

STUDY GUIDE

Questions on Hayek's "The Use of Knowledge in Society"

1. According to Hayek, what is the fundamental problem that economic organization needs to address?
2. How does "scientific knowledge" differ from "knowledge of the particular circumstances of time and place"?
3. In what situations can an economic order be based solely on scientific knowledge, and when is knowledge of particular circumstances important?
4. How do central planning systems compare to market systems in their use of knowledge?
5. Why might people not appreciate the role of the price system as a means of economic organization?
6. Analyze the extent to which the creation of internal markets within government bureaucracies solves the fundamental problem you identified in question 1.

Comparing Coase's "The Problem of Social Cost" and Varian's *Intermediate Microeconomics*

1. The Varian pages describe the interactions of two people, one of whom imposes an externality on the other. If they can trade with each other, what is the outcome?
2. According to Varian, what is the main problem that gives rise to the problem of externalities?
3. According to Coase, if property rights are fully defined, do externalities ever lead to inefficient outcomes? Why or why not?
4. To what do you attribute the divergence between what Coase writes and how Varian interprets Coase?

Further Questions on Coase's "The Problem of Social Cost"

1. According to Coase, what is the role of public policy (or institutions more generally) in addressing the problem of externalities? Why might governments not perform this policy role effectively?
2. What role does the firm represent with respect to solving problems of externalities?
3. Using your knowledge of microeconomics, define what a Pigovian tax is. Outline Coase's critique of Pigovian taxation as a policy instrument for dealing with externalities.
4. What methodology does Coase propose for addressing externality problems in practice?