Naked Economics: Undressing the Dismal Science Study Guide

Naked Economics: Undressing the Dismal Science by Charles Wheelan

Contents

Plot Summary

"Naked Economics: Undressing the Dismal Science" by Charles Wheelan is a book that takes the subject of economics and breaks it down so the average reader can understand what makes an economy thrive or fail. It offers insight into morals, ethics, and regulations associated with economic decisions.

Economists use tools to look at a big picture and determine trade-offs to optimize living standards for society. They do this based on the common standard that individuals work in their own best interest. While the economy of the world seems dismal at times, the fact is that as a global economy, we are much richer than a century ago.

There are many factors to consider when factoring the well-being of economy. Everyone has different motivators and priorities, and those who are well-off have different values than others with less. In order to make the best decisions for an economy, one has to learn and understand all the factors that contribute to a decision and the results of the decisions. Sometimes the distribution if information is unbalanced. When one party in a transaction knows more than another, then problems arise.

Production is key in an economy and an agent should have enough inspiration to provide a quality product for the principal. This is difficult to do in large business where an agent might not even know the name of a CEO.

One great problem with economic development is the premise that people will act in their own best interest without considering long-term ramifications. This often has negative effects on prices and on the environment. For a strong economy, factors such as skills, education, training and an individual's health come into play.

With skills, an individual has something to offer the world. Others pay for a product or service, boosting the economy. With education, an individual can expand on skills and learn the best ways to promote the skills, enhancing the global economy. Training has the same effect, and none of this happens without decent health so one has the wherewithal to contribute to production. Governmental policies are also extremely important to an economy. There has to be some sort of control, yet too much control can destroy an economy.

While many complain about the government in the United States, the truth is that it's one of the best in the world. It offers checks and balances and is open to global trade. Globalization requires a standard monetary value and markets contribute to fair trade.

One of the most controversial issues with globalization is the concept of outsourcing. Many complain when companies hire workers overseas, causing locals to lose jobs. The author argues that outsourcing actually facilitate growth and states that a growing economy will be able to absorb the displaced workers.

The true problem, according to the author is that wealth is not being distributed evenly. Protectionism might look good in the short run, since it saves jobs, but it will slow economic growth in the long run. The author states that global trade helps the economy by lowering the cost of goods for consumers.

With economics, we utilize a set of tools in order to understand and improve a world that is far from perfect. An economists must address the following seven issues: productivity, the divide between the rich and the poor, the market, maximizing utility, monetary policies, the future, and the fiscal house.

Forward - Chapter 3

Forward - Chapter 3 Summary and Analysis

"Naked Economics: Undressing the Dismal Science" by Charles Wheelan is a book that takes the subject of economics and breaks it down so the average reader can understand what makes an economy thrive or fail. It offers insight into morals, ethics and regulations associated with economic decisions.

The Foreword is written by Burton G. Malkiel. He writes about how the subject of economics has been considered dismal and dry for over a hundred years. He finds that the tarnished view of economists come from presentations filled with mathematics, diagrams and tables. Economists aren't strong in writing overall, and they don't show the connection to everyday life. Malkiel points out that this book, written by Charles Wheelan is different. He brings economics to life, bringing it to its bare essentials.

Economics is a tough subject, much more difficult that other physical sciences because it can't be defined by lab experiments. People aren't predictable enough to count on, yet economics plays a critical role in the policies of government. It also plays a huge role in daily activities and interactions such as obtaining health insurance and purchasing fast food or even attending the proper college.

While the world struggles in uniformity, there are some areas in which economists are in complete agreement. They are unique thinkers who utilize deductive reasoning, identification of trade-offs, measuring choices, and the concept of maximizing efficiency.

Malkiel finds that this book is very balanced, showing the benefits of the free markets and demonstrating how a centrally controlled economy fails too increase living standards. It recognizes the important and critical role of the government as it sets legislation for provision of public goods while monitoring negative effects of goods production.

Wheelan addresses the concept of supply and demand as well as the pros and cons of globalization. He cuts though jargon, baring the essential issues, making economics come alive. Wheelan shows how economics can be explained without charts, graphs, and difficult mathematical equations.

In the Introduction, the author points how there is a familiar scene in Economics 101 wherein a graduate student stands in front of a chalkboard using graphs to present dry, mathematical material defining demand curves and differentiations in total cost functions. Students aren't asked important questions that make economics meaningful to them. Most students lose interest in the subject. It's a shame since those who are intellectually curious miss out on a subject that has a powerful and provocative impact on their lives. It also keeps some of the world's brightest citizens economically illiterate.

