

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) Two of the enforcement mechanisms are *customs* and *private rule*. Given example of both. Which of your examples do you think is the more effective enforcement mechanism? Explain your logic.
- 2) (20 points) What is meant by *adverse selection*? Give an example of it. In your example, what can be done to reduce the problem? Explain how that action would reduce the problem.
- 3) (15 points) What is a public good? Explain why a country needs the government to provide it.
- 4) (15 points) What is meant by *economic growth*? Why is that a desirable outcome?
- 5) (25 points) Explain the difference between *dynamic efficiency* and *static efficiency*, using a graph. Explain why we want both of them.