1. Below are some observations. Pick one of them, and come up with i) an economic theory that explains the observation, and ii) a potential test (or prediction) of your theory. Points for originality and operational tests.

   a) Motor cycles come in two types: street bikes and off-road bikes. The manufacturers of off-road bikes always make their bikes the same colour: hondas are red, Kawasakis are green, Yamaha’s are yellow, etc. These same manufacturers make their street bikes all different types of colours. This holds for other vehicles as well. Ford makes cars and trucks of all colors, but all Ford tractors are blue. John Deere tractors are green and yellow, and International Harvestor’s machines are all red.

   b) Bill Gates, apparently caused billions of dollars of damage to society when he bundled together his Window operating system with Internet Explorer, and was told by the Department of Justice to stop it. A thief can cause much less damage, but if caught is sent to prison. Clearly the amount of damage caused is not related to the type of punishment. Why do we sometimes fine people when they cause social problems (like in the case of speeding or tax evasion), other times we just tell them to stop (as in the case of Microsoft), and other times we place the offender in prison?

   c) A non-profit firm is defined as one where the individual(s) in control are legally not the individual(s) who receive the residual claim. Why is this a puzzle if firms are supposed to maximize profits, and given it is a puzzle, why would a firm organize this way?

   d) Gold and silver have often been used as money. Diamonds and fish have seldom been used as money. Why have some commodities been used as money, but others have not?

   e) Major movie stars are often paid a fraction of the movie revenues while stunt men and extras are paid by a wage? Why the difference?

2. Many economists have argued that there is a property right problem with the fishery. Since no one owns the fish, more than an optimal level of effort is applied to the fishery, and the rents from fishing are driven to zero — the “tragedy of the commons.” Now, consider retailing. A retailer is just like a fisherman, he fishes for customers. Since entry into retailing is open to anyone, there is too much retailing — just as there is too much fishing. Do you agree? Why or why not?

3) Why is office furniture in government buildings generally ugly and uncomfortable compared to office furniture in privately owned firms? For example, compare the office furniture at SFU compared to say a medical Dr.’s private office.