

Short Answer Questions

Chapter 2.

1. Explain how economists can claim to act as scientists.
2. 'An increase in income will result in a rise in demand for a good'. Explain the assumptions that underlie this statement.
3. Look at the circular flow diagram (Figure 2.1) on page xx. There are some important features of a real economy missing from this model. What are they and how might they be incorporated into the model to make it more realistic of an open economy with a government?
4. If economic models have so many limitations, why do economists continue to use them?
5. Explain **two** ways in which an economy can push out its production possibilities frontier?
6. Give an example to show how a microeconomic issue might affect the macroeconomy.
7. 'Increasing taxes on fuel would be a good way of reducing overall demand for cars and thus reduce congestion.' Is this a positive or normative statement? Explain.
8. 'Imposing a global levy on bankers' bonuses would be a good way of avoiding another financial crisis.' Explain why economists might disagree on the accuracy of this statement.
9. Is it fair that people earning in excess of €150 000 a year should pay a much higher tax rate on income above this level? Explain your answer.
10. Explain why you might not disagree with a quantum physicist who was explaining the relationship between string theory and a theory of matter but you might very well disagree with an economist who was explaining the relationship between obesity levels and the rise in poverty.