

Questions from the Fatal Equilibrium¹

1. What was the central conclusion of Dennis Gossen's research on information in labor markets? {That more unemployment would occur in those occupations where employers offer a wide variety of wages for the same work} Is there a connection between this research on information in the labor market and the solution to the murder mystery?

2. Both Valerie Danzig and Oliver Wu objected to the assumption concerning human nature Dennis Gossen displayed in his research. What were their objections to Gossen's assumption?

In Chapter 11 Henry Spearman defended Gossen's approach in an attempt to show that Danzig and Wu were misguided in their criticisms. What was Spearman's argument?

3. In Chapter 3, H. Spearman indicated that as his income rose he was less able to afford interruptions and diversions from his work. What concept in economics explains this?

4. How did Henry Spearman use economics to account for his father's polite behavior to the customers in his shop and his father's irritable behavior to his family?

5. In chapter 4, Oliver Wu used cost-benefit analysis to determine whether he should steal a book from the Harvard University library. He also applied this type of analysis to other questions of illegal behavior. Describe cost-benefit reasoning as it applies to theft.

6. In Chapter 5, H. Spearman realized that his daughter, Patty confused "demand" with "quantity demanded". What is the distinction?

7. In Chapter 6, Professor Spearman explained that the pricing system in Filene's bargain basement is related to what Alfred Marshall years earlier called "consumer surplus." How are the two related? Parenthetically, what connection is there between Filene's basement and a Dutch auction?

8. In Chapter 7, the economist hero explained why he would be willing to shop longer for an automobile than for a paring knife. Why does an understanding of this argument ultimately provide the key to the solution of the mystery?

9. In Chapter 7, Henry Spearman explained the price of rare postage stamps to Christoph Burckhardt. His explanation rejects Karl Marx's labor theory of value. What are the other applications of this principle where the value or price of a product seem unrelated to its labor input?

¹ Professor Kristen Stein at the University of Virginia developed these questions.
<http://www.people.virginia.edu/~kls6v/201/qfe.html> 10/26/2000

10. In Chapter 8, M. Bell was critical of D. Gossen's argument that business firms should be permitted to bid for a license to pollute. What was Bell's objection to Gossen's argument? From an economic perspective, what was the flaw in Bell's position.

11. In Chapter 8, F. Barrett was portrayed as believing income should be distributed according to the refinement of tastes in society in contrast to a market system in which those with elegant tastes often receive the lowest salaries. Do you agree with Barrett's position?

12. In Chapter 8, Sophie Ustinov expressed the opinion there are too many brands of products that are chemically identical. Examples were liquid bleach, aspirin, and evaporated milk. Because the prices of the various brands of such products sometimes differed, she always purchased the brand with the lowest price. When it came to buying dog food, she judged quality by price. Was Professor Ustinov being rational? Explain.

13. In Chapter 11, H. Spearman defended the position that trademarks and brand names provide useful information to consumers. What is the basis for his argument? Is it persuasive? Why or why not?

14. In Chapter 13, S. Ustinov claimed she was irrational for eating so much food while a passenger on the QE2. Spearman argued that she was rational and based his argument on marginal utility theory. Reconstruct his argument and apply it to explain how rational consumption patterns might differ at two eating establishments: an all-you-can-eat buffet versus a la carte.