

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment.

- 1) (20 points) Developing countries often have many government run corporations supplying items and services such as electricity. What is the problem with this? What is the problem with trying to privatize these firms?
- 2) (15 points each) Some industries are better run by the government. For each of the following industries, determine if it is better run by the government than privatized. Explain your logic. Remember, we are talking about a developing country.
 - A) Banks
 - B) Water
- 3) (25 points) Developing countries often have price controls. Why? Explain why price controls are a problem using the supply and demand diagram for that good.
- 4) (25 points) Use a supply and demand diagram to show why free markets may not bring about the efficient level of production when there are negative externalities. What should the government do to solve that problem the most efficient way? Explain why that solution is best.