

Solution Manual For

Economics 12th Edition 2024 By David Colander

Chapter 1-38

CHAPTER 1: ECONOMICS **AND ECONOMIC REASONING**

Questions and Exercises

1. Coordination refers to how the three central problems facing any economy are solved. Those three problems are what and how much to produce, how to produce, and for whom to produce. Inevitably, individuals desire more than is available regardless of how much they're willing to work for what they desire, causing a problem of scarcity.

The concept of scarcity has two elements: our wants and our means of fulfilling those wants. These two elements are interrelated since wants are changeable and are partially determined by society. In addition, the degree of scarcity is constantly changing, depending upon the available means of production and the development of new wants.

Therefore, the author focused on coordination rather than on scarcity to emphasize the subsidiary nature of scarcity to the overall concept of coordination. Economics is not merely about our wants or the means of fulfilling those wants; it is also about reconciling our wants with reality, where reality consists of decision-making mechanisms, social customs, and political realities.

2.
 - a. Macroeconomic
 - b. Microeconomic
 - c. Macroeconomic
 - d. Microeconomic
 - e. Microeconomic
 - f. Microeconomic

Microeconomics studies how economic forces influence individual choices such as the pricing policies of firms, households' decisions on what to buy, and how markets allocate resources among alternative ends. Macroeconomics studies

aggregate relationships such as how household consumption is related to income and how government policies can affect growth.

3. Answers will differ. Two microeconomic problems are the pricing policies of firms (price-fixing in particular) and the way wages are determined in labor markets. (Why do athletes and celebrities make so much money, anyway?) Two macroeconomic problems are unemployment and inflation (business cycles and growth are also macroeconomic problems).
4.
 - a. The opportunity cost of attending college is the sacrifice one must make by attending college. It can be estimated by figuring out the benefit of the next-best alternative. If that alternative is working, one would guess the likely wage that could be earned at a job that does not require a college degree and then multiply by 40 hours for each week in college. The opportunity cost is also what could be done with the money used for tuition and other costs related to attending college.
 - b. The opportunity cost of taking a course could also be estimated using the same technique as in part *a* if you otherwise would be working during these hours. If you had taken another course instead, the opportunity cost would be the benefit you would have received from taking that other course.
 - c. The opportunity cost of attending yesterday's lecture would depend on what you otherwise could have done with that time (sleep, eat lunch with an interesting person, etc.). Although this is no longer a choice to you, past activities do have opportunity costs.
5. Answers will vary. A correct answer will indicate that the student compared the marginal costs and benefits and chose the activity because the marginal benefit exceeded the marginal cost.
6. The marginal costs are the additional costs of the additional activity. In this case, the additional activity is driving $(200 - 100)$ miles. The marginal cost is the 10 cents per mile for all miles over 100 plus the additional cost of gas. Therefore, the

marginal cost is $\$10.00 = [0.10 \times (200 - 100)]$ plus the cost of gas. The initial payment can be forgotten because it is a sunk cost; it is not part of the marginal costs.

7. No, since the marginal cost of drug control exceeds the marginal benefit; the government should not spend \$4,170 to deter one person from using drugs.
8. The opportunity cost of buying a \$20,000 car is the benefit you would have gained by using that \$20,000 for the next-best alternative, which could be spending it on other goods and services or saving it.
9. Only the marginal costs and benefits of taking the job are relevant. That means that the sunk cost of the bachelor's degree is irrelevant. Therefore, the relevant costs are the opportunity cost of taking the job (forgone earnings from your current job) and other things you could have done with the money you need to pay for business school. The relevant benefit is the increased lifetime earnings of \$600,000.
10. You should spend the \$5 million on projects that provide the highest marginal benefit per dollar spent. The opportunity cost of spending the money on one project is the lost benefit that the college would have received by spending it on a different project. Thus, another way to restate the decision rule is to spend the money on the project that minimizes opportunity cost per dollar.
11. Answers will differ. Two examples of social forces are our unwillingness to charge friends interest and our unwillingness to "buy" friends. These issues are still subject to economic forces; however, there is no market in "friends" or in loans to friends, and so the economic force does not become a market force.
12. Answers will differ. Two examples of political or legal forces are rent control laws and restrictions on immigration. Both prevent the invisible hand from working. Rent control laws place a price ceiling on rent, causing shortages of apartments, and immigration restrictions cause the number of immigrants seeking

entry to exceed the number allowed to enter, which tends to cause wage rates to differ among countries.

13. a. Both parties benefit. The person who gains the kidney benefits if it works when transplanted into his or her body as he or she will no longer have the emotional and financial burden of dialysis. The person selling the kidney gains the \$30,000. Their gains will also have impacts on others (their family, for example).
 - b. Both parties must undergo surgery and face all the attendant risks and costs. The seller faces the potential cost of a future illness or injury harming his or her only remaining kidney, causing the seller to need dialysis. It raises moral issues that could be seen as hurting society because organs change from being inalienable to being a commodity and, hence, is another element that negatively affects the individuals.
 - c. Whether a society should allow this transaction is a question of value judgments and cultural norms. Our society has chosen not to allow such transactions because (among other reasons) those with more money would have increased access to organs and therefore would have advantages over those of limited means. Thus, the poor could be exploited in such transactions.
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14. An economic model is a framework that places the generalized insights of a theory in a more specific contextual setting. Policymakers need to understand the empirical evidence supporting the theory as well as real-world economic institutions to make policy recommendations.
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15. No. Economic theory proves nothing about what system is best. It simply provides a way to look at systems and indicates what the advantages and disadvantages of various systems will likely be. Normative decisions about what is best can only follow from one's value judgments, which are subjective.
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16. A theorem is a proposition that is logically true based on the assumptions of the model, whereas a precept is a policy rule that a particular course of action is preferable. Economists can agree about theorems but disagree about precepts if they have different value judgments regarding the intended goals.