

Write your name on the cover of the test booklet and nowhere else. Failure to follow these directions will cost you 1 point. The test has 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I can give some extra time, but not a lot.

When a question refers to “the countries,” it is referring to Japan, Germany, and the USA.

1) (12 points) Answer EITHER Part A OR Part B.

A) Even though Japan’s unemployment rate is lower than the unemployment rate in the USA, it is considered to be too high while the unemployment rate in the USA is about what it should be or too high. Explain how this is true.

B) What is the economic reason that capitalism usually produces the socially optimal level of production?

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

A) What do you think was the single most important event of the 20<sup>th</sup> century? Explain why you chose that event.

B) If you could change history, what 20<sup>th</sup> century event would you change? How would you have changed it? Why would you do that?

3) (14 points) In this class, we talk about the advantages of the different economies and systems of economics. However, we cannot take an aspect of another economy and copy it in the USA. Why not? Give an example of some aspect from one of the three countries which is good for it, but would not be good for one of the other countries. Explain your logic as to why it is good but not for the other country.

4) (16 points) Answer EITHER Part A OR Part B.

A) Explain why too large a Gini Coefficient is bad from an economic point of view. Explain why too small a Gini Coefficient.

B) According to the Human Development Indicators Report 2005, the Gini Coefficients for the USA, Germany, and Japan are 40.8, 28.3, and 24.9 respectively. Explain why both of them have lower Gini Coefficients than in the USA.

5) (20 points) For ONE of the countries which you did NOT present, if you were the current ruler of that country, what would you do to improve the economy? Why would you do that? How would that help the country?

6) (20 points) Which of the three countries do you feel will have the best long-term economic growth? Explain why you chose that country and for ONE of the other countries, explain why you did not choose that country.

7) (24 points) A country’s banking system plays an important role in their economy. For ONE of the countries which you did NOT present, describe the banking system. What are the strengths and weaknesses of that system?

8) (30 points) It is well known that capitalism has major problems. For EITHER the problem in Part A OR the problem in Part B, explain why it is a problem with capitalism. Explain how TWO of the three countries we discussed addressed the problem. Which is more successful? Explain your logic.

A) Imperfect competition

B) Negative externalities