Cengage Learning. All rights reserved ID: 12355 May not be read, copied or duplicated or made available on a publicly available website, in whole or in part. KEY POINTS: ◻⇒ Economists try to solve their subject with the objectivity of the scientist. Like all scientists, they make the right assumptions and create simplified models to understand them in the surrounding world. Two simple economic models are the circular flow scheme and the limit of production opportunities. ◻⇒ The economic area is divided into two sub-areas: micro-economy and macroeconomics. examine decision-making between households and businesses and the interaction between households and businesses on the market. Macroeconomics are exploring the forces and trends that affect the economy as a whole. ◻ A positive statement is a statement about what the world is like. The normative statement is a statement about how the world should be. When economists make normative statements, they act more like policy advisors than as scientists. ◻⇒ Economists advising policymakers sometimes provide conflicting advice on differences in scientific decisions or on differences in values. At other times, economists are unanimous in advising their advice, but policymakers may decide to ignore the advice of many forces and constraints in the political process. CHAPTER OF THE YEAR: I. Economist as scientist A. Economists Follow the scientific method. 1. Observations help us develop the theory. 2. Data may be collected and analysed to evaluate theories. 3. Using data to assess theories in the economy is more difficult than in physical sciences, since economists are unable to obtain their own data and have to do with all the data available. 4. Economists therefore pay close attention to the natural experiment of history. B. Assumptions Make the world easier to understand. 1. Example: In order to understand international trade, it may be useful to start by assuming that there are only two countries in the world producing only two goods. Once we understand how trade will work between these two countries, we can expand our analysis into more countries and goods. 2. One important role for a scientist is to understand what assumptions need to be made. 3. Economists often use assumptions that are somewhat unrealistic but will have a small impact on the actual outcome of the response. C. Economists use economic models to explain the world to us. 4. 18 ♦Chapter 2/Thinking Like an Economist © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated or made available on a publicly available website, in whole or in part. Most economic models consist of charts and equations. 2. The aim of the model is to simplify reality in order to increase our understanding. Here it is useful to use assumptions. D. Our first model: circular flow chart 1. Circular flow chart definition: a visual economic model showing how dollars flow through markets between households and businesses. Figure 1 To show the class how simple but unrealistic models can be useful, turn to the class to raise the plan. Pay attention to how unrealistic it is. For example, it doesn't show where all the stop signs, gas stations, or restaurants are located. It assumes that the earth is flat and two-dimensional. However, despite these simplifications, the map usually helps travelers get from one place to another, it's a good model. 5. Chapter 2/ Thinking Like an Economist ♦ 19 © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated or made available on a publicly available website, in whole or in part. The model has two decision-makers: households and businesses. B. There are two markets: the market for goods and services and the market for factors of production. c. Undertakings are sellers in the market for goods and services and buyers are manufacturing factors on the market. d. Households are buyers in the goods and services market and sellers are on the market for factors of production. E. The internal line shows the flow of costs and output between households and businesses. F. The external line reflects the flow of dollars between households and businesses. E. Our second model: Production opportunities Siena 1. Definition of production opportunities at the border: a graph showing the combinations of production that the economy can produce, taking into account available production factors and available production technology. 2. Example: economy producing two goods, cars and computers. A. If all resources were allocated to car production, the economy would produce 1 000 cars and zero computers. B. If all resources are allocated to computer production, the economy would produce 3000 computers and zero cars. c. Resources are more likely to be divided between two industries producing some cars and some computers. Possible production combinations are presented at the border of production opportunities. Spend more time with this model than you think it is necessary. Remember that many of your students will have limited math and graph skills. It is important that students feel confident in this first graphic and mathematical model. Be conscious with each point. If you lose them with this pattern, they can be gone for the rest of the course. 6. 20 ♦Chapter 2/Thinking Like an Economist © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated, or posted on a publicly available website, in whole or in part. ALTERNATIVE CLASS EXAMPLE: Ivan receives an allowance from his parents for \$20 each week. He spends his entire allowance on two items: ice cream cones (which cost \$2 each) and tickets to movies (which cost \$10 each). Students should be asked to calculate the commemorative price of one film and the cost of the possibility of a single ice cream cone. Ivan's consumption options at the border (budget restriction) can be concluded. It should be noted that the slope is equal to the price of the opportunity and is constant, since the cost of the opportunity is constant. Ask students what would happen to the possibilities of consumption at the border if Ivan's allowance changes or if the price of ice cream cones or films changes. Keep in mind that students often find it difficult to understand why the cost of opportunities increases as good production increases. You may want to use some specific resource samples that are more suitable for making cars than computers (e.g. an experienced mechanic), as well as examples of resources that are more suitable for making computers than making cars (e.g. an experienced computer programmer). 