

The Armchair Economist, by Steven Landsburg
REVIEW QUESTIONS
Dr. Walker, ECON 200

INTRODUCTION

1. Why do economists use models to analyze behavior?

CHAPTER 1: THE POWER OF INCENTIVES: HOW SEAT BELTS KILL

2. What 4 words does Landsburg use to describe most of what economics is about?
3. What would you expect as a result of the auto safety regulations that require seatbelts, etc.?
4. Why would safer cars lead to more accidents?
5. In what sense are speed and recklessness “goods”?
6. What are the two relevant effects that will determine whether auto deaths increase or decrease as a result of safety equipment?
7. What was suggested as a method of *decreasing* the number of accidents? What would this solution do to the probability of surviving a particular accident?
8. Does birth control necessarily reduce the number of unwanted pregnancies? What effect does birth control have on the “price” of sex?
9. Could low-tar cigarettes increase the incidence of lung cancer?
10. Do rats and pigeons respond to incentives?

CHAPTER 2: RATIONAL RIDDLES: WHY THE ROLLING STONES SELL OUT

11. In economics, what is the basic assumption about behavior?
12. Do assumptions nullify the usefulness of conclusions derived from them?
13. According to Landsburg, why don't concert promoters raise ticket prices for shows that are expected to sell out? Can you think of alternative explanations?
14. Why do companies hire high-priced celebrities for product endorsements?
15. Why do banks have marble floors and pillars, while grocery stores, for example, are built with much cheaper materials?
16. Why does Landsburg suggest that men spend less than women on preventive health care?
17. Why do you think people vote?
18. Why do people leave tips in restaurants?

CHAPTER 3: TRUTH OR CONSEQUENCES: HOW TO SPLIT A CHECK OR CHOOSE A MOVIE

19. Why do life insurance companies give non-smokers discounted premiums?
20. What is *asymmetric information*? Give an example.
21. If your dinner party has agreed to split the check evenly, do you expect any unusual behavior?
22. Do you think Landsburg and his wife are freaks for how they choose movies? [By the way, I must disagree with the last sentence of the chapter. I would correct it by beginning the sentence, “Only an economist with no life is somebody...”]

CHAPTER 4: THE INDIFFERENCE PRINCIPLE: WHO CARES IF THE AIR IS CLEAN?

23. What does Landsburg assume regarding transportation / moving costs in his discussion about living in Lincoln, Nebraska or San Francisco, California? Why is that necessary in explaining why all cities must be equally attractive, all things considered?
24. “All jobs must be equally attractive.” Explain. What adjusts to make sure this is true? Is this idea perfectly realistic? What complications are there?
25. Owners of “fixed supply resources” can avoid the indifference principle. How?
26. According to Landsburg, why do farmers lobby to get paid to keep farmland vacant, but motel owners don't lobby to get paid to keep rooms vacant?
27. Be sure to read the summary on p. 37 carefully! Understand?
28. What assumption about people's preferences is necessary for the line at the aquarium to be exactly 45 minutes long?
29. Who benefits from the aquarium since there is no fixed resource belonging to anyone.
30. How would it change the analysis if we assume that people gain utility simply by having more choice in entertainment?
31. Does the entrance fee change the attractiveness to the average citizen?
32. Does the entrance fee reduce the deadweight loss (social cost) to society? How?

CHAPTER 5: THE COMPUTER GAME OF LIFE: WHAT IT'S ALL ABOUT

33. What is life about, according to Landsburg? Accumulation of assets and hard work, or consumption and leisure?
34. In his example where one class bakes food, while the other does laundry, if the classes trade for each other's services, what is the good part of the trade—what you do for them, or what they do for you (imports or exports)?
35. When politicians were arguing over NAFTA, Landsburg argues, they were focusing on a non-issue: jobs. What should be the focus of a debate on trade?

CHAPTER 6: TELLING RIGHT FROM WRONG: THE PITFALLS OF DEMOCRACY

36. Is a system of progressive income taxation “fair”? Justify both opinions: “yes,” and “no.” What is your personal opinion?
37. Landsburg argues, “It goes without saying that nearly any policy anybody can dream up has some advantages. If you want to defend a policy, your task is not to demonstrate that it does some good, but that it does more good than harm.” Do politicians usually list the *costs*, as well as the benefits of their favorite policies?
38. Does democracy guarantee good outcomes?
39. Harsanyi's “veil of ignorance” is an interesting thought experiment. Do you agree that we would all make the same choice regarding a “just world” if we were behind the veil?
40. What criterion do economists prefer, according to Landsburg?

