

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) (20 points) Draw the supply and demand diagram. Use it to prove that the market usually gives the socially optimal output.
- 2) (15 points each) For each of the following, explain why it is an argument for government to intervene in the market. Answer each part in a separate paragraph.
 - A) Public goods
 - B) Anti-trust
 - C) Macroeconomic stability
- 3) (15 points) Is capitalism good at the goal of *growth*? Explain your logic.
- 4) (20 points) One of the goals of an economy is *macroeconomic stability*. Is capitalism good or bad at that? Explain your logic. One school of thought says that the government should respond to an economic downturn. Which school is that? How do they say the government should respond to a downturn? Why do they say that?