

Name: _____

Naked Economics: Assignment 3
Chapters 5-6

If needed, answer these questions on a separate paper. Do not assume the spacing between questions denotes expected length. Quality responses are always preferred to quantity.

1. **2pts** Explain the concept of adverse selection and provide an example.
2. **3pts** Throughout chapter 5, Wheelan explains that basic economic models assume that all parties have “perfect information.” How does “informational asymmetry” undermine our market economy? Provide some examples.
3. **2pts** Explain how ‘branding’ solves the asymmetric information problems for consumers.
4. **2pts** Wheelan states information is very important to economists. Why does information matter?
5. **3pts** What is human capital and why does it matter so much?

6. **2pts** Explain the 'lump of labor fallacy'.

7. **2pts** How did human capital prevent the world from starving to death?

8. **4pts** Explain the arguments by economists that the rise in income inequality is not a problem. Do you agree or disagree? Explain.

9. **2pts** After reading Wheelan's argument, do you agree that Bill Gates should be so much richer than you?