

## Short Answer Questions

### Chapter 22.

1. Explain the meaning and relevance of asymmetric information to economic decision-making.
2. Using an example, explain the difference between a principal and an agent in economic decision-making.
3. To what extent would you consider the setting up of regulatory bodies an appropriate and effective solution to the principal-agent problem in markets where there is a natural monopoly?
4. It has been argued that one of the causes of the financial crisis was moral hazard. In the context of the financial services industry, explain what the term 'moral hazard' means.
5. Using appropriate examples, outline three ways that an employer can help to minimise moral hazard.
6. Explain why the market for life assurance is particularly susceptible to the problem of adverse selection.
7. Outline three ways in which asymmetric information can be reduced so that more effective decision-making can take place.
8. Examine the relevance of the Condorcet voting paradox and Arrow's impossibility theorem to public policy.
9. Explain the difference between the idea of *homo sapien* and *homo economicus* and why this difference is relevant to economic decision-making.
10. Using an example in each case, explain the systematic mistakes that humans can make in decision-making.