
   a. This article is a book review. What’s the book being reviewed? Who is the author? In brief, what does the book’s author say economists do?

   b. Two economists can disagree, sometimes strongly. The best of economists do not resort to *ad hominem* arguments in these disagreements, recognizing that they are using different models. What three things characterize an economic model? In the disputes described in the article, which characteristics of economic models create the disagreements between economists?

   c. The blog author writes, “Just when economists have reached a consensus, events in the real world proved them wrong.” Sketch out the evolution of thought in the area of macroeconomics, as described in the article. Do you think our understanding of the macroeconomy will continue to evolve over the next few decades? Why? In what ways?
QUESTIONS FOR DISCUSSION

2. “Occupy Economics,” by Mike Beggs. *The Economists’ Voice* Vol 9:3 (March 2012). http://dx.doi.org/10.1515/1553-3832.1901 Be sure you have the library’s proxy server installed on your computer. Click on “full text PDF” (just above the article’s title) to see the article.

a. According to the author, what do the great debates in macroeconomics now revolve around? What was Joan Robinson’s fundamental critique of neoclassical economics?

b. What are the three characteristics of a model? When students walked out of Professor Mankiw’s class during Fall 2011, which of these characteristics formed the implicit basis of their objection to the course? Explain.

c. What questions does economics do a reasonable job of addressing? What questions does economics not address, or at least not address well? And why do these two questions use the word “address” rather than “answer”?
QUESTION FOR DISCUSSION


a. Who is Avery Bang? What is her role with Bridges to Prosperity? What does Bridges to Prosperity do?

b. Explain how a footbridge over an otherwise impassable river will affect the economy of a village that had previously been isolated. Use the concepts of production possibilities frontier and gains from trade in your explanation.

c. What are the advantages of building a bridge? What are the disadvantages? Will more and more and more bridges be a good thing? Or is there a limit to the number of bridges that should be built? Discuss.
QUESTIONS FOR DISCUSSION


   a. What book did Paula Szuchman and Jenny Anderson write? What is it about? (Note the book has been reissued with a new title: It’s not You, It’s the Dishes.)

   b. What are ways in which husbands and wives specialize and trade within the household? What are the gains from trade? Are the possible gains from trade within the household restricted to heterosexual couples only? To married couples only?

   c. Drawing on families and couples you have known – gay or straight, married or cohabiting – what are examples of the gains from trade that go on within these families? Do you think understanding the idea of “comparative advantage” is helpful to couples? Discuss.
QUESTIONS FOR DISCUSSION


a. What is happening to the number of miles Americans collectively drive each year? What is the recent trend in driving amongst teens and people in their 20s? What is the resulting impact on revenue from gasoline taxes?

b. Use a model of supply and demand to illustrate what is happening to the number of miles driven. The product is “miles driven.” The price is “cost per mile driven.” The demand for miles represents driver behavior. The supply of miles driven represents the provision of roads. Based on the article, what factors are shifting supply? Shifting demand? Moving us along a supply curve? Moving us along a demand curve?

c. Is the change in miles driven a problem to be solved, or an accomplishment to be celebrated? Why? (Remember: to answer any normative question, you must always first be explicit about the goal to be achieved.)
QUESTIONS FOR DISCUSSION

   The Independent (August 14, 2014).

   a. Where are most hazelnuts grown? How did the March 2014 weather affect the hazelnut crop?

   b. Drawing on the article, use models of supply and demand to illustrate the effects on
      • hazelnut prices
      • cocoa prices
      • almond prices
      • the price of Nutella

   In each case, clearly state the factors that are shifting supply and/or demand.

   c. The article notes that many of these markets do not conform to our simple supply and demand model, but are instead governed by contracts drawn up in advance of the harvest. For instance, a buyer signs a contract with a grower agreeing to purchase a certain quantity (and quality) of nuts at a pre-determined price. When weather destroys part of the crop, though, the grower can’t fulfill the contract because there simply aren’t enough nuts. This practice is called “Contract Farming.”