Politicians would do better if they studied economics. The uninformed rely on false information to make serious decisions. Ross Perot debated on economically false statements back in 1992. In 2000, the French government tried to address its unemployment rates with what the author calls the economic equivalent of fool's gold. The government cut work hours, thinking that the extra hours would offer opportunities for the unemployed. America just created more jobs in different fields, opening up millions of new Internet-related jobs over the decades. America has its own problems, centering around globalization. The author plans to present information surrounding these issues so the reader can decide what the best policies are.

Decisions come with ramifications. Economists have to look at the big picture to determine the trade-offs. Legislation with risks and rewards change human behavior. Economics is comprised of a powerful set of tools that let us look back at events so we can make changes in the future. The Lehman Brothers bank problem in 2008 occurred because the banks weren't using their own money. Economists ignored signs of problems back in 2005 because they didn't want to face what might happen in the future.

Economics continues to evolve. Behavioral economics factors in as well. The goal of this book is to walk though the most important economic concepts. It's trying to show that economics can be fun.

In Chapter 1, the author discusses Douglas Ivester. In 1989, Douglas Ivester made a snap decision, telling his sales team to pass free Coca-Cola around as the Berlin Wall toppled. His goal was brand recognition and world trade. The idea was brilliant, even though it lost money at first. This is what capitalism is. It's a situation where individuals work in their own best interest, leading to an improved standard of living for society in general.

The rhetorical question economists ask, "Who feeds Paris?" draws attention to all things that work together to make modern economy work. Because humanity works collaboratively to make life better, prices on products such at the television have dropped substantially in the last few decades. Life expectancy has increased, and many serious diseases are under control. This is all largely due to the market economy. In a communistic structure, the government sets the price and decides what's on the shelves. In a market economy, stores supply what the people want.

Economics assumes that people act to make themselves as well off as possible. This might not always mean that life is as enjoyable as possible. Sometimes it just means avoiding negative elements such as illness or jail. Everyone has different motivators for making life better, and those who are well-off have different priorities than others with less. Focusing on the environment is easier for those who aren't struggling to put food into children's mouths.

There are countless decisions to be made in life. Each decision requires a trade-off. We balance work and leisure, money and freedom. Economists also calculate supply and demand. When costs rise, people use things less. This isn't necessarily price-driven.

Behavioral changes also change product usage. Instead of raising costs on cigarettes, it becomes inconvenient to smoke when smokers have to go outside to smoke. This decreases smoking overall.

Another key assumption that underpins economics addresses firms attempting to maximize profits. A market economy delegates resources to an area where they are most productive. If it's raining, it's time to sell umbrellas. If people in restaurants are demanding salmon, fishermen are paid more to bring in the salmon. Companies want to profit, and consumers want satisfaction. It's up to firms to provide products individuals wish to purchase and use.

Sometimes firms choose to self correct in the market. This is what's done when the oil ministers of OPEC gather together to agree on quantities of oil produced. With less oil, prices rise. Politicians work to get the prices down, and people find alternate methods of getting around. With less oil bought, OPEC responds by dropping prices. If prices are fixed, private firms compete in different ways, frequently with better service.

One problem with economics is that it's based on an assumption that humans act consistently to make life better for themselves. However, humans are not always rational. A major problem is that humans lack self discipline. Another problem is that humans are sometimes uninformed. It's impossible to make rational decisions when one isn't aware of all the factors that contribute to the decision and its results.

In Chapter 2, the author discusses how the black rhinoceros is nearly extinct because people want the horns and are willing to pay large quantities of money to get them. The horns are considered to be a powerful aphrodisiac and a fever reducer, and they are also used to make traditional Yemenese daggers. The horn can fetch $30,000 on the black market in a place where the annual income is $1,000. The rarer the animal is, the steeper the price on its head. The locals don't care about killing the animal because they find the animal to be a nuisance.

Economics can play a role in survival. To save the animal, there has to be a way to get locals wanting the animals to survive. Eco-tourism could be the answer. Tourists pay to see the animal, bringing income to the locals.

The bottom line is that incentives matter. This can be a negative, such as is shown in the educational system in the United States. There is a uniform pay scale so talented teachers are more likely to leave to go onto other professions where they are paid based on their ability.

Economists talk about "perverse incentives," which are negative results which occur while trying to achieve a goal for the common good. Good intentions can lead to bad outcomes. In Mexico City, politicians tried to deal with the level of pollution by limiting driving based on license plate numbers. The people didn't appreciate this so they bought additional cars or kept their old ones when buying a new one, thereby increasing the pollution levels. The goal of using incentives is to offer one's with a positive end.

One of the struggles in an economy is how to deal with principal-agent problems. The principal has to set up a system that encourages the agent to work in the best interest of a firm. This is particularly difficult to do in large firms where the agent might not even know the name of the CEO. This doesn't inspire loyalty.

Some economists believe that stock options are the answer to this dilemma. The agent would have a personal investment in the company. However, CEOs found ways to abuse the options game. Michael Jensen, a professor from Harvard business school describe options as "managerial heroin." He called it this because the incentives offer short-term highs and long-term damage.