CHAPTER 7: WHY TAXES ARE BAD: THE LOGIC OF EFFICIENCY

41. Landsburg argues that wealth transfers are not inefficient, since what is lost by one person is gained by another. How is it that, since income taxes are avoidable, they cause inefficiency?
42. In what sense does consumer's surplus make the world more wealthy?
43. A "deadweight loss" is a loss in welfare to one person that is not a benefit to another person. If the government enacts a price ceiling on gasoline (say at 50¢ per gallon), would you expect a deadweight loss to society? In what form?
44. What is the only type of efficient tax? Why is such a tax politically infeasible?
45. In an "efficient" world, is it possible to make any single person better off without harming some other person?
46. What role do you think efficiency considerations should play in policy formulation? How big a role do you think such considerations play in reality?
47. How do deadweight losses occur in times of hyperinflation?
48. If I decide to burn all of my money, I am poorer as a result, but the rest of the world is wealthier. How? (I.e., who benefits when I destroy my money?)
49. The next time the wind takes your cash from your hand, will you let it go for the sake of economic efficiency? Should we be concerned with efficiency more for individuals' behavior, or for social and government policy?

CHAPTER 8: WHY PRICES ARE GOOD: SMITH VERSUS DARWIN

50. Why is the tale-cutting agreement by the male birds of paradise bound to fail?
51. Suppose college students learn absolutely nothing during their 4 years at the university. Why would employers still prefer college graduates over non-graduates?
52. Does rational behavior ensure efficiency?
53. Landsburg emphasizes the importance of prices in his discussion of Smith's "invisible hand." What are the first and second Fundamental Theorems of Welfare Economics?
54. Does Landsburg think an economy can be explained in Darwinian terms?
55. Is pollution a problem caused by the existence of free-market capitalism?
56. Why are African elephants near extinction, yet cattle are far from it, even though millions more of them are slaughtered each year?
57. How can recycling cause the world to have fewer trees?

CHAPTER 9: OF MEDICINE AND CANDY, TRAINS AND SPARKS: ECONOMICS IN THE COURTROOM

58. Does the judge's decision matter in the "candy vs. medical services" case? Why or why not? Who does the decision matter to? (The two parties involved? Anyone else in society?)
59. How does the number of individuals involved affect the validity of the Coase Theorem?
60. In the case of the train throwing sparks on the crops, there are two valid "causes" of the damage. What are they?
61. Landsburg argues a case like those discussed in the chapter should not be decided on the basis of who is at fault. On what basis should the decision be made?

CHAPTER 10: CHOOSING SIDES IN THE DRUG WAR: HOW THE AM GOT IT WRONG

62. Compare the analysis of Landsburg's discussion on drug legalization with that in the textbook. What are the costs and benefits associated with legalization?
63. Make sure you understand Landsburg's 5 principles of cost-benefit analysis.
64. Should tax revenue be counted as a benefit of any government policy?
65. Give examples where Landsburg demonstrates cost-benefit analysis as objective (i.e., he tries to not make moral judgments).
66. The dollar value of theft is not a social cost. But there are social costs associated with theft. Explain.
67. What are the two "super-principles" of cost-benefit analysis? If all individuals are to be treated equally, is there any other concept besides willingness to pay that can be used to make social decisions?
68. Is a price decrease good?
69. Recall that the author of the editorial that Landsburg attacks *favored* drug legalization, as does Landsburg. Hopefully this emphasizes the idea that the *method of analysis* is our major concern, not necessarily the policy conclusions, as might be the case in a political debate.

CHAPTER 12: SOUND AND FURY: SPURIOUS WISDOM FROM THE OP-ED PAGES

70. Do you agree with Rohatyn that borrowing is immoral? Why would it be immoral if it's a voluntary transaction?
71. In his paragraph (1), what is Rohatyn assuming about the value of \$1 today compared to \$1 in 20 years? Is his assumption true?
72. Why not burden future generations with debt? Aren't they likely to have a higher standard of living than us anyway?
73. What is Professor Breslow forgetting when he recommends increasing government spending at universities?
74. How is it that an increase in employment at the university would cause a decrease in employment elsewhere in the economy?
75. Landsburg is upset that a physicist is taken seriously when writing on economic issues. He says this explains why there is widespread economic illiteracy. Do you agree? Would you listen to Landsburg if he were espousing his views on astrophysics?
76. What effect would a price ceiling on crude oil have on the market for gasoline? Can you illustrate this using graphs?
77. Do orange growers have monopoly power? If producers do have this power, how come they wait until a freeze before they raise prices?
78. Why would the "family leave" legislation render females "unemployable"?
79. Would you expect a house to appreciate faster or slower than stocks, considering Landsburg's discussion?
80. Is it appropriate to think of interest payments on the national debt as "gifts" to those who own the government bonds, as George Will suggests? Why not?

CHAPTER 14: THE POLICY VICE: DO WE NEED MORE ILLITERATES?

