

Name: _____

THE POWER OF INCENTIVES

How Seat Belts Kill

1. “People respond to incentives.” Why are you taking this A.P. class rather than regular economics?
2. “... if the price [of gasoline] were allowed to rise freely, people would buy less gasoline.” Why? [If you say that people buy less at a higher price, you’re right, but you’ve begged the question. Try again.]
3. “... people choose to have more accidents.” Do you agree or disagree with this statement? Defend your response.
4. “An interesting side effect appears to have been an increase in the number of pedestrian deaths ...” So, if you were a member of Congress, would you have voted to force auto manufacturers to install air bags? Why or why not?
5. “Require every car to have a spear mounted on the steering wheel, pointing directly at the driver’s heart.” As a member of Congress, what would you tell a lobbyist from the American Pedestrians Association when she came to you asking for your vote for such a requirement?
6. “Raw statistics cannot reveal how drivers respond to Baby on Board signs.” Suppose someone told you that Montana, which has no speed limits on rural interstates, has a higher per passenger mile death rate than states which impose a 55 mph limit. Does this prove that raising speed limits increases traffic fatalities? Why or why not?
7. Will a decision by the FDA (Food and Drug Administration – a U.S. government agency) to allow the use of the so-called “morning after” birth control pill result in fewer unwanted pregnancies? Why or why not?
8. What is *econometrics*?
9. Why is it that when the wage rates of rates (and humans) are already very high, “they choose to enjoy more leisure” when offered the opportunity to earn extra income?
10. Would reducing the tax rate result in people working harder, earning more, and a resultant increase in economic activity, and hence higher rates of tax collection? Why is the answer to the preceding question *it depends* and on what does it depend?
11. What did you find most intriguing in this chapter of *The Armchair Economist*?
12. Are you more or less interested in economics after reading this passage? Why?