   Make a chart that shows different conditions (bad weather, bumper crop, etc) and, for each condition, who benefits from contract farming and who is harmed. Do you think it is better for agricultural markets to use contracts rather than having prices determined contemporaneously “by the market”? Discuss.
Note the date of the article: it was written in 2005 one week after Hurricane Katrina hit.

a. Stossel begins with a (hypothetical) story of someone paying $20 for a bottle of water. Use a supply and demand graph to illustrate how the equilibrium price of a bottle of water might have risen, post-Katrina in New Orleans, from $1 to $20 a bottle. Is the increase in price a result of a change in demand, change in supply, or both?

b. When the price of a bottle of water rises to $20, Stossel claims "water goes to those who really need it." Do you agree? Use economic terms and concepts to explain why you think water does (or does not) therefore go to those who really need it.

c. Why might a government want to make a distinction between the provision of water bottles in the immediate wake of a natural disaster and the provision of carpentry services in the months and years of rebuilding that follow? Here, think about the short-run and long-run changes in supply and in demand that can take place, and about the trade-offs between efficiency and equity.
QUESTIONS FOR DISCUSSION


a. According to the article, what is the fare that will be charged for the new Oakland Airport Bart connector? Is that more or less than what is charged for AirBART, the existing shuttle bus? In what ways is the connector different from AirBART?

b. Using the data in the article, sketch the demand curve for the airport connector. Determine whether demand is price-elastic or price-inelastic when price increases from $4 to $5. What about when price increases from $5 to $6?

c. The article suggests the fare will be substantially lower for several groups: people over 65 or under 12, people with disabilities, and Oakland airport employees. Is it fair to charge those groups a lower price? Can you justify your answer with the concepts of elasticity and consumer surplus? Or do you need additional (or other) concepts to justify your answer?
QUESTIONS FOR DISCUSSION


a. What is “Dynamic Pricing”? Use Cal Football as an example to illustrate how dynamic pricing works.

b. Explain why dynamic pricing decreases the amount of consumer surplus received by those purchasing football tickets. Does it make sense to you that consumer surplus would decline but total revenue would increase under dynamic pricing? Explain.

c. Stanford (let us all now hiss) implemented a slightly different version of dynamic pricing last season. [http://www.gostanford.com/ViewArticle.dbml?&DB_LANG=C&DB_OEM_ID=30600&ATCLID=208769460](http://www.gostanford.com/ViewArticle.dbml?&DB_LANG=C&DB_OEM_ID=30600&ATCLID=208769460) They called it “predictable dynamic pricing.”

   *Predictable Dynamic Pricing is variable ticket pricing plan that follows a predetermined and transparently announced pricing schedule. Prices for the high-demand games start at a publicized price on July 22. If tickets remain, prices will decrease at 9 a.m. on July 25, July 29 and August 1. If tickets are not sold out by August 4 at 9 a.m, they will be subject to market-based pricing until no tickets remain.*

What system is better: predictable dynamic pricing, or dynamic pricing in which the prices are not predictable in advance? (Remember: to answer any normative question, you first must state the goal.)
QUESTIONS FOR DISCUSSION


10b. “'Bandit’ Cabs are Bad for Drivers and Passengers,” by Veena Dubal, San Francisco Chronicle, August 20, 2013.  

(Note: Uber has clearly surpassed Lyft, at least in publicity, in the last year. Lyft & Uber are very similar.)

a. What is Lyft? What is the fare for a Lyft ride? What is the effect of Lyft on income of taxi drivers?

b. Use a model of supply and demand to show the effect of Lyft on the price of a taxi ride. Do both taxi drivers and Lyft drivers face the same costs of providing a ride? Were taxi drivers earning abnormal profit before smartphone-based ride-hailing services such as Lyft began operating in Los Angeles? Are Lyft drivers earning abnormal profit? Explain.

c. What will the market for rides in San Francisco or Los Angeles look like in the long run? Should the market be regulated as Dubal argues? Discuss.
QUESTIONS FOR DISCUSSION


a. Use the article by Prof. Saez to answer these questions. For each answer, cite the page # where you found the answer.