81. In popular discussion of international trade, many people are emphatic about our need to produce high quality goods and services, in order to “compete.” Why? Isn’t there demand for lower-quality, lower-priced goods and services?
82. Landsburg argues, “literacy is a good thing, but that doesn’t mean we have too little of it.” How does cost-benefit analysis relate to this argument?
83. Why do you think civil rights legislation prohibits the consideration of race when choosing an employee, but not when choosing an employer? Should the government make it illegal to consider race when choosing a spouse? What’s the difference? Do you think that outside a university setting Landsburg would be considered a “racist” for just asking such questions? If so, what does this suggest about people’s ability to objectively analyze different ideas?
84. Is Landsburg fond of, or does he show contempt for, economists who get into policy analysis and formulation? Is it better in his opinion to be a pure theorist?

CHAPTER 15: SOME MODEST PROPOSALS: THE END OF BIPARTISANSHIP

85. Do politicians actually attempt to “buy votes,” as Landsburg suggests? By the way, does it surprise you that politicians have been talking a lot about “campaign finance reform,” but nothing substantive has been, nor ever will be, done?
86. Why is “bipartisanship” in government hailed as wonderful cooperation, but similar collusion in the private sector lands its participants in jail?
87. Would you consider logrolling to be a form of collusion by politicians against taxpayers?
88. Should politicians be held accountable for their promises?
89. Is there too little responsibility on the part of politicians and judges for their actions? Consider the judge or parole board that releases a criminal who again commits a crime.

CHAPTER 16: WHY POPCORN COSTS MORE AT THE MOVIES AND WHY THE OBVIOUS ANSWER IS WRONG

90. Does a movie theater owner have a monopoly on the sale of popcorn?
91. Who, according to Landsburg, are grocery store coupons designed for?
92. What types of people are most likely to be coupon clippers? Is their time relatively valuable?
93. Why are hardcover book prices generally higher than paperbacks?
94. What is “price discrimination”? Is it evil?

CHAPTER 17: COURTSHIP AND COLLUSION: THE MATING GAME

95. What is “collusion”? Give some examples.
96. Landsburg suggests that if polygamy (actually Landsburg is talking about *polygyny*—men having more than one wife) were legal and practiced, women would benefit more than men. Many people would not believe this. How does Landsburg support his allegation?
97. “All men benefit when more single women are available.” Evaluate this statement or the analogous one, “All women benefit when more single men are available.” Why is it true?

98. Landsburg argues that a “cartel’s best hope for survival is a law that bars innovation and substantial resources are devoted to lobbying for such laws.” Do you accept the argument that feminist organizations oppose breast implants because they want to prevent other women from competing for men? If not, then how do you explain the apparent irony that these groups are often in favor of allowing a woman to have the choice of abortion, but against letting the woman choose her bra size?
99. Aren’t there many examples of laws that restrict freedom, but on net do society a great benefit? Give some examples. Can all restrictions of freedom benefit society? How do we distinguish between “good” restrictions and “bad” ones.

CHAPTER 18, “CURSED WINNERS AND GLUM LOSERS”

100. What is “the winner’s curse”?
101. Landsburg argues that people tend to underestimate as often as they overestimate in their expectations. Do you agree? What about human behavior implies this may be true?
102. Landsburg argues that any of the auctions he discussed will yield the same results to the *seller*. But what about the buyers at auctions? Should they care? Which type of auction would you prefer? Why? To what extent does your risk aversion explain your preference?

CHAPTER 21: THE IOWA CAR CROP

103. Landsburg argues that “growing” cars in Iowa is simply another technology, an alternative to building the cars in Detroit. If the government imposes policies to protect jobs in Detroit, at whose expense does that protection come?

CHAPTER 23: NEW, IMPROVED FOOTBALL: HOW ECONOMISTS GO WRONG

104. What did the economist propose as the solution for there being too much punting in football games?
105. Does having the government provide citizens with 2 boxes of corn flakes each month effectively increase monthly consumption to 4 boxes? Why not?
106. Which is more likely to increase employment: inflation or *unanticipated* inflation? Why?
107. “Rule changes” make predictions about economic issues difficult to make with accuracy.

CHAPTER 24: WHY I AM NOT AN ENVIRONMENTALIST: THE SCIENCE OF ECONOMICS VERSUS THE RELIGION OF ECOLOGY

108. According to Landsburg, what is the antidote to naïve environmentalism?
109. Should environmental issues be moral issues, according to Landsburg, or simply issues of conflicting preferences?
110. What should you do if you want ranchers to keep a lot of cattle? Eat more or less beef?
111. Does recycling lead to us having more or fewer trees, according to Landsburg? How?
112. How could a ban on carcinogenic pesticides actually increase the rate of cancer?
113. Why is it an economically efficient idea to locate high-pollution industries in third-world countries?
114. Do you agree with, or at least respect, Landsburg’s view on environmentalism?