

Homework #3

Due 12/2

Chapter 11

1. **Labor unions as cartels.** In what ways do labor unions resemble cartels? In what ways do they differ from cartels? Do you think labor unions ever suffer from the problems of instability that plague cartels?

Chapter 12

1. **Advertising is one of the most conspicuous features of a market economy.** What role would there be for advertising in a neoclassical economy, where both consumers and firms had complete information about prices and characteristics of all products, and knew how to contact all potential buyers and sellers? What forms of advertising, if any, can be explained by the existence of transaction costs? Why would the role of advertising increase in an economy with bounded rationality and constant innovation? On balance, in the real world, do you think advertising makes the economy operate more efficiently?

Added Material

1. **Discussion of in class game.** In class we played three games: the dictator game, the ultimatum game, and the trust game. When we played the game, you were face to face with the other person, you “know” the other person, and we did not play with real money. How do you think the results of the game change if you were not face to face with the person, but everything else is the same? How about if you are not face to face and you don't know whether you might know the other people? How about if you play for real money? What do the results of each of the three games look like if you are randomly paired with a complete stranger that you are certain you will never come into contact with again, are not seated face to face with, and play for large amounts of real money (for example, a pot of \$400)?