

Economics 4650 - John L. Turner

Essay Assignment

Assignment: Using no more than 500 words, describe an easily observed and ostensibly puzzling economic phenomenon, and explain it (i.e. argue for a "solution" to the puzzle) using efficiency arguments. You are encouraged, though not required, to use the transactions cost approach. Key references for developing your understanding of efficiency and transactions cost economics are Coase (1937, 1960), Chapter 2 of the textbook, and class notes. It is insufficient to write about one of the specific examples mentioned in these references, and originality will count significantly in your grade. *Please place the paper's word count next to your name at the top.*

Determinants of Grade:

The following queries will receive essentially equal weight:

1. How clever and/or unique is your question and your answer? The more clever and/or unique, the better. If your "puzzling" question has an obvious answer (e.g. why do people wear shorts more often when it is warm?) or is well-worn (e.g. why do hot dogs come in packs of different size than hot dog buns), then you need to provide a *deeper, broader, more detailed analysis* to produce the same level of insight.
2. Do you use economic theory to analyze your problem, and how accurately do you use it? "Using economic theory" amounts to adopting the framework of selfishly-optimizing individuals and of equilibrium (i.e. market clearing prices, efficient bargains, etc.), and using conclusions drawn from analyses within that framework (e.g. all of the stuff we have done in class). The more accurately you use theory, the better.
3. How detailed is your analysis? The more detail, the better. If you can provide two substantive reasons why your argument is correct, that is better than one. Three is better than two, and so on. Citations of related research and of numbers, when relevant, are great. Characteristics of institutions and/or history, when relevant, are also great, as they permit sharper use of the Efficiency Principle.

Examples of topics (you can't do any of these):

1. Why do vending machines not take pennies?
2. Why do grocery stores advertise "2 for \$5" specials when, in reality, they just change the one-unit price to \$2.50?
3. Why do brides often get custom-made dresses, while grooms nearly always use rented tuxedos?
4. Why do ATM machines at drive-up tellers have instructions available in braille?