Economics – Reading Guide

Pages 54 – 79 – Due Wednesday, September 3th

20 points

Please answer the following questions:

1. What is an externality? What does he mean when he says: “There is no market solution in this case; the market is the problem”? (55)
2. How can the government help the economy in dealing with externalities? (56-57)
3. What are the two mechanisms (tools) that government can use in dealing with externalities? (59-60)
4. How can taxing create incentives (3 ways)? (61)
5. What are the problems with using taxes to deal with externalities? (61-62)
6. What does Ronald Coase say about this situation (several ideas)? (63-65)
7. Why are property rights (including copy right and patent law) so important? (66-67)
8. In what ways does government lower the cost of doing business? (69)
9. How does a functioning legal system contribute to the economy? (70-71)
10. A big role for the government is the creation of “public goods.” What are public goods and how do they resolve the problem of the “free-rider?” Discuss the examples of Basic Research, Law Enforcement and Parks. (72-74)
11. The concept that the government redistributes wealth is a controversial topic. Why is this more a philosophical issue rather than an economic issue according to the author? (75-76)
12. The author asks: “should government protect people from themselves?” What is the range of possible options? Explain some of the examples provided by the author. How would you answer this question? (77-79)