

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 150 points (to be scaled up to 180 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (12 points) Answer EITHER Part A OR Part B.

A) What is meant by *real GDP per capita*? Why might it systematically underestimate the output of poor developing countries?

B) What is meant by *crony capitalism*? Is that good or bad for the country? Explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.

A) According to the Heritage Foundation, Botswana is the only African country which does not get a failing grade on corruption. That is one of the reasons why the UN's Human Development Index score for Botswana (a well respected measure of how well off a country is) has grown greatly since 1980. Explain how have less corruption has helped them to develop.

B) Why is it important to know the source of tax revenue?

3) (12 points) Answer EITHER Part A OR Part B.

A) In the 1977, the punk band Chelsea sang the song "Right to Work." If England took their advice and passed a law guaranteeing people a job, do you think that would have helped or hurt England in the long run? Explain your logic.

B) When we measure the unemployment rate, the number has some problems. Who is it not counting which should be counted? Briefly explain your logic.

4) (14 points) Answer EITHER Part A OR Part B.

A) For the *way an institution rules* which the book calls *customs*, what does that mean and how does *informal social control* work to enforce it?

B) For the *way an institution rules* which the book calls *state rule*, what does that mean? What do you think is the greatest strength of that type of institution? Explain your logic.

5) (16 points) Answer EITHER Part A OR Part B.

A) We said that *lowering trade barriers* has had a net positive impact on the world. Explain why this is the case. Make sure you explain what the phrase means.

B) Why do most economists feel that *export orientation* is a better approach than *import substitution*? Make sure you define both terms.

6) (18 points) Answer EITHER Part A OR Part B.

A) What is meant by *moral hazard*? Explain how it can cause problems for an economy.

B) What is a *public good*? Explain why police protection is not truly a public good.

7) (22 points) Answer EITHER Part A OR Part B.

A) We have said the *institution* called *property rights* are an extremely important aspect of any economic system. Explain the difference between *private ownership* and *public ownership*.

Neither system will work all the time. Which one is more likely to give an efficient level of

production for most markets? Explain your logic.

B) We said the *institution* called *incentive mechanisms* is extremely important. Give two examples, one of a *material incentive* and one of *moral incentive*. Which one works better in the examples you gave? Explain your logic.

8) (22 points) Answer EITHER Part A OR Part B.

A) Draw a Lorenz Curve such that the Gini Coefficient is about  $1/3$  or  $.333$ . Explain how you know the Gini Coefficient is approximately  $1/3$ .

B) Draw the PPF. How can you tell if we have *static efficiency*? Explain your logic.

9) (22 points) Answer EITHER Part A OR Part B.

A) Two of the *outcomes* we discussed were *economic stability* and *long-run viability*. Define both of them. Which do you feel is more important? Explain your logic.

B) When addressing the *outcome* called *income distribution*, we normally use the tax system to redistribute income. Would it be better to use a *progressive tax* or a *regressive tax*? Explain your logic as to why that type of tax is better and explain why it is good to do some income redistribution..