

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) (20 points) Use the supply and demand diagram to prove that perfect competition will yield the most efficient production. Explain your logic referring to your graph.
- 2) (15 points) Explain what a *natural monopoly* is, and why that means we need a government intervention.
- 3) (10 points) Is theoretical capitalism strong or weak on the desired outcome of *income distribution*? Explain your logic.
- 4) (15 points) The *Anglo Model* of capitalism tends to have less government intervention. Which of the three theories of capitalism (Hobbes, Locke, or Smith) does that fit best with? Explain your logic.
- 5) (10 points) Is theoretical capitalism strong or weak on the desired outcome of *economic stability*? Explain your logic.
- 6) (15 points) What is a *negative externality*? Why do they mean we need government intervention in some markets?
- 7) (15 points) What is meant by *regulatory capture*? Explain how that occurs and why it is bad.