

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 14-point question should take 7 minutes. I can give extra time but not much.

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

A) What is the greatest strength of capitalism? Explain your logic.

B) What is the greatest weakness of capitalism? Explain your logic.

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

A) What is the biggest problem facing the American economy? Explain why you feel that is a big problem.

B) I heard on the news that it has been 1000 days (about  $2\frac{3}{4}$  years) since the Senate last passed a budget. (The government has been doing temporary 1 to 3 month budgets during that time.) Why is it so hard to get Senators to agree on how to cut the budget deficit?

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

A) From an economic theory point of view, are the *keiretsu* good or bad for the Japanese economy? Explain your logic.

B) Why did it take Japan a decade to recover from the economic downturn in the early 1990s? Make sure you give economic reasons.

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

A) What is the *mittelstand*? What is its main drawback? Explain your logic.

B) The euro has had a major impact upon the German economy. Explain how it has helped their economy.

5) (18 points) Answer EITHER Part A OR Part B.

A) Use the supply and demand diagram to prove that normally, the unobstructed market should yield the socially optimal quantity and price. Explain why that is socially optimal.

B) Draw the Lorenz Curve. Give an estimate of the Gini Coefficient. Explain how you reached that conclusion. Does capitalism tend to have too large or too small of a Gini Coefficient? Why is that bad? Explain your logic.

6) (20 points) Answer EITHER Part A OR Part B.

A) The banking system in the USA is different from the banking system of Germany. How are they different? Which is better? Explain your logic.

B) The unions in the USA are different from the unions of Germany. How are they different? Which is better? Explain your logic.

7) (20 points) Answer EITHER Part A OR Part B.

A) What aspect of the German economy do you think it would help the Japanese to adopt? Explain how doing that will help the Japanese economy.

B) What aspect of the Japanese economy do you think it would help the Germans to adopt? Explain how

doing that will help the German economy.

8) (20 points) Answer EITHER Part A OR Part B.

A) Do you think the USA or Japan is closer to the theory of how a capitalist country should run? Explain your logic.

B) Which country is more export oriented, Japan or USA? What about that economy helps it to export more?

9) (20 points) Answer EITHER Part A OR Part B.

A) One of the problems with pure capitalism involves externalities. Explain why they are a problem for capitalism. For one of the countries we studied, how do they handle externalities?

B) In general, trade is beneficial for a country. Why is this true? For one of the countries we studied, are they fairly open or closed country? Explain your logic.