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) The book discusses three "natural experiments" comparing communism to capitalism. Explain one of those experiments and discuss what is learned from it.
B) What is meant by *business freedom* and why is it important?

2) (12 points) Answer EITHER Part A OR Part B.
A) According to the Heritage Foundation, Sri Lanka has a "Government Integrity" score of 30 on a scale of 0 - 100, where 100 is best. Why is such a low score bad?
B) Why do a lot of economists feel that "import substitution" is a bad idea? Make sure you define it.

3) (12 points) Answer EITHER Part A OR Part B.
A) Multinational corporations (MNCs) have both good and bad aspects for the world economy. Explain how they can help the world economy.
B) Why do democracies normally do better than totalitarian governments?

4) (14 points) For EITHER adverse selection OR moral hazard. State what it is and explain why it might cause a sub-optimal outcome.

5) (14 points) We have six outcomes: economic growth, efficiency, income distribution, stability, long-run viability, and environmental viability. Use that list to answer EITHER Part A OR Part B.
A) If you had to choose one of the outcomes as being more important than the others, which would you choose? State what the desired outcome is and why that is the most important outcome.
B) Suppose that a country improves on one of the outcomes listed but goes backwards on a second goal. How would you decide whether the country is moving forward or moving backwards? Explain why you would do that.

6) (14 points) Answer EITHER Part A OR Part B.
A) What is meant by a *progressive tax*? Is that a good type of tax from the goal of *growth*? Explain your logic.
B) What is meant by a *regressive tax*? Is that a good type of tax from the goal of *income distribution*? Explain your logic.

7) (18 points) Answer EITHER Part A OR Part B.
A) According to your book, virtually all of the countries listed had over 75% of the gas, electricity, and water provided by government run companies. At the same time, all but one had less than 5% of the agriculture produced by the government. Explain why both of those facts make sense from an economics point of view.
B) Which is more likely to have a negative impact on the economy in the long-run, privatization or

nationalization? Explain your logic.

8) (18 points) Answer EITHER Part A OR Part B.
A) One of the enforcement mechanisms we discussed is *state rule*. Explain how that works and give an example of it. What do you consider to be its greatest weakness? Explain your logic.
B) One of the enforcement mechanisms we discussed is *customs*. Explain how that works and give an example of it. What do you consider to be its greatest weakness? Explain your logic.

9) (18 points) Answer EITHER Part A OR Part B.
A) What is one advantage of collective ownership of property rights and one disadvantage of collective ownership of property rights? Explain why it has that advantage and that disadvantage.
B) What is one advantage of public ownership of property rights and one disadvantage of public ownership of property rights? Explain why it has that advantage and that disadvantage.

10) (18 points) We have six outcomes: economic growth, efficiency, income distribution, stability, long-run viability, and environmental viability. Answer EITHER Part A OR Part B referring to this list.
A) Which two of these outcomes do you feel communism should do particularly poorly on? Explain the economic reason why feel that.
B) Which two of these outcomes do you feel capitalism should do particularly poorly on? Explain the economic reason why feel that.