- What is the source of Professor Saez’s data?
- From 2009-2012, how much did average income per family grow? What was the increase for the top 1%? For the bottom 99%?
- What % of income loss was absorbed by the top 1% in 2007-2009? How does that compare with the top 1% loss in 2000-2002?
- What % of income did the top 1% receive in 2007? In 2001? In 2012?
- What was the dollar cutoff in 2012 for the top 1%? The top 5%? The top 10%?

Based on that last set of answers, do you think someone earning $150,000 per year is earning a “middle class” income?

b. The article (blog entry) by Ostry & Berg is a summary of some of their research. According to their work, do redistribution policies lower economic growth? What are the nuances in their results?

c. Some argue that economic policies should focus only on efficiency even if the result is rising inequality. Others argue that a nation is defined by more than simply its economic policies and that equity must also be considered in designing the nation’s “best” policies. Yet others argue there is no trade-off: that inequality lowers economic growth and policies that promote equality are also pro-growth. Enter this debate. What should the nation’s economic policies consider? Only efficiency, or both efficiency and equity? Is your position the same even if there is a trade-off between equity and efficiency?
QUESTIONS FOR DISCUSSION


a. What is the difference between the definitions of income (covered in article #11a) and wealth (covered in article #12)? What is the source of the data used by the Urban Institute in the study covered in Lowrey’s article?

Fill in this table with data from Lowrey’s article or the accompanying graphic. (Dollar amounts will be approximate)

<table>
<thead>
<tr>
<th>Average family wealth (in dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>White non-Hispanic</td>
</tr>
<tr>
<td>1989</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>2010</td>
</tr>
</tbody>
</table>

What happened to the wealth gap between 2007 and 2010 as measured by the ratios white:black and white:Hispanic? Did the income gap change in a similar fashion between 2007 and 2010?

b. Discuss the role of housing in explaining changes in the wealth gap, 2007 to 2010. As part of your discussion, draw a model of the supply and demand for housing that helps explain why housing prices changed as they did over the last decade.

c. Two forces can create an increase in wealth: increased saving out of income, and increased rates of return on the assets purchased with that saving. Prof. Hamilton mentions a proposal for “baby bonds,” granting saving accounts to infants. Another proposal sometimes offered is introducing child savings accounts in elementary schools, to create a habit of saving from a very young age. Do you think baby bonds or child savings accounts could help close the wealth gaps? For either approach, are we talking about a “quick fix” or a long term process? Discuss.
QUESTIONS FOR DISCUSSION

\[\text{d-truck-owners-restaurant-owners-pierogis}\]

a. What is a food truck? Which of the costs listed in the article are fixed costs and which are variable? According to Amy Le, do owners of food trucks earn high profits?

b. Based on the article, would you describe the market for food sold by food trucks as perfectly competitive, monopolistic, or a monopolistic competition? Why? Use a graph to show the equilibrium price and equilibrium quantity of meals sold and the profit earned by a typical food truck. When new food trucks enter the market, how do you show that in the graph for an existing food truck?

c. What do you think is the failure rate of food trucks? Why? Be sure you use economic concepts in your explanation.
QUESTIONS FOR DISCUSSION


a. What are the problems cited in the Loeffler article with the use of laptops in class? What did Professors Oppenheimer and Mueller find in their research comparing taking notes by hand with taking notes on a laptop?

b. In the language of economics, describe the negative externality created when a student uses the laptop during class for something other than note-taking. Draw a graph that depicts the market-equilibrium and social optimal quantity of laptops in class.

