Name:

20 pts.

Reading Guide – Naked Economics

Chapter 2 – “Incentives Matter”

Pages 30 – 53 – Due Monday 9/8

**Central ideas:**

1. How does the black rhino illustrate the importance of incentives? (30-34)
2. What are some potential solutions to these problems? (32-34)
3. Describe some of the examples used in the text that support this statement from the author:

“In any system that does not rely on markets, personal incentives are usually divorced from productivity. Firms and workers are not rewarded for innovation and hard work, nor are they punished for sloth and inefficiency.” (34-36)

1. What are some examples of “perverse incentives?” (36-38)
2. Describe how London reduced its congestion. (38)
3. Explain the principal-agent problem. (39)
4. How do stock options create bad consequences for the larger economy? (40-41)
5. What does the “prisoner’s dilemma” illustrate about economic thinking? (44-45)
6. How does the fishing industry reflect the prisoner’s dilemma? (45-46)
7. Is creative destruction a good thing? Explain. (46-48)
8. Why is it difficult to transfer money from the rich to the poor? Think about aligning incentives. (49-51)