

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 (2nd 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?