c. Is it possible to institute a policy that brings the use of laptops to the social optimum? Does the banning of laptops produce the socially optimal quantity of laptops in class? Discuss.
QUESTIONS FOR DISCUSSION


a. Define recession. Define recovery. Typically when an economy is in recession, what is happening to employment? To unemployment? Typically when an economy is in recovery, what is happening to employment and unemployment?

b. Based on the article, which countries in the Euro Zone were at risk of going back into recession in August 2014? Which countries showed at least moderately decent growth? What forces did the author suggest were the most immediate threat to ongoing recovery in Europe?

c. When an economy enters the recovery phase of the business cycle, unemployment is at or near its peak. Unemployment may come down slowly during a recovery and may sometimes reverse course and increase for a short time.

Do you think when the economy is in the early part of a recovery that people feel as if there is a “recovery”? Why or why not? If you think people don’t feel as if there’s a “recovery” when economists say the economy is in recovery, is the problem that people need educating about actual economic conditions or that economists need to change their terminology?
QUESTIONS FOR DISCUSSION

http://www.slate.com/articles/business/project_syndicate/2013/05/bill_gates_on_helping_the_poor_gdp_is_a_terrible_measurement.html

a. What is the definition of GDP? Of per capita GDP? Why does the author, Bill Gates, think per capita GDP is not a good indicator of economic conditions?

b. Describe two events from the past (actual, not made up) that have impacted living standards but are not well measured by GDP. Try to come up with one event for which living standards rose more than GDP would indicate, and one event for which living standards rose less than GDP would indicate.

c. If the measurement of GDP were reformed, in what ways would the lives of average citizens in rich countries such as the U.S. be affected? In what ways would the lives of average citizens in poor countries such as Zambia be affected? Discuss.


a. According to the article, what measures does Fed chair (and Berkeley Professor) Janet Yellen rely on as indicators of the health of the labor market?

b. The article and accompanying graphic give information about the labor market over the last decade. Which measures indicate that the labor market in 2014 is doing well? Which measures indicate the labor market in 2014 is still struggling?

c. You are an economics newscaster for a popular cable news channel. You have 60 seconds to tell your viewers how the labor market is doing. Go!
QUESTIONS FOR DISCUSSION

   http://www.nytimes.com/2012/05/11/opinion/krugman-easy-useless-economics.html

   a. What is structural unemployment? What is cyclical unemployment? According to Krugman, is the nation’s current unemployment an example of cyclical or structural unemployment? Do all economists agree with Krugman?

   b. Suppose we wanted to distinguish cyclical from structural unemployment. We could poll employers who have laid off workers. What would you ask those employers that would allow you to determine whether the laid-off workers were cyclically or structurally unemployed? We could also poll laid-off workers. What would you ask those workers that would allow you to determine whether the laid-off workers were cyclically or structurally unemployed? Explain.

   c. Consider two types of social safety nets: cash benefits for unemployed, and subsidized (or free) education for the unemployed. Does the type of unemployment determine which safety net is best for unemployed workers? Design a social safety net program for today's unemployed. Is a "one size fits all" program the best program? If not, how would you distinguish between those who should get cash benefits and those who should get education benefits?
QUESTIONS FOR DISCUSSION

http://ineteconomics.org/blog/inet/more-services-means-longer-recoveries

(Note: A recent copy of the full paper behind the blog post is at http://eml.berkeley.edu/~olney/papers.html)

a. Economies produce, broadly, goods, services, and structures (buildings).  What has happened to the share of output that is services over the last several decades? What has happened to the length of business cycles over that same period?

b. According to Olney and Pacitti, why does a rise in the service share of an economy lead to longer recoveries? Can you think of other reasons why a rise in services might be correlated with longer economic recoveries?

c. If the longer recoveries are the consequence of the rise of services, are there public policies we can propose that would hasten economic recovery? Are there costs to imposing those policies? Should we propose and enact such policies?
QUESTIONS FOR DISCUSSION


a. According to the article, what are the factors that affect uncertainty? Which of these factors are out of the control of companies?

