

Do not put your name anywhere on the assignment, other than on the back of this sheet of paper. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you do double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) For each of the market failures below, explain what it is and why government intervention is required.

- A) Monopoly power
- B) Underdeveloped institutions.

2) (25 points) If you were the ruler of a country which had been a command economy, what would you look at to determine if it would be better to use *shock therapy* or *gradualism*? Explain why you chose that information and how you would use it. Make sure you mention at least two bits of information you would examine.

3) (15 points each) For each of the following actions, explain why it is a necessary reform for development.

- A) Liberalization of interest rates.
- B) Deregulation.
- C) Secure property rights.