

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 75 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) What is meant by “fixed country effects”? Explain why they make conclusions in this course difficult to reach?

B) Define a “public good.” Explain why police protection is not a public good even though a lot of textbooks list it as a public good.

2) (14 points) Answer EITHER Part A OR Part B.

A) What is meant by *real GDP per capita*? Explain two problems with using it as a measure of how well off a country is.

B) There are many differences between capitalism and communism. Tell me two differences. For example, write something like, “Capitalism plays only rock music while communism plays only hip hop music.”

3) (14 points) Answer EITHER Part A OR Part B.

A) According to the Heritage Foundation, Sri Lanka has a “Government Integrity” score of 28.9 on a scale of 0 - 100, where 100 is best. What does that mean about Sri Lanka? Why is such a low score bad? Explain your logic.

B) According to the Heritage Foundation, Sri Lanka has a “Judicial Effectiveness” score of 39.4 on a scale of 0 - 100, where 100 is best. What does that mean about Sri Lanka? Why is such a low score bad? Explain your logic.

4) (14 points) Answer EITHER Part A OR Part B.

A) What is meant by *globalization*? How has it led to the world’s rising standard of living? Explain your logic.

B) What is meant by *import substitution*? Why is it normally a bad policy? Explain your logic.

5) (14 points) Answer EITHER Part A OR Part B.

A) One of the desired outcomes is economic stability. There are several statistics we can use to determine if we are being successful at achieving this goal. What are two of them? Explain how both of them can be used to determine how stable or unstable the economy is.

B) One of the desired outcomes is economic stability. Being successful at this outcome can hurt the outcome of economic efficiency. Explain how that occurs.

6) (14 points) We said that a good tax system would cause a small distortion (rather than a big distortion) in the market and would have a large tax base. For EITHER a small distortion OR a large tax base, explain what that means and why it is desirable.

7) (16 points) Answer EITHER Part A OR Part B.

A) Given the Lorenz Curve below, what would your estimate for the size of the Gini Coefficient be? Explain how you reached that conclusion. What problem is caused by that sized Gini Coefficient? Explain your logic.

B) What is the desired result for the outcome *income distribution*? How would that cause the outcome of efficiency to get worse? Explain your logic.

8) (16 points) Answer EITHER Part A OR Part B.

A) One of our “institutions” was “decision making organization.” In the market economy there is the *principal-agent problem*. Define that problem. Give an example and use that example to explain why it may lead to inefficient production in a market economy.

B) One of our “institutions” was “decision making organization.” In the market economy there is the *moral hazard problem*. Define that problem. Give an example and use that example to explain why it may lead to inefficient production in a market economy.

9) (18 points) Answer EITHER Part A OR Part B.

A) One of our institutions was “property rights”. Two of the three types of property rights are *private ownership* and *public ownership*. State what those are. Which do you think would be better when it comes to the environment? Explain your logic.

B) One of our institutions was “property rights”. Two of the three types of property rights are *private ownership* and *collective ownership*. State what those are. Which do you think would be better when it comes to income distribution? Explain your logic.

10) (18 points) Answer EITHER Part A OR Part B.

A) Draw the PPF for food and clothing. Use the graph to explain the difference between *intensive growth* and *extensive growth*.

B) Draw the PPF for cars and phones. Use the graph to explain the difference between *dynamic efficiency* and *static efficiency*.

