

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up 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) (25 points) What is meant by the *principal-agent problem*? Give an example. Why does this problem mean that the optimal production may not be achieved? Explain your logic.
- 2) (25 points) What is the difference between *material incentives* and *moral incentives*? Which do you think will do a better job of getting people to change their behavior? Explain your logic.
- 3) (15 points) There are some parts of society who feel that *anarchy* is the preferred government system. What does that mean? Why is that a bad idea? Explain your logic.
- 4) (15 points) What do economists mean by *public goods*? What is the big problem caused by them? Why does that mean we need a government? Explain your logic.
- 5) (20 points) Draw a PPF for machines vs consumer goods. Use this graph to explain how consuming more goods now will affect us in the future. Explain your logic.