Greed is good in economics, yet it's also very bad. A perfect example of this is the prisoner's dilemma. Creating private rights works well. A market economy inspires progress and hard work because it crushes losers. Another issue of key importance is the transferral of resources from the rich to the poor when no-one wants to give up what they have. Generally economists favor fair, simple, broad taxes to even out the playing field.

In Chapter 3, the author discusses how every decision a person makes affects others. Still, we often make decisions without strongly considering the global reach. If we need a large car for our family so that the family isn't crushed in an accident, we get the large car even if it does mean that it is less fuel-efficient and horrible for the environment. It's up to the government to consider the broad social consequences of decisions In a market economy.

Individuals are biased by their own interests and benefits. A government looks at a group of people as a whole, forming rules and regulations to benefit the majority in the long-term. While many complain about the government in the United States, the truth is that it's one of the best in the world. Many individuals from other countries are envious of those who live in the United States because of the government. The author states that "good government makes a market economy possible."

With uniform rules and regulations, the cost of doing business in the private sector is lowered. Rules circulate currency and fight against fraud the government keeps infrastructure maintained, making commerce smoother. It also makes markets more credible. The government also provides a wide array of "public goods." It keeps its citizens safe and offers benefits such as radio signals and lighthouses and parks. One of the main goals of the government is to redistribute wealth, keeping the economy rolling.

Chapters 4-7

Chapters 4-7 Summary and Analysis

After reading the last chapter, it seems as if the government is a wonderful thing, yet this is not always the case. Just look at Cuba and North Korea for examples of government-intensive countries that are not well off. There are times when a government will regulate economy into ruin.

One big problem is the concept of monopoly. There is no point in working hard to offer high-quality service when there are no competitors. According to the author, there are 2 lessons to be learned from the monopoly situation. Government shouldn't provide any service that could be covered by the private sector, and the government shouldn't actually do the work of maintaining infrastructure.

In a private sector, the markets provide resources. In 1992, Bill Clinton discussed Hope Scholarships. This was a plan wherein students could borrow money for college and pay back their loans after they graduated using a specific percentage of their annual income. The problem with this idea was something called adverse selection. Students knew what their future plans were, and if they knew they were going to make a good income after graduation, they knew this wasn't a good loan for them. They were better off taking a standard loan. Those going into fields with lower salaries found the loan ideal, but they couldn't pay back the government all the borrowed money with their low salaries. This model didn't work, and the project was shut down after five years.

Economists study information and how it is acquired and used. When rational people are forced to make decisions without knowing all the information, or if one member in a transaction has more information than another, problems arise. Sometimes too much information is a problem, as is often the case in discrimination cases. The point of this chapter is that information matters.

Healthcare is a field that always has problems regarding information. Insurance companies want to save money while doctors want to help patients and avoid getting sued. An insurance company is more likely to cover a large group of people who has no choice in their coverage then covering individuals who might have the most demand for health coverage. The companies protect themselves by carefully screening individuals that up by for coverage to determine their existing and pre-existing health and conditions. They also utilize deductibles.

One tool businesses use is branding. With branding, the consumer knows what to expect. This can be a very profitable strategy. When businesses offer information to the consumer, the consumer establishes a relationship with the business and knows whether or not they can trust it.

In Chapter 6, the author discusses an area that economists study - poverty and income equality. Why is Bill Gates so rich when other people sleep in tunnels? The difference among individuals is human capital. Many of the most successful individuals have invested in themselves, obtaining an education and honing talents. Those who survive and thrive economically are the ones that have something other individuals can't or don't offer.

The difference between the wealthy and the poverty-stricken also lies in the health of an economy. Those who are willing to invest in themselves take tough situations and change them around for their benefit. If a factory is closing, they find a new business to invest and buy the old one out then the individual will work for the new owner. Individuals with less motivation and education just let the factory close and find themselves unemployed. Nobel prize winner, economist Gary Becker reckoned that the stock of skills, education, training and an individual's health constitutes about 75 percent of a modern economy's wealth.

While there is a link between human capital and economic well-being, the resources of a country does not necessarily ensure the same. Some of the countries with the greatest natural resources are poverty stricken while others with very few natural resources are extremely wealthy.

Human capital is extremely important in economics because it is also tied together with productivity. This converts into outputs, and the more production a civilization has, the richer it is. America is rich because the people in it are productive. With better health and better education, an American is more likely to create and produce more than workers of another country. The standard of living improves with productivity growth. Our children should be better off than we are.

In the last chapter, there was an emphasis on how education helps an economy financially. Intelligent people are also prone to making mistakes, setting aside common sense. Humans are much more likely to grab it quick, easy route then to plod along for success in the future. It's important to have a basic understanding of markets before participating in personal investment.

