

Chapter 1

1. People respond to incentives. Governments can alter incentives and, hence, behaviour with public policy. However, sometimes public policy generates unintended consequences by producing results that were not anticipated. Try to find an unintended consequence of each of the following public policies.
 - a. To help the "working poor," the government raises the minimum wage to €25 per hour.
 - b. To help the homeless, the government places rent controls on apartments restricting rent to €50 per month.
 - c. To reduce its budget deficit and limit consumption of petrol, the government raises the tax on petrol by €1.00 per litre.
 - d. To reduce the consumption of drugs, the government makes drugs illegal.
 - e. To raise the population of a rare bird of prey, the government prohibits the killing of the birds and the collecting of their eggs.
 - f. To improve the welfare of European sugar beet growers, the EU bans imports of sugar from South America.
2. Opportunity cost is what you give up to get an item. Since there is no such thing as a free lunch, what would likely be given up to obtain each of the items listed below?
 - a. Susan can work full time or go to university. She chooses university.
 - b. Susan can work full time or go to university. She chooses work.
 - c. Farmer Jones has 100 hectares of land. He can plant wheat, which yields 5 tonnes per hectare, or he can plant potatoes, which yield 35 tonnes per hectare. He chooses to plant wheat.
 - d. Farmer Jones has 100 hectares of land. He can plant wheat, which yields 5 tonnes per hectare, or he can plant potatoes, which yield 35 tonnes per hectare. He chooses to plant potatoes.
 - e. In (a) and (b) above, and (c) and (d) above, which is the opportunity cost of which – college for work or work for college? Potatoes for wheat or wheat for potatoes?