9. Chapter 2/ Thinking Like an Economist ♦ 23 © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated or made available on a publicly available website, in whole or in part. As microeconomics and macroeconomics cover different issues, each area has its own set of models, which is often taught in separate courses. II. Economist as policy adviser A. Positive and normative analysis 1. Example of the debate on minimum wage laws. Polly says: Minimum wage laws cause unemployment. Norma says: The government should raise the minimum wage. 2. Definition of positive statements: statements that try to describe the world as it is. 3. Definition of normative statements: statements that try to determine how the world should be. 4. Positive claims may be assessed in the examination of the data and normative statements Views. 5. Positive attitudes towards how the world works have a normative approach to which policy is desirable. 6. A large part of the economy is positive: it is trying to explain how the economy works. However, those who use the economy often have normative goals. They want to understand how to improve the economy. B. Economists in Washington 1. Economists know that compromises are related to most political decisions. 2. The President shall receive advice from the Council of Economic Advisers (established in 1946). 3. Economists also work in administrative departments at various federal agencies such as the Office of Management and Budget, the Treasury Department, the Labor Department, the Congressional Budget Office and the Federal Reserve. 4. Economists' surveys and letters may also indirectly affect public policy. C. Why economists' advice is not always followed Use a few examples illustrating the differences between positive and normative statements and stimulating discussion in the classroom. Examples include minimum wages, budget deficits, tobacco taxes, marijuana legalization and seatbelt laws. Whether students bring newspaper articles and groups, identify each editorial paragraph statement as a positive or normative statement. Discuss the differences between news, editorials and blogs, and an analogy for economists as scientists and policy advisors. 10. 24 ♦Chapter 2/Thinking Like an Economist © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated or made available on a publicly available website, in whole or in part. The process of economic policy-making is different from the idealised policy process in the textbooks. 2. Economists make a significant contribution to the policy process, but their advice is only part of the advice received by policymakers. III. Why economists disagree with the differences in scientific decisions 1. Economists may disagree on the validity of alternative positive theories or on the magnitude of the impact of economic changes on households and businesses. 2. Example: Some economists believe that an amendment to the tax code, which would abolish income tax and create a consumption tax, would increase savings in this country. However, other economists believe that a change in the tax system would have little impact on rescuing behaviour and therefore do not support change. B. Differences of values C. Perception against reality 1. While economists seem to disagree on a lot, this is not really true. Table 1 contains 20 proposals supported by a majority of economists. 2. Almost all economists believe that rent control has a negative impact on the availability and quality of housing. 3. Most economists are also opposed to trade barriers. IV. News: Actual Economists and Virtual Reality A. Professional started working in the video game industry as developer consultants and experimenting with policy opportunities. B. This is a Washington Post article describing the involvement of economists in the video game industry. V. Annex-Graph: A brief overview of Table 1 to emphasize that there is more agreement among economists than most people think. The reason for this is probably that the things that are usually agreed are boring for most non-conferences. Many instructors may not know how many problems starting students need to grasp basic schedules. It is important that instructors make sure that students are satisfied with these methods. 11. Chapter 2/ Thinking Like an Economist ♦ 25 © 2012 Cengage Learning. All rights reserved ID: 12355 May not be read, copied or duplicated or made available on a publicly available website, in whole or in part. Pie 2. Bar 3 schedule. Time series graph B. Graphs of two variables: coordinate system 1. Economists often care about the relationship between two or more variables. 2. The pairs of ordered numbers may be graphical in a two-dimensional grid. A. The first number in the ordered pair is x-coordinate and indicates the horizontal location of the point. B. The second number in the ordered pair is the y coordinate and tells us the vertical location of the point. 3. A point with x coordinate and zero coordinate shall be called origin. 4. Two variables that increase or decrease together have a positive correlation. 5. Two variables that move in opposite directions (one increases when the other decreases) have a negative correlation. C. Curve coordinate system 1. Often economists want to show how one variable works another, keeping all other variables constant. When reviewing graphs with students, it's best that students on the board would be recording what other students say, as you give some instructions, such as drawing a pie chart or asking questions like, how height should the bar be if the value is 120 million? Do not make the student on the board responsible for the answer. Instead it should just record what other students are saying. Students are often restless about the schedules at first and need to gain confidence. Figure A-1 Figure A-2 Figure A-1 A-3 Figure 12. 