

AP Microeconomics
Mount Paran Christian School
Mr. Beard
jbeard@mtparanschool.com

“I, however, place economy among the first and most important...virtues, and public debt as the greatest of the dangers to be feared.” – Thomas Jefferson

“The rich rule over the poor, and the borrower is slave to the lender.” – Proverbs 22:7 (TNIV)

“The gap in our economy is between what we have and what we think we ought to have - and that is a moral problem, not an economic one.” – Paul Heyne

“For the love of money is a root of all kinds of evil. Some people, eager for money, have wandered from the faith and pierced themselves with many griefs.” – 1 Timothy 6:10 (TNIV)

Summer Reading 2011

In preparation for some of the topics to be covered in AP Econ, *Naked Economics: Undressing the Dismal Science* by Charles Wheelan has been chosen as your summer reading assignment. Available in paperback, the book is available online or in most major bookstores for a base price ranging from \$7.00 (used) to \$16.00 (new).

Backdrop for the Title of the Book – Naked Economics: Undressing the Dismal Science

Economics has been nicknamed “the dismal science” because it often signifies gloom and doom in the human condition while often being viewed as boring, vague, and dull as well. However, since economics is a science (social science), it can not only be used to explain why people, businesses, and governments make the decisions they do but it can also be used to predict how decisions made today can impact the future. Charles Wheelan is an American correspondent of London’s *The Economist* and a lecturer at Northwestern University whose book titled *Naked Economics* is renowned for its clarity and plain language. In it, Wheelan looks to “undress” economics by stripping away all of the diagrams, equations, and jargon to help make it the science of real life and human behavior. Economics is a crucial subject and it’s difficult to understand the important issues without it. Hopefully after reading *Naked Economics*, you will begin to gain a better understanding for how economics actually impacts your life.

Summer Reading Assignment

After reading the entire book (cover to cover), please complete 14 of the 21 Questions for Discussion. You must answer at least one question per chapter including the epilogue (extra credit can be earned for answering additional questions). In doing so, number your responses and use complete sentences with 12 point font (i.e. New Times Roman or Arial style). Single spacing is fine but your answers should be in your words (not the authors or someone else) and proofread before submittal. Your responses should be emailed to Mr. Beard no later than August 15th. **This assignment is a requirement of the course and will be for a grade.**

Questions for Discussion

Chapter 1: **The Power of Markets**

1. What are the two basic assumptions that economists make about individuals and firms?
2. What is the role and significance of prices in the market economy? What's so great about a market economy anyway?

Chapter 2: **Incentives Matter**

3. 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.
4. So what's the issue with the black rhinoceros and how can economics point to a possible solution?

Chapter 3: **Government and the Economy**

5. In your own words, explain the meaning of an externality.
6. Besides addressing externalities, what other important and beneficial roles does government play in our market economy?

Chapter 4: **Government and the Economy II**

7. What are the main reasons why government should only take a limited role in a market economy?

Chapter 5: **Economics of Information**

8. Wheelan explains that basic economic models assume that all parties have "perfect information." How does "informational asymmetry" undermine our market economy?

Chapter 6: **Productivity and Human Capital**

9. After reading Wheelan's argument, do you agree that Bill Gates should be so much richer than you? Why?
10. Evaluate the following statement from p. 113: "We should not care about the gap between rich and poor as long as everybody is living better."

Chapter 7: **Financial Markets**

11. Explain how get-rich-quick schemes violate the most basic principles of economics.
12. What advice about investing in the stock market did you find most interesting and/or useful?

Chapter 8: **The Power of Organized Interests**

13. Why have mohair farmers earned a subsidy from the federal government for decades?

Chapter 9: **Keeping Score**

14. Explain why a nation's GDP is both a good and poor measure of its economic well-being and progress?

Chapter 10: **The Federal Reserve**

15. What is the primary role of the Federal Reserve? What is the significance of this role?
16. What is deflation and is it worse than inflation? Why?

Chapter 11: **Trade and Globalization**

17. What is the “good news about Asian sweatshops”?
18. What is the relationship between specialization and productivity?

Chapter 12: **Development Economics**

19. After reading this chapter, what do you believe are the two greatest obstacles preventing poor countries from becoming rich?
20. After reading this chapter, explain and discuss what we can do to help developing nations. What do these nations need to do to help themselves?

Epilogue: **Life in 2050**

21. What economic question do you have about life in 2050? About today’s economy? About life in general?