

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 10 points. 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) (25 points) Explain Smith's "invisible hand" and what it concludes about the government's intervention in the economy. Explain Hobbes' "leviathan" and what it concludes about the government's intervention in the economy. Which do you think makes the most sense? Explain your logic.

2) (15 points each) For each of the following, explain why it is an economic argument for government intervention in the market. Answer each part in a separate paragraph.

A) monopoly power

B) negative externalities

C) public goods

3) (15 points) Is theoretical capitalism strong or weak on the outcome of *efficiency*? Explain your logic using economic logic.

4) (15 points) Is theoretical capitalism strong or weak on the outcome of *environmental viability*? Explain your logic using economic logic.