26 ♦Chapter 2/Thinking Like an Economist © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated or made available on a publicly available website, in whole or in part. An example of this is the demand curve. B. The demand curve shows how the quantity of the item the consumer wants to buy varies because of the difference in price, keeping everything else (e.g. income) constant. c. If the revenue changes, this will change the amount of the goods that the consumer wishes to purchase at any price. Thus, the relationship with the desired price and quantity have changed and must be presented as a new demand curve. d. An easy way to tell if you need to move a curve is to look at the axes. When a variable changes which is not named on either axis, the curve is bent. D. Slope 1. Perhaps we will want to ask how strongly the consumer reacts if the price of the product changes. A. If the demand curve is very steep, the desired quantity does not change significantly in response to the price change. B. If the demand curve is very flat, the desired quantity changes significantly when the price changes. 2. The slope of the line is the ratio of the vertical distance driven to the horizontal line when moving along the line (to rise through the running). 3. A low slope (in absolute terms) means that the demand curve is relatively flat; a high slope (in absolute terms) means that the demand curve is relatively steep. E. Cause and effect 1. Economists often make statements indicating that a change in variable A leads to a change in variable B. 2. Ideally, we would like to see variable A changes affect variable B, keeping all other variables constant. 3. This is not always possible and can cause problems due to missed variables. A. If variables A and B change at the same time, we can conclude that the variable B.A-4 figure A-5 ◻ slope = y x Figure A-6 Figure 13 due to the change in variable A.A.4 in 2013. Chapter 2/ Thinking Like an Economist ♦ 27 © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated, or posted on a publicly available website, in whole or in part.b. However, if variable C has also changed, it is quite possible that variable C is responsible for replacing variable B. 4. Another problem is reverse causation. A. If variables A and B change at the same time, we can assume that the change in variable A has led to the .b of variable B. However, it is quite possible that the change in variable B resulted in the .c of variable A. It is not always as simple as determining which variable has changed first, as individuals often change their behavior in response to a change in their expectations for the future. This means that variable A may change before variable B, but only as a result of the intended change in variable B. Economics is like science, because economists create theories, collect data and analyze data in an attempt to verify or refute their theories. In other words, the economy is based on a scientific approach. Figure 1 shows the production opportunities provided by the food and clothing system. Point A is an effective point (at the border), point B is an inefficient point (inside the wall), and point C is an impossible point (behind the wall). Figure A-7 In the text there are two very good examples that you should use To discuss the missed variable problem, note to students that an increase in cigarette lighter sales is positively associated with individuals diagnosed with lung cancer. To discuss the reverse causal link, show that the increase in the sale of minibuses leads to an increase in the birth rate. 14. 28 ♦Chapter 2/Thinking Like an Economist © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated, or posted on a publicly available website, in whole or in part. Figure 1 The effects of drought are shown in Figure 2. Drought reduces the amount of food that can be produced by shifting production opportunities inwards. (If drought also reduces the amount of cotton allocated to clothing production, the takeover of the vertical axis would also decrease.) Figure 2 Microeconomics is a study of how households and businesses make decisions and how they interact in markets. The macroeconomic analysis is a study of economic phenomena as a whole, including inflation, unemployment and economic growth. 2. An example of a positive claim is the higher the price of coffee makes me buy more tea. This is a positive statement, because it is a statement that describes the world as it is. An example of a normative statement is that the government should limit coffee prices. This is a normative statement, because it is a statement that determines how the world should be. There are many other examples available. Some parts of the government that regularly rely on the advice of economists are the Treasury Department in developing tax policy, the Labor Department analyzing employment data 15. Chapter 2/ Thinking Like an Economist ♦ 29 © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated, or posted on a publicly available website, in whole or in part. The situation, the Department of Justice is enforcing the country's antitrust laws, the Congressional Budget Office assessing policy proposals, and the Federal Reserve analyzing economic developments. Many other answers are possible. 3. Economic advisers of the President may disagree on the policy issue of differences in scientific decisions or differences in values. Questions for review 1. Economics is like science because economists use the scientific method. They create theories, collect data, and analyze this data in an attempt to verify or refute their theories about how the world works. Economists use theory and observation like other scientists, but their ability to conduct controlled experiments is limited. Instead, they need to rely on natural experiments. 2. Economists assume that the problems are simplified without substantially affecting the answer. Assumptions can help the world understand more easily. 