

- (1) **Potty training a child is an important part of parenthood. In this clip, Steven Levitt, co-author of *Freakonomics* bribes his daughter with candy to use the potty. How does this reward system lead to unintended consequences? This question can be answered in 3-4 sentences (\$1,500)**
<http://www.youtube.com/watch?v=W2hhIWbz0Ns>

This reward system seen in the clip with Steven Levitt is known as an indirect incentive, where the consequence is unexpected and not desirable. Indirect incentives are found where there is a secondary change in behavior. This reward system allows the subject to get used to the tactic and learn how to out-smart it. In this clip, Steven Levitt did not expect his three-year-old daughter to figure out the trick to receiving more M&M's, but after many practices he noticed the short time span in her bathroom breaks and the overwhelmingly high demand for candy and realized she had beat the system.

- (2) **The website www.ultrinsic.com has developed an “*ulterior* motive that causes the person to have an *intrinsic* love of knowledge.” At Ultrinsic, students pay a small entry fee to compete in grades-based contests for cash prizes. Suppose that 20 students from your economics class each pay \$20 to enter a grades-based contest. This would create a \$400-prize pool. An equal share of the \$400 pot is awarded at the end of the term to each contestant who earns an A in the course. If four students earn A's, they each receive \$100. If only one student earns an A, that person gets the entire \$400 pot. What economic concept is Ultrinsic harnessing in order to encourage participants to learn more? (\$1,500)**

The economic concept that Ultrinsic is harnessing in order to encourage participants to learn more is known as direct incentives. Ultrinsic also represents the economic concept known as self-interest.

- (3) **Identify whether each of the following statements is a microeconomic or macroeconomic issue. Each question can be answered in 1-2 sentences.**

A) Apple decides to open up 100 new stores. (\$750) This statement is a microeconomic issue because it is focusing on a specific company that has made a decision that will help benefit its production and income rates.

B) The government passes a jobs bill designed to stabilize the economy during a recession. (\$750) This statement is a macroeconomic issue because it deals with higher authority making decisions for economy-wide phenomena.

(4) Are the following statements positive or normative? (Each part is worth \$300)

A) My dog weighs 75 pounds. (Positive)

B) Dogs are required by law to have rabies shots. (Positive)

**C) You should take your dog to the veterinarian once a year for a check-up.
(Normative)**

D) Chihuahuas are cuter than bulldogs. (Normative)

E) Leash laws for dogs are a good idea because they reduce injuries. (Normative)