

## AP Macroeconomics Summer Assignment

NAKED ECONOMICS: UNDRRESSING THE DISMAL SCIENCE (Fully revised and updated edition) by Charles Wheelan ISBN: 978-0-393-33764-8

### Directions:

1. Read Naked Economics: Undressing the Dismal Science (Fully revised and updated edition) by Charles Wheelan.
2. You will submit your assignment on the first day of class (2<sup>nd</sup> semester). Late assignments will NOT be accepted.
3. Fully analyze and discuss answers to the questions identified in this assignment for each chapter. You should follow the these parameters:
  - A) Each chapter analysis should be kept separate from the others. You should use the chapter and theme as a heading for your analysis.
  - B) Use the questions as a guide to form a well-constructed analysis of each chapter. You will need to give your personal thoughts, as well, but make sure they are supported with examples.
  - C) Avoid using direct quotes from the text; interpret the concept in your own words.
  - D) You may use in-text citations (using only a page number) to make references to specific information from this book.
  - E) Format
    - Each page must be single-spaced in 12-point font – using either Arial or Times New Roman Font.
    - 1” margins all the way around the paper. • Each page must contain your full name and course name.
    - You must place the chapter title at the top of the first page of each chapter analysis.
    - Limit each analysis to **1 page or less**. Your objective is to be brief but also be descriptive!

### Questions:

#### Chapter 1: The Power of Markets

- What are the two basic assumptions do economists make about individuals and firms?
- What example does the author give to back up his statement that “maximizing utility is not synonymous with acting selfishly”?
- What is the role and significance of prices in the market economy?
- What are the advantages and disadvantages of a market economy?

#### Chapter 2: Incentives Matter

- Explain how each of the following relates to efficient outcomes in a market economy: Adverse selection, “perverse incentives”, principal-agent problem, and the prisoner’s dilemma.
- How does the author back up his assertion that government benefits create perverse incentives?

#### Chapter 3: Government and the Economy

- Explain externality in your own words.
- What roles does government play in a market economy?

#### Chapter 4: Government and the Economy II

- What are the reasons why government should take a limited role in a market economy?

#### Chapter 5: Economics of Information

- How does the author use the example of the HOPE scholarships to explain the problem of asymmetry of information?
- What does the author mean by “perfect information”?

#### Chapter 6: Productivity and Human Capital

- Do you agree that Bill Gates should be richer than you? Explain.
- What is “income inequality”?
- Why do economists argue that we should not care about “income inequality”?

Chapter 7: Financial Markets

- How do get rich quick schemes violate the basic principals of economics?
- Do you agree with the author's rules for investment advice? Explain.

Chapter 8: The Power of Organized Interests

- Why have mohair farmers earned a subsidy from the federal government?
- What does the author mean by "in politics, the tail can wag the dog"?
- What is the economic impact of the statement in the question above?

Chapter 9: Keeping Score

- Why is a nation's GDP a good measure of its economic well-being and progress?
- Why is a nation's GDP a poor measure of its economic well-being and progress?

Chapter 10: The Federal Reserve

- What is the primary role of the Federal Reserve?
- What is the significance of the Federal Reserve's role?
- What is deflation? Why is deflation worse than inflation?

Chapter 11: International Economics

- Early in the chapter, Wheelan states "currencies are no different than any other good." How are exchange rates determined?
- What is purchasing power parity and why is it an accurate measure of a nation's standard of living?

Chapter 12: Trade and Globalization

- What is the "good news about Asian sweatshops"?
- How can free trade and the concept of specialization make all nations better off?

Chapter 13: Development Economics

- Based on your reading, what do you believe are the two biggest obstacles preventing poor countries from becoming rich?

Epilogue: Life in 2050

- What are three economic questions you have about life in 2050?