At first glance, financial markets are extremely difficult to understand. There seem to be innumerable options. However, it all boils down to for basic simple needs. The first is raising capital. We can do this by borrowing or by selling shares of a business to the public. The second option is storing, protecting and making profitable use of excess capital. Surplus capital is rented out to others for a profit. A third need is insuring against risk. We do this with insurance and products that function like an insurance policy such as futures contracts. The fourth need is speculation. This is when one bets on short-term price movements. This can be done in the futures market.

When people begin trading in the stock market, they often want to find a way to get rich quickly. This isn't how it works. It's a business. Everyone has the same amount of information about a stock. When picking stocks, at times you will be right, and other times you will be wrong. Over time, these average out. Markets are irrational and unpredictable. Experts in the field recommend that the average investor without a special expertise or a large quantity of cash purchase index funds.

The basic set of rules and investor should follow is to save, invest, and repeat. Keep in mind that the higher risk you take, the greater the reward. If you plan to take risks, don't be surprised if the deal goes sour. However, if it works out, you will reap the benefits. Another good investment strategy is to get a diversified portfolio. This lowers the risk of serious loss without lowering expected return. Keep in mind that you should invest for the long run.

For Chapters 8-10

For Chapters 8-10 Summary and Analysis

In Chapter 8, the author discusses the problem with public policy. Political maneuvering brings about protests, and power is abused with pork-barrel legislation. Politicians rise in rank by offering small groups benefits without looking to the good of the entire country. Subsidies seem like small problems, but put together, they make a huge impact on the overall economy.

The small groups that benefit from subsidies also have the power to block other legislation that might benefit the economy. The fact is that each small group is out for its own collective interest. While economists agree that global trade is essential for a thriving economy, small groups protest and interfere until strict regulations are put in place, diminishing the effectiveness of the trade. This prevents public policy from working.

In Chapter 9, the author discusses how fifteen years ago Japan was on top of the world economically. In fact, it was on the edge of economic domination before it suffered over a decade of economic stagnation. Citizens of the United States can identify with this since after 15 years of a strong economy, the United States fell into the worst economic downturn since the Great Depression. The question to address is how economies transition from recession to growth and back again.

Economists call the cycle of recession and recovery the "business cycle." Before this is discussed, there needs to be a basic understanding of the tools used to measure the modern economy. The gross domestic product, or GDP, represents the total value of services and goods that are produced in an economy. To ensure accuracy, the real GDP is a figure that has been adjusted to account for inflation. Nominal figures have not. Another area to look at is the GDP per capita, which is the GDP of a nation divided by population.

Looking at the GDP, one discovers several things about America. The economy in America is massive according to global standards. Americans are very productive, and are five times as rich as an American in the 1940s. When comparing prices, it's important to consider time as well as price value. In 1900, a pair of stockings would cost $.25 while an average wage was 14.8 cents an hour. This means the actual cost of the stockings was equal to an hour and 41 minutes of work. In 2000, the stockings cost approximately $4, and the average American wage with more than $13 an hour. This means that the stockings cost an average worker approximately 18 minutes of time, which is much better than an hour and 41 minutes of time. When it looks like prices have increased, it's important to consider the time value as well.

When a country is considered poor by global standards, it's more than just a number. For example, India has a very low per capita, and it also has over 100,000 cases of leprosy. Leprosy can be treated if caught early, and the World Health Organization Gives out free medication, but the healthcare infrastructure of India isn't good enough to identify those who are afflicted in order for them to get the medication they need.

The GDP is not the only measure of an economy. It doesn't consider economic activity that is unpaid. For example, it doesn't factor in work done in the home or anything else that isn't directly involved in the nation's official output.It doesn't account for environmental degradation either. This is shown clearly in the case of China. The Chinese GDP has grown substantially over the past decade, yet its success is based on environmental degradation. Of the top 25 polluted cities in the world, 16 are in China.

Another measure has been created by the United Nations. It's called the Human Development Index (HDI). This is a broader indicator of national economic health. The GDP is one of the components used in HDI, but it also measures literacy, life expectancy, and educational attainment. This tool assesses progress in developing countries, but it fills less about wealthy countries where the literacy, live expectancy, and educational attainment rates are already relatively high. The benefit of the HDI in comparison to the GDP is that the GDP does not measure happiness. Wealth and happiness are not necessarily interlinked positively. Incomes rose between 1970 and 1999, yet there was a decrease in those who described themselves as as "very happy". The decrease went from 36% to 29%. Research shows that experiences are richer than can oddities and past-times are more important than knickknacks while doing is more important than having.