3. The economic model cannot accurately describe reality because it would be too difficult to understand. A simplification, allowing the economist to see what really matters. 4. There are many possible answers. 5. There are many possible answers. 6. Figure 3 shows the production potential of milk and biscuits (PPF1). If the disease kills half the population of cows in the economy, there is less milk production, so PPF moves inwards (PPF2). Note that if the economy produces all cookies, it does not need cows, and production is not affected. But if the economy produces any milk at all, there will be less production after the impact of the disease. Figure 3 7: The result is effective if the economy gets everything it can from the limited resources available. As regards the possibilities of production at the border, an effective point is the point of the wall, for example Figure 4, point A. When an economy uses its resources efficiently, it cannot increase the production of one good without reducing another's output. Point inside the wall, such as 16. 30 ♦Chapter 2/Thinking Like an Economist © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated, or posted on a publicly available website, in whole or in part. As point B is ineffective, since more of one good can be produced without reducing the production of another good. Figure 4 8: The two economic sub-economies are microeconomics and macroeconomics. Microeconomy is a study of how households and businesses make decisions and how they interact in specific markets. The macroeconomic analysis is a study of economic phenomena as a whole, including inflation, unemployment and economic growth. 9. Positive statements are descriptive and make a statement about how the world is, and normative statements are binding and make a statement about how the world should be. Here's an example. Positive: The strong pace of monetary expansion is the cause of inflation. Normative: The government should keep the growth rate of money low. 10. Economists sometimes give contradictory advice to policymakers for two reasons: (1) economists may disagree on the validity of alternative positive theories about how the world works; and (2) economists may have different values, and therefore different normative opinions on what public policy should try to implement. 17. Chapter 2/ Thinking Like an Economist ♦ 31 © 2012 Cengage Learning. All rights reserved ID: 12355 You cannot scan, copy or duplicate, in whole or in part, or publish it on a publicly available website. (c) 2. (a) 3. (b) 4. c. 5. d 6. (a) Problems and applications 1. Figure 5; four operations are shown. Picture 5 Market goods and services market manufacturing household factorsFirms a. \$1 c. \$30 a. quart milk c. hairstyle a. quart milk c. hairstyle a. \$1 c. \$30 b. \$4.50 a. \$10,000 b. \$4.50 b. \$10,000 b. one hour work on Dec. Acme capital city b. one hour work on Dec. Acme's 18. 32 ♦Chapter 2/Thinking Like an Economist © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated or made available on a publicly available website, in whole or in part. Figure 4. A. A. 40 lawn mowers; 0 washed cars B. 0 lawns to be cut, 40 washed cars C. 20 lawns to be sawn; 20 washed cars D: 25 lawns for mow; 25 washed cars b. The limit of production opportunities is shown in Figure 8. Points A, B and D are located at the border and point C is inside the wall. c. Larry is equally productive for both tasks. More washes cars more productively, and Curly more productively cuts the lawn. (d.C the allocation is inefficient. More washed cars and a little lawn can be produced simply by redistributing the time of three persons. 5. a. The family's decision on how much to save income is linked to the microeconomy. B. The impact of government regulations on car emissions is linked to the microeconomy. C. The impact of greater austerity on economic growth is linked to it. D. The company's decision to hire employees concerns the microeconomy. E. The relationship between the inflation rate and monetary developments is linked to the macroeconomics. 6. a. a. The claim that the public faces a short-term compromise between inflation and unemployment is 20. 34 ♦Chapter 2/Thinking Like an Economist © 2012 Cengage Learning. All rights reserved ID: 12355 May not be retrieved, copied or duplicated, or made available on a publicly available website, in whole or in part. It talks about what the economy is, not how it should be. As economists examined the data and found that there was a short-term negative link between inflation and unemployment, this claim is a fact. B. The claim that a reduction in the pace of monetary expansion will reduce the rate of inflation is a positive statement. Economists have found that monetary growth and inflation are very closely linked. So the statement tells us what the world is like, and that is why it is a positive statement. c. The statement that the Federal Reserve should reduce the rate of monetary growth is a normative statement. It has an opinion on what should be done, not about what the world is like. d. The statement that the public should require welfare recipients to look for work is a normative statement. It doesn't stop what the world is like. Instead, this is a statement of how the world should be and therefore is a normative statement. E. The claim that lower tax rates encourage more work and more savings is a positive statement. Economists have studied the relationship between tax rates and work, as well as the relationship between tax rates and savings. In both cases, they found a negative relationship. The statement therefore reflects how the world is and is therefore a positive statement. Principles Microeconomy 7th Edition Solutions Manual Mankiw Full Download: Solutions-manual-mankiw/ Principles microeconomics 7th edition TEST BANK Mankiw Full download: test-bank-mankiw / principles economy mankiw test bank principles economy 7th edition test bank mankiw macroeconomic test bank mankiw microeconomics test bank PDF principles microeconomy test bank pdf principles economy test bank pdf principles macroeconomic test bank pdf principles macroeconomy test bank pdf principles macroeconomic test bank