

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) (10 points) Prove the equation $MC = MB$ brings efficiency. (This is the “no *dead weight loss*” type of efficiency.)
- 2) (30 points) Draw the supply and demand diagram. Explain how it shows the market is normally efficient. Without drawing anything more on the graph, explain how the graph shows that the market cannot work well for industries where there is *monopoly power* and for industries where there are *negative externalities*.
- 3) (15 points each) We have five criterion (outcomes) for evaluating economic systems. For the two below, determine if theoretical capitalism does a good job with that outcome. Explain why capitalism does a good or bad job with that outcome.
 - A) Efficiency
 - B) Income distribution
- 4) (15 points) What are public goods? Why doesn't the market work for them?
- 5) (15 points) What is meant by *fiscal policy*? Which of the outcomes (efficiency, stability, income distribution, economic growth, and long-run viability) would it be most likely to be able to help? Explain your logic.