Since the GDP is flawed, it stands to reason that we should come up with something better. Mark Miringhoff, a social science professor at Fordham University, believes the nation should have a "social report card." This combines 16 social indicators (infant mortality, access to health care, affordable housing, child poverty, crime, etc." In France Pres. Nicholas Sarkozy wanted to come up with a way to measure human happiness, but as the Wall Street Journal commented, it's like asking experts to put a number on spiritual matters. Measuring economic progress depends on how one specifically defines progress. The GDP can only add up numbers.

The recession is like a war. If it could be prevented, it would happen. However, each one is just enough different from the previous one that is difficult to ward off. Recessions occur when something bad happens to the economy. Recessions are interesting because of the way they spread. A recession in one country affects other countries. In order for a country to come out of recession, underlying issues have to be resolved. Recessions could even be considered a positive factor in long-term growth because a recession will purge an economy of less productive ventures. The government might cut taxes and governments are forced to address debt issues.

In order to get a true understanding of an economy, there are nine factors one should consider along with the GDP. The first is unemployment. The second is poverty. The third is income inequality. The fourth is the size of the government. The fifth is a budget deficit/surplus. The sixth is the current account surplus/deficit. The seventh is national savings. The eighth is demographics (elderly citizens as well as youth). The ninth is total national happiness.

In Chapter 10, the author discusses the Federal Reserve has an incredibly powerful impact on the global economy. It controls the money supply and credit for the economy. The Federal Reserve System is made up of 12 Reserve Banks that are spread across the country. It also has a seven-person board of governors who are based in Washington. The role of the Federal Reserve is to regulate commercial banks and to support banking infrastructure. This is not an easy task since there are so many factors as seen in previous chapters.

The Fed is responsible for moving interest rates to benefit the economy and keep it in check. It does this by making changes in the available quantity of funds to commercial banks. It's all about supply and demand, and the Fed controls the supply. There is a committee within the Fed that makes monetary decisions, determining whether the interest rates should go up, should go down, or remain the same. This committee is called the Federal Open Market Committee (FOMC).

The FOMC will stimulate the economy by lowering the cost of borrowing. This is done in two different ways. One is the discount rate. Banks can borrow from the Fed, but they want to try to avoid doing so because of the stigma it carries. It shows that they couldn't raise their own funds privately. Therefore, banks will do everything possible to borrow from other banks before approaching the Fed.

The second tool the Fed uses if the federal funds rate. This is the rate that a bank will charge another bank for a short-term loan. The Fed doesn't have the right to stipulate the rate at which one company lends funds to another company. Instead, it sets a target for the federal funds rate and manipulates the money supply in order to accomplish its objective.

The Federal Reserve injects money into a private banking system by receiving bonds in exchange for cash. The bank, in turn, takes the funds and loans them out to others. Since change is slow, the job is difficult for the Fed. It can't go too fast or too slow.

Money itself is not important in the society. An economy can thrive on bartering alone. Money is just a tool for trade. Money is worth the value society places on it. The purchasing power of the dollar is the definition of inflation. Inflation can have its essence stating effect on economy. However, governments try to use inflation to their advantage because it buys time to deal with their own large debts.The author writes that political independence is crucial if the authorities of monetary transactions are going to do their jobs responsibly. The Federal Reserve is considered to be relatively independent. Presidents appoint governors for 14-year terms, not giving them lifetime tenure.

While inflation is bad, there is something worse - deflation. It can devastate an economy as the world witnessed in Japan's loss of power. It creates a depressed economy which poisons the financial system. In 2007, the Fed aggressively fought back against the declining United States economy. It cut target federal fund rates seven times between

September 2007 and April 2008. It urged commercial banks to borrow directly from the Fed, despite the stigma. They were allowed to do so anonymously so it wouldn't show signs of weakness to the market. It offered longer-term loans and discounts. It's possible that it set the stage for more problems, but it's more probable that it averted more serious crisis.

For Chapters 11-Epilogue

For Chapters 11-Epilogue Summary and Analysis

In Chapter 11, the author discusses the ERM. The European Exchange Rate Mechanism (ERM) is an agreement designed to manage exchange rates and large fluctuations between European nations. It creates targets for exchange rates that governments are obligated to trade around. International transactions should be the same as economics within the country, yet they are more complex. Monetary value fluctuates within a country. The exchange rate is used to keep currency fair in international trading. The interesting thing is that official exchange rates deviate wildly from what purchasing power parity would predict. The reason for this lies in the distinction between services and goods that are tradable versus those that are not tradable.

There are several mechanisms used in order to value currencies against each other. The gold standard is one that was employed in the past where in countries equated their currencies to a fixed quantity of gold and therefore, to each other. This provides predictable exchange rates and protects against inflation. The problem with this gold standard was the central bank could devalue the currency.

Another mechanism is floating exchange rates. This allows rates to fluctuate according to economic conditions. The problem with this mechanism is that it adds uncertainty in international trade.

