

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. 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) (15 points each) For each of the following, explain why it is a market failure, i.e., an economic reason for government intervention.

A) External diseconomies, better known as externalities.

B) Underdeveloped institutions.

2) (20 points) The book says that transitional governments should create well-defined, enforceable property rights. Why? Give at least two reasons.

3) (20 points) What is privatization? Why is it hard to do? Give at least two reasons.

4) (15 points each) For each of the following parts of the *Washington Consensus*, explain why most economists feel these are important.

A) Competitive exchange rates

B) Reordering public expenditure priorities.