

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 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5 minutes. I can give some extra time, but not a lot.

1) (10 points) Answer EITHER Part A OR Part B.

A) Why does capitalism need the profit motive to work well?

B) What is meant by the *price system*? Briefly explain its significance to capitalism.

2) (12 points) For EITHER the German economy OR the Japanese economy, which aspect of that economy would it be advisable for the USA to be more like? Explain why that would help the economy of the USA.

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

A) What event in the 20<sup>th</sup> century was the most important for the future of the world economy? Explain why that event had such a major impact.

B) Why did World War I and World War II have different long-term impacts upon the world economy? Explain your logic.

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

A) What role does MITI play in the Japanese economy? Do you think that in net, it helps or hurts their economy? Explain your logic.

B) What role do the *Sogo Shosha* play in the Japanese economy? Do you think they help or hurt the Japanese economy? Explain your logic.

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

A) What is the *Mittelstand*? Do you think that in net, it helps or hurts the German economy? Explain your logic.

B) If you could go back in time and advise the German government on a better way to reunify East Germany and West Germany, what change would you make? Explain why you would make that change.

6) (14 points) Answer EITHER Part A OR Part B.

A) Income and wealth inequality in the USA has increased during the past six years. Do you think this is good from an economic point of view? Explain your logic only referring economic reasons not moral reasons.

B) Why is it so difficult for the government of the USA to reduce its deficit? Explain your logic mentioning at least two reasons.

7) (20 points) For one of the countries **which you did not present**, USA, Japan, or Germany, what is the biggest problem facing that economy? Explain why you chose that aspect. How would you correct it? Explain why your actions would improve that economy.

8) (24 points) Answer EITHER Part A OR Part B.

A) The banking systems of the three countries we studied are quite different. Describe the differences in the banking systems of TWO of them. Which is better? Explain your logic by mentioning **both** a strength of that system **and** a weakness of the other system.

B) The three countries we studied have large federal government deficits. For TWO of them, describe why that country has such a large budget deficit. Of those two countries, which one's deficit will cause a bigger economic problem in the future. Explain your logic by mentioning **both** a reason why the one country's deficit is not a major problem **and** why the other country has a major problem caused by its deficit.

9) (28 points) Answer EITHER Part A OR Part B.

A) Use the supply and demand diagram to prove that capitalism usually results in the socially optimal level of production. Explain why this argument will break down if there is imperfect competition like a monopoly.

B) Use the table below to draw a Lorenz Curve. Use the curve to estimate the Gini Coefficient. What percentage of the income is earned by the 9<sup>th</sup> decile? Explain how you derived the Lorenz Curve, estimated the Gini Coefficient, and calculated the share of the 9<sup>th</sup> decile.

	1 <sup>st</sup> quintile	2 <sup>nd</sup> quintile	3 <sup>rd</sup> quintile	4 <sup>th</sup> quintile	top decile
% of Income	8	12	17	23	25