

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) (15 points) Draw a normal shaped Lorenz Curve. Given your diagram, approximately how big is the Gini Coefficient? Explain how you came up with that number.
- 2) (20 points) We have five outcomes. It is often said that we should do a weighted average of the outcomes to calculate an overall value for how good the country's economy is. What does it mean to do a weighted average? Why is that hard to do? Explain your logic.
- 3) (20 points) We said that the former East Germany and West Germany are a "natural experiment." State why this is true. However, there are problems with this experiment. Explain one problem with it. (Hint: in any experiment whether it be economics, physics, etc., what should you try to do?)
- 4) (25 points) Suppose that a country *improved in the outcome of static efficiency* but went *backwards on the outcome of stability*. Do you think they improved overall or went backwards. Make sure you define what the two statements in italics mean. There is no wrong conclusion for this question. Explain your logic as to why you feel one of those outcomes is more important than the other.
- 5) (20 points) Do economists think a country should be doing *import substitution* or move towards *free trade*? Define both terms and state why economists prefer one of them.