

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

- 1) (20 points) Given the history of the 20th Century in Chapter 1, why do you think America went from being a somewhat powerful country to being the most powerful country during the 20th Century? Explain your logic.
- 2) (20 points) Using a supply and demand diagram, explain why capitalism produces the socially optimal output when there is perfect competition.
- 3) (15 points) Explain why a too small of a Gini Coefficient is bad for an economy.
- 4) (15 points) Explain why a profit motive is important for a capitalist economy to produce well.
- 5) (15 points) We generally say a larger real GDP per capita makes a country better off. Explain why this may be false.
- 6) (15 points) Economists, especially conservative economists, generally argue that the smallest government possible is best. However, economists, including conservative economists, feel there are good economic reasons for government intervention in the markets. Give one example and explain the economic reason for intervention.