

NAME: \_\_\_\_\_

# FIND THE SOLUTION



1. If the distribution of income were completely equalized, would everyone purchase the same quality of automobile?

No

Against whom do automobile prices discriminate<sup>1</sup>?

People who don't value cars as highly as others.

2. Blaming the price of Corvettes for their scarcity in the Klein Oak parking lot is like blaming the heat on the thermometer.<sup>2</sup> Why?

Corvettes aren't scarce because they're expensive; they're expensive because they're scarce. Price is a measure of relative scarcity.



3. "The current volunteer military discriminates against blacks and poor people because they tend to dominate the ranks of those dying for their country." Why do blacks and poor people dominate the ranks of those dying for their country?

They have nothing better to do. That is, they have a low opportunity cost of military service.

4. "We must institute the draft. By relying on volunteers the armed forces has become filled with people of such low intelligence and low skills that they cannot operate sophisticated weapons." Is the volunteer military responsible for low levels of skill? Explain.

No, IBM doesn't have a draft; they have a higher pay scale. Low pay is responsible for the failure to attract highly skilled people. They have something better to do.

5. Are dragons that eat people scarce today? Explain.

It depends. It depends on whether anybody wants one. Scarcity means "not enough for everyone to have all they want for free." If someone wants a man-eating dragon, they're scarce. Scarcity is always the relationship between supply and demand.

6. Suppose your friends want you to skip school and join them at the beach. As a diligent student, you decline. After sitting through dull economics lectures for two hours you realize you've made a mistake. Your friends left at 7:30; it's now 9:45; you have no car; and you're at school. What is the opportunity cost of remaining at school?

Almost nothing. You can no longer get to the beach. So the only thing it costs you to stay at school is the lost opportunity to watch soap operas.



<sup>1</sup> dis-crim-i-nate (dĭ-skŕĭm'ē-nāt') verb - To make a clear distinction; distinguish: discriminate among the options available. b. To make sensible decisions; judge wisely.

<sup>2</sup> Consider, please, what the function of a thermometer is. Then ponder the analogy.