

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) (15 points each) For each of the following, explain what it means and why it implies that theoretical capitalism cannot work well. Answer each part in separate paragraphs.

A) monopoly power.

B) negative externalities

2) (15 points each) For each of the following outcomes, define what is desirable and determine whether or not theoretical capitalism is good at that outcome. Explain your logic. Answer each part in separate paragraphs.

A) Income distribution

B) Economic stability.

3) (10 points each) For each of the following, explain that role of government in theoretical capitalism. Answer each part in separate paragraphs.

A) Providing the rule of law.

B) Monetary policy

4) (20 points) Hobbes said that a *leviathan state* is needed to control the base instincts of human kind. Explain what he means by that. Do you agree with him? Explain your logic.