

Economics 108
Fall 2008
Writing and Other Exercises

Exercise #1 – **Are Living Standards Really Getting Better?**

During the early part of class we examined a good deal of evidence to demonstrate that the living standards of the typical American (virtually every American, actually) have improved dramatically since the beginning of the Industrial Revolution, since the turn of the twentieth century, and even during our lifetimes.

Can an argument be made that the typical person is worse off today than at the start of the Industrial Revolution? Than the turn of the twentieth century? Than a couple of decades ago? Provide evidence to support your claim, where possible.

Note that I can think off the top of my head four major areas of our lives where a serious charge can be made that things are worse today than during past times. So a good essay should not exclaim, “Nothing!” How are the areas you examined related to the massive accumulation of material wealth the world has enjoyed during the periods we have examined? What elements do you think should be considered important in evaluating what a “good” standard of living requires? Has our material success been worth these costs? Please limit your writing to no longer more than 1,000 words (shorter essays are welcomed).

Due: in recitation session the week of September 22-26

Exercise #2 – **The One Red Paper Clip Project**

Find an item that is *already in your possession* (i.e. you already **own** it). This item must have a dollar price of \$3.00 or less according to a verifiable source (e.g. my half-burned Christmas Tree scented candle cost me \$3.00 when I bought it, so it is very likely worth somewhat less than that right now).

Your assignment is simple. You are to exchange this possession for something that you prefer to have. So, in my example above, I would love a small box of crayons to keep in my backpack for when we go to restaurants with our children – those are worth way more to me than a desk candle. So I would make that exchange. Now, I have a box of crayons ... and seek to exchange those for something I value more than the box. And so on.

I would like for you to conduct at least 8 transactions over the course of the semester. For each transaction, record the item you started with, what item you secured in return, and add any relevant information (not that the person you traded with had blue eyes, but circumstantial information to help us think about the value of the goods exchange – say, an umbrella on a rainy day versus on a partly-cloudy day). Your goal is simple – try

to turn your simple object into the most valuable object (or service) you can. You are not limited to 8 trades, you may engage in any number more than this.

In doing so, remember how we discussed the notion of wealth in class. There are a few rules you must abide by. First, you must exchange goods according to the rules and customs we abide by in our normal commercial lives (e.g. no stealing, no blackmail, no bribing, no exchanging of illegal items, etc.). Second, I would like for this to remain a barter system, so you may not engage in transactions where cash (or cash-like media) form wholly one-half of a transaction (there are exceptions, we can discuss these if you stumble upon them). Third, I (and selected colleagues if need be) will remain the sole arbiter of any disputes or questions that might come up.

You are expected to continue exchanging throughout the course of the semester. Please do not attempt to execute all 8 (or more) exchanges in the first week or last week. The more time you dedicate to thinking about these exchanges, the better you will understand the nuances of the assignment and be better able to secure goods/services you value. Students will likely be asked to share their experience with their classmates either during a recitation section or regularly scheduled class meeting toward the end of the semester. You should aim to have your exchanges completed by no later than Thursday, November 20th. A very short written report is due no later than Tuesday, December 2. The report should contain the foregoing information as well as commentary you wish to provide. You might be asked an exam question which requires you to reflect on the nature of exchange, the sources of wealth, and how applications from the rest of the course would have impacted this exercise.

Exercise #3, Option A – Should We Allow a Market in Transplant Organs?

Analyze the economic impact of the current federal law, which prohibits the sale of kidneys and permits only the donation of kidneys on a free-will basis.

After sketching out this response (which should at least begin with a standard supply and demand and equilibrium presentation), consider a free-market in kidneys. Ignoring the ethical aspects for a moment, what economic problems might arise from the existence of an unfettered market in kidneys (i.e. Are there relevant externalities? Are there relevant problems with market power of buyers or sellers?)?

Before it was stopped, bidding for a kidney on eBay reached \$5.7 million. Without considering the fact that buying a kidney is illegal, do you think the bidding should have been stopped? Please limit your essays to no longer than 1,000 words. A careful understanding of this issue touches on a large number of lessons from the course. Spending time thinking about this question is a fruitful way to prepare for your exams.

Due: in recitation session the week of October 20-24

Exercise #3, Option B – Economic Problems in Rochester

Identify a “problem” in the city of Rochester. What is the economic source of this problem? Is it a failure of markets or a failure of market outcomes? If neither, briefly characterize the nature of the problem? Who is mainly affected by this problem (if identifiable)? Does anyone stand to gain under the status quo? Explain. Propose a solution to the problem using basic economic principles. Please limit your essays to no longer than 1,000 words. (Yes I understand this is a big question, but please focus on one issue and keep analysis simple)

Due: in recitation session the week of October 20-24

Exercise #4, Option A - Competition

Describe a situation where competition over a good or service or amenity (or something else) emerged that was unaffected by financial considerations. What was the reason this competition developed? Is competition a fundamental aspect of an economic system, or something else? Explain. Would the price mechanism have helped or hindered the allocation of the good/service you describe above? The situation could be something you participated in personally, or observed here at Rochester or somewhere in the outside world.

Due: Monday, December 5 in class, or Tuesday, December 6 in class

Exercise #4, Option B – Berkshares

In the Berkshires of Western Massachusetts, an organization produces and promotes the use of a local currency known as *Berkshares*. You can read about them on their website. Discuss, using what you have learned in this class, the benefits of such a system, from an economic perspective. Also discuss, using what you have learned in class, the pitfalls of such a local currency. Please limit your essay to no longer than 1,000 words.

Due: Monday, December 5 in class, or Tuesday, December 6 in class