b. Sketch an investment demand curve, properly labeling your axes. How does a change in uncertainty affect investment?

c. Should government policy address the level of uncertainty in the economy? If so, is there an optimal level of uncertainty greater than “0 uncertainty” (that is, complete certainty)? What policies might be enacted to address business uncertainty? Discuss.
QUESTIONS FOR DISCUSSION


a. The article starts with Brian Whitfield’s job loss. Draw a diagram that shows each layoff or hours cut mentioned in the article and how they are linked to each other.

b. Define the concept of the multiplier. Connect your diagram in part (a) with the concept. If the article had continued with each and every job loss experienced in the Roxboro, NC area, what industries do you think would have been represented in the additional rounds of the multiplier process?

c. When people are laid off, they have two choices:
   • continue to spend the same amount, paying for goods and services by draining their assets (withdrawing savings, for instance) or accumulating liabilities (charging credit cards, for instance), or
   • cut spending, perhaps as much as dollar for dollar with the loss of income

The more laid-off families borrow, the smaller the multiplier. The more laid-off families cut spending, the larger the multiplier and thus the greater the damage of “one layoff” to a whole town. Is it good for laid-off people to borrow and maintain their spending? Discuss. (It’s a normative question. Start by stating a goal.)
QUESTIONS FOR DISCUSSION


a. According to the article, what happens to the size of the government spending multiplier over the course of the business cycle? When is it large? When is it small? Is this consistent with other findings about the size of the multiplier as cited in the article?

b. There are two possible reasons that the size of the government spending multiplier may vary over the course of the business cycle.
• Consumer spending responds more to changes in income in a downturn than in an expansion
• In a downturn, monetary authorities do not raise interest rates which would otherwise cause investment spending to fall just as government spending was increasing

We will study monetary policy, interest rates, and investment spending after the midterm.

If consumer spending responds more to changes in income in a downturn than in an expansion, why and how does this impact the size of the multiplier? Illustrate your answer with formulas.

c. The article states that the multiplier is largest for changes in defense spending. Do you think increasing defense spending during an economic downturn is good policy? Explain. (Remember: in order to have any normative discussion, you have to explicitly state your goals.)
QUESTIONS FOR DISCUSSION

23. “Stimulating the Economy in an Era of Debt and Deficit,” by Joseph E. Stiglitz. The Economists’ Voice, Vol. 9: 2 (March 2012).  [http://dx.doi.org/10.1515/1553-3832.1897](http://dx.doi.org/10.1515/1553-3832.1897) Be sure you have the library’s proxy server installed on your computer. Click on “full text PDF” (just above the article’s title) to see the article.

a. According to the author, what are the usual objections to using expansionary fiscal policy? Why can both objections be dismissed in the current economic environment?

b. Use the production possibilities frontier model, with the types of output divided into government goods and services and all other goods and services. Show the effect of increasing the production of government goods and services. Does it matter whether or not you begin on, versus inside, the production possibilities frontier? Relate this analysis to the current economic environment.

c. Stiglitz asserts, “The first priority of the country should be a return to full employment.” Not everyone agrees. What do you think are other candidates for “the first priority of the country”? How do we decide – and who decides – what the first priority should be?
QUESTIONS FOR DISCUSSION


a. According to the article, is the British pound currently strong (high) or weak (low)? What are the effects of this value of the pound? Who benefits? Who suffers?

b. The Bank of England kept interest rates very low since 2009 to stimulate growth. The Eurozone continues to experience a weakened economy (see article #15), but England’s economy is gaining strength. It is widely expected, therefore, that the Bank of England will soon begin increasing interest rates. Use a model of the determination of the price of the pound to show how an increase in interest rates impacts the pound’s price relative to the euro. What assumptions do you need to make about interest rates in other countries in order to do your analysis?

