Homework I

due Wednesday, January 25th in class

In answering questions, be precise and concise. Type out the answers and use single-spacing and a size 12 font.

1. Short Descriptions (3 points) In two to three coherent sentences, explain and/or define each of the following concepts.

   a) Property rights
   b) Agency problem
   c) Gains from trade

2. Institutions (3 points) "An economic system is the set of institutions and rules that define and constrain the production of goods and services." Which institutions form the core of an economic system? Now choose one of the institutions that you listed and explain how this institution, together with rules, defines and constrains the production of goods and services.

3. Rules (2 points) Provide two examples of formal and two examples of informal rules in your living situation, be it in a dormitory or in an apartment.

4. Incentives (2 points) Provide one example of each coercive, material, and moral incentives that influence behavior of college students?

5. Comparing Systems (5 points) Go to the Human Development Report website (http://hdr.undp.org/) and click on Data (top row in blue). Then click on the Public Data Explorer. There you will find a link that says "Click here to access the data." You will see a graph where you can change the variables on both the x and y axes. If you click on any variable on the list on the left side of the graph, you can choose that variable to be either on the X or the Y axis on the graph. You can choose a variety of indicators and measures on living standards, conditions, and other topics for virtually all of the countries. Choose three indicators (Hint: use some social indicators such as life expectancy at birth and adult literacy rate rather than economic indicators such as unemployment, inflation, exports, etc.) and create a graph of each indicator (y-axis) against (income) GDP per capita (x-axis). What do you observe? How is each socioeconomic measure correlated to income? Briefly comment on how each index (measure) is related to GDP per capita. What does that tell you about economists’ “fascination” with GDP per capita as a measure of society’s well-being?

6. Property Rights (2 points) Probably the single most important characteristic by which different economic systems have been classified is property rights. Why are property rights considered so important in the classification of economic systems?

7. Douglass North’s “Institutions” (3 points) Summarize the main point of North’s argument why formal institutions arise in a modern economy.