

Summer Reading—

The Undercover Economist by Tim Harford

Oxford: Oxford University Press, 2006

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General Instructions-- As you go through this book, please keep your class notebook handy. In this notebook, would you jot down your ideas/responses to the questions that follow? Plan to have this book read and your ideas recorded in “the notebook” by the Tuesday after Labor Day.

Introduction:

- Is it true to say that economists look at the world differently? What do you think about that?
- After you have finished reading this book, how would you describe the economist’s way of looking at the world?

Chapter 1

- Key concepts: scarcity, marginal, model
- Describe the connection that exists between ‘relative scarcity’ and ‘bargaining strength’?
- What does it mean to say that something is ‘marginal’? Why does this matter?
- How would you describe Ricardo’s model? What are the limitations of the model?
- What is ‘objective’ about economics?

Chapter 2

- Key concepts: price elasticity (sensitivity), price discrimination (targeting)
- What is the difference between “first degree price discrimination” (a unique target) and “second degree price discrimination” (group target)? Does that seem fair to you? What kind of alternative would you suggest?
- Please identify advantages and disadvantages of price-targeting.

Chapter 3

- Key concepts: perfectly competitive, efficiency, equity
- What are the four results of perfectly competitive markets?
- Can one become more efficient than a perfectly competitive market? Explain.
- What is the difference between efficiency and equity (fairness)?

Chapter 4

- Key concept: externality
- Looking closely at the J-High campus or the Sacramento community—provide an example of a negative and positive externality.
- What relevance do the terms “average price” and “marginal price” have to the concept of externalities?

Chapter 5

- Key concepts: asymmetric information, adverse selection, moral hazard, signaling
- How is adverse selection (the lemons problem) different from moral hazard?
- What would be some (partial) solutions to problems related to asymmetric information?
- Explain what the author means by “keyhole economics”

Chapter 6

- Key concepts: random walk, fundamental analysis
- Given what you have read, both in this chapter and to this point in the book, what would a rational investment strategy look like?

Chapter 7

- Key concepts: game theory, auction
- What are the advantages and disadvantages of an auction?

Chapter 8

- Key concepts: diminishing returns, catch-up effect, infrastructure, self-interest, incentives
- What is the traditional view of the origins of economic wealth?
- How has the traditional view changed over the last ten years?

Chapter 9

- Key concepts: comparative advantage, globalization, trade barriers
- Do your views on the topics in this chapter coincide with the author?
- Does the author present persuasive arguments? Why or why not?

Chapter 10

- Key concepts: planned economy, market economy, choice
- Explain why China moved only gradually from a planned economy towards a market economy.
- Why is China doing better economically than India? Than the Cameroons?
- According to the author, what is economics about?

Your reflection—

- As you finish this book, which ideas presented by the author do you wish to know more about? Why?
- Which idea(s) do you find most controversial? Why?
- Any final thoughts?

Your instructor thanks Mr. Timothy Stephens, Gonzaga College HS, Washington, D.C. for the majority of ideas contained on this reading guide. Any mistakes or omissions in this document rest with your instructor, not Mr. Stephens.