c. A strong pound corresponds to a weak euro. Do you think the strong pound is good for England? Is it good for the Eurozone? Explain. (Remember: in order to have any normative discussion, you have to explicitly state your goals.)
QUESTIONS FOR DISCUSSION

http://www.stlouisfed.org/publications/re/articles/?id=2258

a. What is QE? How does it differ from conventional monetary policy? What is the goal of QE?

b. When the Federal Reserve conducts conventional monetary policy (targeting a federal funds rate), they traditionally buy and sell short term government bills, also called U.S. Treasuries. Use the concept of the yield curve to discuss how and why conventional monetary policy is supposed to affect medium- and long-term interest rates. Use the same concept to illustrate the effect of QE2 and Operation Twist.

c. The Fed implemented QE2 because it had hit the zero lower bound. What is the “zero lower bound”? Do you think the Fed should continue trying to help the economy back toward full recovery? Why or why not?
QUESTIONS FOR DISCUSSION


NOTE: The article was written in July 2014; you are reading it in November 2014. Fed policy may have changed in the intervening months. Check the news or go straight to the source: http://www.federalreserve.gov/newsevents/default.htm

a. According to the article, what is the Fed’s current policy with regard to monetary stimulus? What is the nature of the debate at the Fed, as described in the article?

b. The Fed is guided by a “dual mandate.” What does that mean? Use the concept of the Phillips curve to illustrate the tension the Fed faces between addressing unemployment and inflation.

c. Which part of the dual mandate do you think the Fed should emphasize? Why?

a. Richmond Fed President Jeff Lacker is quoted in the article. In 2012, did he vote in favor of the Fed’s policy of monetary stimulus? Why or why not? When does Lacker think the Fed will start increasing interest rates? Does he seem to be in favor of that timing?

b. Based on the article, would you describe Dr. Lacker as an “inflation hawk” or an “inflation dove”? What evidence in the article can you offer as support for your choice? Using the concept of the Taylor rule, describe the difference between an “inflation hawk” and an “inflation dove.”

c. Do you think the Fed should be aggressive in removing the monetary stimulus and raising interest rates? Or should the Fed move slowly? Why?
QUESTIONS FOR DISCUSSION


a. What decision did the FOMC make at its July 29-30 meeting? What was their rationale?

b. Go online to find the statement from the October 28-29, 2014 FOMC meeting.  
(http://www.federalreserve.gov/monetarypolicy/fomccalendars.htm) What are the differences between the FOMC statements of July 2014 and October 2014?

c. (As I write in August 2014. . .) There is much speculation as to when the FOMC will begin increasing interest rates. Based on the July and October FOMC statements, what sort of economic indicators do members of the FOMC seem to be watching? What do you suppose needs to happen to those indicators before they decide to take action? What do you think the Fed will do next . . . and when?
http://eml.berkeley.edu/~cromer/Lessons%20from%20the%20Great%20Depression%20for%20Policy%20Today%20Written.pdf

**NOTE:** You won’t be tested on this article in Econ 1. I’ve included the article in the packet for a few reasons: [1] it’s very good; [2] it’s a good one to take home and share with your family (explaining some of the concepts will impress *la familia*); [3] it’s a good lead-in to the course I’m teaching next semester, Econ 113 (U.S. Economic History) because the article gives you a good introduction to the ways in which economic history is used to guide present-day policy debates.

a. This article is the transcript of a speech delivered by Professor Romer in March 2013. What are the three areas of policy that she discusses? Did we discuss all three in Econ 1?

b. For each of the three areas of policy, summarize the policy that was tried in the 1930s, how well it worked, and what lessons we learned that were applicable to the 2007-2009 downturn.

c. In what ways can the study of economic history inform present-day policy debates? In what ways do present-day policy debates inform our understanding of economic history? Are you ready to tackle these questions in Econ 113?