

Place your name on the back of this sheet of paper and nowhere else. 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 use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (15 points) What is meant by *external diseconomies*? Why are they a market failure requiring government intervention?
- 2) (15 points) What is meant by *import substitution*? Why might it be a bad policy?
- 3) (10 points) Why does the IMF want countries to reduce their government deficit?
- 4) (15 points) What is meant by *trade liberalization*? Why is that a good policy?
- 5) (25 points) What is the *infant industry* argument? What are its strengths and weaknesses?
- 6) (10 points) Why does the Washington Consensus want *liberalization of the interest rate*?
- 7) (10 points) Why do economies need *correct prices*?