

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 100 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 I have a meeting after your class.

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

A) Why do *totalitarian governments* have better static efficiency than *democracies*?

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

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

A) Explain why economists feel that *import substitution* is a bad idea. Make sure you define it.

B) Explain how *foreign direct investment*, a.k.a. *FDI*, helps both countries involved.

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

A) What is meant by *privatization*? Why would a country want to do that?

B) What is meant by *deregulation*? How can it help an economy?

4) (12 points) Answer EITHER Part A OR Part B.

A) Yesterday, the UN Human Rights Council said there should be war crimes trials brought against the former government of Sri Lanka. Assuming that the war crimes were committed in the past (and probably are still being committed), how did that affect their economy? Explain your logic.

B) In addition to war crimes, the previous government of Sri Lanka was very corrupt (and the current one is better, but still not good). How does that corruption affect their economy? Explain your logic.

5) (14 points) Answer EITHER Part A OR Part B.

A) Do *material incentives* or *moral incentives* work better for most people? Explain your logic.

B) What is a *public good*? Explain why it cannot be treated like other goods, i.e., sold on the market.

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

A) Draw a PPF. Use it to explain the difference between *dynamic efficiency* and *economic growth*.

B) Draw a Lorenz Curve which would have a Gini Coefficient of about 0.6. Explain how you know it is about 0.6.

6) (16 points) Answer EITHER Part A OR Part B.

A) When we discussed *enforcement mechanisms*, we talked about *private rule* and *state rule*. Explain how they are different.

B) When we discussed the types of ownership of property, we mentioned *private ownership*, *public a.k.a. state ownership*, and *collective ownership*. Explain the difference between *public ownership* and *collective ownership*.

7) (16 points) Answer EITHER Part A OR Part B.

A) Are most income tax systems progressive, proportional, or regressive? What is the economic reason why they are set up that way?

B) What industries are typically nationalized? Explain why they are nationalized.

8) (18 points) Answer EITHER Part A OR Part B.

A) Suppose that a country improved in the outcome of *static efficiency* but went backwards on the outcome of *income distribution*. 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.

B) Suppose that a country improved in the outcome of *economic stability* but went backwards on the outcome of *long-run viability*. 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.

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

A) Define *adverse selection*. Give an example from banking. What do banks do to reduce this problem? Explain how it reduces the problem.

B) Define the *principal agent problem*. Give an example of why it might occur. Do you think it is a bigger problem in a large company or a small one? Explain your logic.

Due to Raekwon's dropping the course, I am making the following changes which are also on my webpage.

1) Delete Raekwon from the presentation on Germany on 10/6 and the presentation on the Czech Republic on 11/19.

2) Move Marlon Mejia from China on 11/12 to the Czech Republic on 11/19. I chose him because I needed one person to make that move and two of the others on the China presentation had worked with both of the people left presenting the Czech Republic.