Fixed exchange rates are similar to the gold standard, without using gold. With this mechanism, countries pledge to keep their exchange rates at a predetermined rate with other countries. The problem with this mechanism is that a country can't credibly commit to defending its currency.

Another mechanism is borrowing someone else's strong reputation. Argentina had a bad reputation so it's government created a currency board ensuring that each Argentine peso was worth one United States dollar. The problem with this list the fact that the Argentine government couldn't do anything to control the money supply in order to fight inflation. While the American economy grew stronger, the Argentine economy slipped into a deep recession.

Funny money is currency with no international value. This was used when United States companies had to do business in communist countries with soft currencies.

At the beginning of the 2first-century, Iceland's currency was very strong. High domestic interest rates led Icelanders to borrow other currencies than the global financial crisis hit. Nonperforming loans and bad investments caused the banks to suffer in Iceland, and by the fall of 2008, the 3 major banks in the country were defunct. The United States is in jeopardy because it consumes more than it produces.

After World War II, representatives of the Allied nations gathered together in New Hampshire to create a sustainable financial infrastructure for the world. They created the World Bank, which is owned by its 183 member countries, and the International Monetary Fund (IMF). Members of this fund pay into the IMF in exchange for borrowing in times of difficulty. Both these systems attract large amounts of criticism. If international countries work together, the entire world would be richer collectively.

In Chapter 12, the author discusses globalization. When it comes to globalization, statistics clearly show that the world is growing more economically interdependent. Although many are vehemently opposed to the idea, nearly all evidence and theories suggest that the benefits of international trade is far greater than the cost. Trade makes us richer in the fact that it frees us so that we can do things that we are better at. Each part of the world has something to offer the rest of the world.

Many complain about lost jobs when a company decides to hire workers overseas. The author writes that in the long run, trade will actually facilitate growth and a growing economy will be able to absorb the displaced workers. It all comes back to capitalism. Sometimes new order is created by destroying old, and the process is not pleasant. One of the problems in the United States is that the wealth is not being distributed evenly. Protectionism looks good in the short run, saving jobs, but it slows economic growth in the long run. The author writes that trade helps the economy by lowering the cost of goods for consumers. This has the same result as raising incomes.

Trade isn't just good for wealthy countries. It's good for the poor countries as well. It gives the poor countries access to the developed world markets. It opens roads for income opportunities for poor countries by creating competition for workers in export jobs, raising wages. Foreign companies also introduced skills, technology and capital.

On the positive side, studies showed that globalizing countries had 30 to 50% higher growth rate than other countries that were less integrated in the world economy. The developing countries in the study benefited from greater political freedom, and they also received higher scores on the UN Human Development Index. Of course, it's not all positive. The higher rates of globalization were also associated with higher rates of corruption, environmental degradation, and inequality.

While protesters fight against unfair, low pay to workers in developing countries, the truth is that those workers are getting very fair pay according to their countries standards. Refusing to purchase products created by these workers only harms them in the long run. They might lose what they consider to be a good job at the factory is closed down due to protesters from another country.

In Chapter 13, the author discusses poverty. According to the United Nations Food and Agriculture Organization over 1 billion people in this world don't get enough to eat. This is because economies have failed. Every country has resources, but it needs more than that. A country needs effective government institutions in order to grow. This means that they need a government that is able to collect taxes, enforce law, set up courts, mandate laws themselves, and create basic infrastructure. These all need to be handled without corruption to survive and thrive.

Property rights are also essential. Property owners have the right to legally rent their properties, subdivide them, sell them, or pass them on to family. They can also use properties as collateral for raising capital. If a government owns the land, individuals cannot take the steps necessary to gain backing for expansion.

Excessive regulation can cause the demise in an economy. This goes hand-in-hand with corruption. A thriving economy is also dependent on human capital. Interestingly, another factor in economy is geography. Some argue that high temperatures and heavy rainfall yield poor food production and and increase in disease, therefore limiting a location's ability to create a thriving economy. This is one reason that is essential for an economy to remain open to trade.

Another key factor in economy is developing a responsible fiscal and monetary policy. Overspending without yielding productivity is devastating on an economy. When it comes to wealth, it's important to remember that natural resources don't matter as much as one would think. What does matter is democracy. This is a check against egregious economic policies.

When it comes to gaining economic power, it's best to avoid war, which depletes resources and limited education. It's also important to utilize all the potential yield available in the nation, including utilizing women in the work force.

To even out the global economy, rich countries could create more opportunities for poor countries instead of trying to change the societies.

In the Epilogue, the author discusses seven questions. Economics uses a set of tools we use to understand and improve the world that is far from perfect. It's up to individuals to utilize the tools for optimal effect. An economist must address the following seven issues: productivity, the divide between the rich and the poor, the market, maximizing utility, monetary policies, the future, and the fiscal house.

