

Short Answer Questions

Chapter 1.

1. A business is considering two investment decisions. Decision one relates to the purchase of an IT system to increase the efficiency of its manufacturing system; decision 2 is an overhaul of its procurement systems for purchasing supplies. After a financial review it is announced that only one of the two investment decisions will be made. Explain the relevance of the idea of a ‘trade-off’ and how the business might arrive at a decision on which investment decision to make.
2. Explain why using opportunity cost as a measure of the ‘cost’ of something is better than using a money value to an economist.
3. Outline one example of the principle of ‘thinking at the margin.’
4. Would incentives to cut the use of a drug like cocaine be more effective than legislation? Explain your answer.
5. Imagine a situation where first year undergraduate examinations were subject to free trade. Students could arrange to trade answering the questions they were good at with those they were not so good at with other students in the exam hall. Is there a situation here where trade could make everyone better off?
6. When are markets not a good way to organise economic activity?
7. Explain the difference between the terms ‘market failure’ and ‘government failure’.
8. Why is a high quality education system important in raising living standards for future generations? In your answer, clarify what you interpret a ‘high quality education system’ to mean.
9. Use a numerical example to show how increasing the money supply (in the absence of any increase in productivity) would lead to a rise in prices.
10. Explain why there is a short-run trade-off between inflation and unemployment.