Contemporary Economic Challenges
November 12, 2019
ANSWERS VERSION 1

1. In Friedman's view, "economics is regarded by almost everyone as …"

   (a) "vitally important … and within the range of his own experience";
   (b) "a dismal science";
   (c) "a statist monument for a dead pharaoh on the level of the pyramids";
   (d) "always and everywhere a monetary phenomenon";
   (e) none of the above

   Correct answers: (a)

2. According to Friedman (1953, ch.1), "the simple example of 'supply' and 'demand'" is not valid for:

   (a) the final market for a consumer good;
   (b) a primarily speculative market;
   (c) simultaneous analysis of price and quantity formation;
   (d) reasons that have been obvious for a long time;
   (e) all of the above.

   Correct answers: (b)

3. Webber (2014) found that

   (a) "accounting for expectation substantially alters the selected lifetime earnings premia associated with each education group examined";
   (b) "accounting for expectation does not substantially alter the selected lifetime earnings premia associated with each education group examined";
   (c) "accounting for selection does not substantially alter the expected lifetime earnings premia associated with each education group examined";
   (d) "accounting for selection substantially alters the expected lifetime earnings premia associated with each education group examined";
   (e) none of the above.

   Correct answers: (d)

4. According to Pauly, the "quantity of medical care an individual will demand …"

   (a) "depends on his income and tastes, how ill he is, and the price charged for it";
   (b) "is perfectly inelastic with respect to price in the range from the market price to zero";
   (c) "indemnifies against all medical care expenses";
   (d) "is a random event";
   (e) none of the above.

   Correct answers: (a)

5. The principle that Simon prefers to Friedman's is

   (a) the principle of continuity of approximation;
   (b) the principle of unreality;
   (c) the principle-agent problem;
   (d) the principle components analysis (PCA);
   (e) none of the above.

   Correct answers: (a)

6. A key disagreement between Arrow (1963) and Pauly (1968) is that:

   (a) Pauly emphasises transaction costs, while Arrow believes them to be irrelevant;
   (b) Arrow believes that full insurance makes people more risk loving;
   (c) Arrow believes that risk averters do not always seek to fully insure themselves at actuarially fair prices;
   (d) Pauly believes that risk averters always seek to fully insure themselves at actuarially fair prices;
   (e) none of the above.

   Correct answers: (e)

7. According to the 2016 OECD study of basic skills presented in Lambert (2019),

   (a) English graduates ranked in the bottom third of the 23 countries studied;
   (b) the literacy skills of one in five English graduates was limited to understanding aspirin pack labels;
   (c) the mathematical skills of two in seven English graduates was limited to estimating fuel remaining in petrol tanks;
   (d) England spends more money per student than any country studied except the US;
   (e) all of the above.

   Correct answers: (e)

8. Pauly is concerned that the "individual who has insurance which covers all costs demands medical care as though it had a *zero* price", because:

   (a) that doctors or insurers may not approve a procedure that they want performed;
   (b) doctors are better able to diagnose and treat their conditions;
   (c) this is only possible if medical staff donate their time and expertise;
   (d) will generally demand more medical care than has been paid for;
   (e) none of the above.

   Correct answers: (d)

9. According to Friedman (1953, ch.1), when economics deals with "what is", it is to be judged by:

    (a) "the precision, scope and conformity with experience of the predictions it yields";

    (b) "the extent to which its practitioners adhere to the methods of the physical sciences";

    (c) "its success in facilitating the investigator's understanding of his ultimate subject – himself";

    (d) all of the above;

    (e) none of the above.

Correct answers: (a)

10. A key assumption in Spence (1973) is that

    (a) "a signal will not effectively discriminate one applicant from another, unless the costs of signalling are negatively correlated with productive capability";

    (b) "a signal will not effectively discriminate one applicant from another, unless the costs of signalling are positively correlated with productive capability";

    (c) "a signal will only effectively discriminate one applicant from another, if the costs of signalling are negatively correlated with productive capability";

    (d) "a signal will only effectively discriminate one applicant from another, if the costs of signalling are positively correlated with productive capability";

    (e) none of the above.

Correct answers: (a)

11. According to Arrow, the "nonexistence of markets for risk" reduces

    (a) the price of risk to zero;

    (b) the aggregate risk borne by society;

    (c) the welfare of those wishing to buy and sell risk;

    (d) the complexity of competitive analysis;

    (e) none of the above.

Correct answers: (c)

12. According to Friedman (1953, ch.1), a major reason for distinguishing between positive and normative economics is to enable:

    (a) the identification of economists who have erroneous beliefs;

    (b) agreement about policy;

    (c) the assessment of undergraduate students of economics;

    (d) the efficient division of labour (e.g. his 'pin factory' example);

    (e) none of the above.

Correct answers: (b)

13. Webber (2014) simulated normally distributed log-earnings because

    (a) the normal distribution is bell-shaped;
    (b) the normal distribution is easy to work with;
    (c) the normal distribution fits log-earnings better than any other distribution;
    (d) the NLSY and ACS datasets contain representative samples of normal people;
    (e) none of the above.

    Correct answers: (b)

14. According to Arrow, "when there is uncertainty, information …"

    (a) "becomes power";
    (b) "becomes a commodity";
    (c) "becomes a responsibility";
    (d) "becomes asymmetric";
    (e) none of the above.

    Correct answers: (b)

15. According to Arrow (1963), "a transfer of purchasing power from the well to the ill …"

    (a) "will manifest itself in the short run in an increase in the amount of medical services supplied";
    (b) "will manifest itself in the long run in an increase in the price of medical services";
    (c) "will increase the demand for medical services";
    (d) "depends in good measure on the initial distribution of purchasing power";
    (e) none of the above.

    Correct answers: (c)

16. According to John Neville Keynes, whose quote begins Friedman (1953, ch.1):

    (a) a *positive science* is a body of systematic knowledge concerning what ought to be;
    (b) a *normative science* is a body of systematic knowledge concerning what is;
    (c) a *negative science* is a body of systematic knowledge concerning what once was;
    (d) all of the above;
    (e) none of the above.

    Correct answers: (e)

17. According to Arrow, when uncertainty is present

    (a) the optimality theorems can be extended;
    (b) markets for risk are missing;
    (c) we do not know what happens;
    (d) certainty is absent;
    (e) none of the above.

    Correct answers: (a)

18. According to Arrow (1963), "if the conditions of the two optimality theorems are satisfied, and if the allocation mechanism in the real world satisfies the conditions for a competitive model, then social policy …"

    (a) is irrelevant;
    (b) can confine itself to steps taken to alter the distribution of purchasing power;
    (c) is, in most cases, impossible;
    (d) will lead to increasing returns in production;
    (e) none of the above.

    Correct answers: (b)

19. According to Pauly (1968), the possibility of over-insurance

    (a) does not arise in democracies, whose voters "consider the positive costs of [medical] care";
    (b) poses a moral hazard to society;
    (c) can be offset by under-insurance;
    (d) is an argument against compulsory insurance;
    (e) none of the above.

    Correct answers: (d)

20. According to Lambert (2019), the best explanation for the growing in the number UK degrees, as well the number of 'good' degrees awarded is

    (a) better students;
    (b) better teaching;
    (c) grade inflation;
    (d) more satisfied students;
    (e) declining standards abroad.

    Correct answers: (c)

References

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