Characters

Economists

Economists are the individuals who take a close look at society using a set of tools to determine the overall health of society. Using formulas and records, economists glean through information from the past, tally up the numbers in the present, and attempt to predict the future. An economist factors information regarding tax and expenditure, international trades, skills and products, and agriculture. Economists study the quality of world currencies and keep tabs on markets and bank transactions. They study what makes a nation thrived while another one might go under and try to determine how to distribute wealth more evenly throughout the world to make society as a whole better.

Behavioral Economists

Behavioral economists are economist who look at more than just the numbers on a piece of paper when judging the quality of an economy. They intertwine psychology and economics. These economists understand that the overall health of an economy isn't based on finances alone. It's also based on health, mind set, and emotions. Behavioral economists try to understand why people are making the decisions that they make, and how society as a whole processes information in regards to economic decision-making.

Gary Becker

This character is an economist from the University of Chicago who won the Nobel prize in 1992 for his work in the field of human capital.

Daniel Kahneman

This character is a professor in public affairs and psychology at Princeton. He was awarded the Nobel Prize in economics in 2002 for his studies of decision-making under uncertainty.

Mark Miringhoff

This character is a professor of social sciences at Fordham University. He believed the nation should have a "social report card."

William Bennett

This character is a conservative author and commentator who proposes an "index of leading cultural indicators" to measure progress along with the GDP.

Paul Krugman

This character is an economist who earned the Nobel prize in 2008 for his work on international trade.

Milton Friedman

This character is a Nobel laureate in economics. He is considered to be the most articulate spokesmen for free markets.

Ronald Coase

This character is an economist from the University of Chicago who won the Nobel Prize in 1991.

Michael Spence

This character, an economist at Stanford University and Nobel laureate from 2001, offered insight into the idea that firms did whatever they could to "signal" their own quality to the market.

George Stigler

This character won the Nobel Prize in Economics in 1982 for his observation on and evidence of the fact that professional associations and firms frequently seek regulation as a means to advance their own interests.

George Akerlof

This character was a 2001 Nobel laureate who was an economist at the University of California, Berkely. He noted that an imbalance of information can break down the market.

Objects/Places

Soviet Union

This place collapsed because the government applied too much regulation. It was so focused on getting into space, it neglected the fact that its citizens needed food.

India

This place is so poverty-stricken that its citizens are dying from the treatable disease, leprosy, because they can't afford health care for early diagnosis.

United States

This has one of the best governments in the world in regards to economic policies.

Chicago

This is where the author lives.

Hawaii

This area has a climate that allows it to offer unique food in global trade.

Iceland

This is a place that went bankrupt because it borrowed and couldn't keep its economy afloat.

SUV

This is what the author states a family might purchase for safety without considering long-term effects on the environment.

Big Mac

This is used as a tongue-in-cheek tool to evaluate official exchange rates.

Asia

This area is known for its sweat shops where people work for what citizens in the United States consider extremely low salaries.

Massachusetts

This place tried a radical approach for health care. State residents could afford health insurance but didn't buy it were fined on their state tax return.

New Hampshire

Representatives of the Allied nations gathered here to create a stable financial infrastructure for the postwar world after World War II.

Themes

The Importance of Products in an Economy

According to the author, products are a key factor in the economy. The wealth of a country is measured by output. This product doesn't necessarily mean something that is consumable. Sometimes a product is a skill.

Each area of the world has something it can offer the rest of the world. Hawaii grows pineapples easily while it doesn't practically have the ability to produce maple syrup. When the products are added to the commercial market, others pay for the product, strengthening the area's economy.

Most individuals do what they can to make life better for themselves. This is what drives an economy. There is a demand for products that make life easier and more enjoyable. Priorities are different for different people. The wealthy individuals don't have to worry about basics such as food and health care so they might become interested in developing and supporting products that are environmentally friendly. In contrast a person with less wealth might be more interested in products that keep a family healthy affordably.

The Role of Government in Economy

The government plays a very important role in the economy. As history has shown, it can make or break an economy. The United States government is one of the best in the world because it sets up a system of checks and balances, yet doesn't control the banks and other businesses with extreme regulation.

When a store orders its inventory, it stocks what the customers are looking for. This creates competition in the marketplace, providing more products and competitive pricing. In countries with more regulation, a government will stipulate what goes on the shelves. There is one standard price for the products so the pricing is not competitive.

Due to governmental regulations, businesses must rely on quality service and other methods to attract customers. They can't draw consumers in with price cuts. This also less to illegal dealings as individuals turn to the black market to obtain products not available in stores. Governmental regulation leads to corruption and crime as was seen in the case of the Soviet Union.

Aside from regulation, it's important to understand that the tie between the government and the economy is so intertwined it is difficult to contemplate a decision regarding education, the military, social, tax, expenditure, and agricultural decisions made without economic consequences.

The Human Element in Economics

One of the reasons economics is such a tricky subject is because it's largely based in the human element. Individual priorities weigh heavily in marketing decision, yet not everyone has the same opinion regarding what's important. Wealthy people have different values and concerns than poor people. For example, a wealthy person might want their family to be safe on the road so they invest in a SUV. They care more about the safety of the family immediately than long-term effects of environmental pollution. A poor individual might not care about road safety at all. The focus of a poor individual might be concentrated on getting food for the table and decent health care.

When it comes to the environmental decisions, a wealthy person might want to invest resources on clean water and on efforts to save the rain forest. A poor person with the rain forest in their backyard might agree in the preservation idea, yet they might choose to cut down trees for a corporation anyway so they can raise funds to feed a family that would otherwise die.

Style

Perspective

Charles Wheelan is a writer who tackled the idea of making economics understandable to the average reader after encouragement from Tifanny Richards. He worked with researchers and individuals with connections to Nobel laureates to compile information to the book. When the book was written, he had some of the best economists in the world read through the manuscript, offering suggestions and recommendations, adding their expertise. Wheelan teaches students at the Harris School of Public Policy at the University of Chicago and Dartmouth College. He states that the ideas in the book are not his own. He is just a translator for others who have done great things in the field of economics.

Tone

Naked Economics: Undressing the Dismal Science by Charles Wheelan is written from the second-person and objective point of view. It's so objective that it is tempting to call the writing third-person, yet there is regular usage of the term "you." While this book simplifies the subject of economics, it's still very obviously a textbook. The language is advanced and the book highlights many studies and refers to many important quotes from experts in the field. Anecdotes, including anecdotes from the author's own life, are interspersed with complex jargon, defining ideas and making the book easy to relate to.

Structure

Naked Economics: Undressing the Dismal Science by Charles Wheelan opens with numerous quotes from magazines and newspapers proclaiming how well written the book is. The title page and copyright pages are followed by a table of contents, which shows that there is a Foreword, an Introduction, Acknowledgements and 13 chapters followed by an Epilogue and a section regarding "Life in 2050." The last section of the book is comprised of notes detailing resources for information chapter by chapter.

Although not defined as chapters, the Foreword and Introduction are long enough to be chapters on their own, and they hold information that is essential to the overall understanding of the book. The chapters themselves are titled with phrases that explain the most important concept in each chapter. The chapters run approximately 30 pages in length.

Quotes

"An economist is someone who is good with numbers but does not have the personality to be an accountant" (Foreword).

"Indeed, it's hard to think of any political decisions, be they on social, tax and expenditure, international, agricultural, or national security issues, that do not have economic consequences" (Foreword).

"Even many of our political leaders could use a dose of Econ 101" (Foreword).

"...economy is the art of making the most of life." Economics is the study of how we do that" (Chapter 1. p. 4).

"Economics starts with one very important assumption: Individuals act to make themselves as well off as possible" (Chapter 1. p. 6).

"The real cost of something is what you must give up in order to get it, which is almost always more than just cash" (Chapter 1. p. 11).

"One powerful feature of a market economy is that it directs resources to their most productive use" (Chapter 1. p. 13).

"The market does not provide goods that we need; it provides goods that we want to buy" (Chapter 1. p. 20).

"We work harder when we benefit directly from our work, and that hard work often yields significant social gains" (Chapter 1. p. 29).

"Good policy uses incentives to channel behavior toward some desired outcome. Bad policy either ignores incentives, or fails to anticipate how rational individuals might change their behavior to avoid being penalized" (Chapter 2. p. 39).

"This phenomenon, whereby taxes make individuals worse off without making anyone else better off, is referred to as 'deadweight loss'" (Chapter 2. p. 52).

"When I applied to graduate school many years ago, I wrote an essay expressing my puzzlement at how a country that could put a man on the moon could still have people sleeping on the streets" (Chapter 2. p. 53).

"One crucial role for government in a market economy is dealing with externalities - those cases in which individuals or firms engage in private behavior that has broader social consequences" (Chapter 3. p. 56).

"Good government makes a market economy possible. Period. And bad government, or no government, dashes capitalism against the rocks, which is one reason that billions of people live in dire poverty around the globe" (Chapter 3. p. 65).

"If you don't have any special expertise or the time and money to find expert help, they say, go ahead and purchase index funds" (Chapter 7. p. 167).

Topics for Discussion

What does an economist study?

Why is it important for individuals to gain an understanding of economics?

What is the difference between an economist and a behavioral economist?

Why is the United States government considered one of the best in the world in regards to the economy?

How are the wealthy different from the poor in regards to the economy and decision making?

How is globalization a positive factor in economics?

How can a recession be considered a positive occurrence?