

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) (10 points) Many people think of police and fire protection as public goods. Prove they are not by mentioning both requirements to be public goods.
  
- 2) (10 points each) For each of the following criteria, explain why we would want a tax system to have this property.
  - A) Large tax base.
  - B) Small distortions caused by the tax.
  
- 3) (15 points) Which would be a better tax for a developing country to have, an income tax or a property tax? Explain your logic by mentioning two of the criteria of a good tax system.
  
- 4) (15 points) Why do some economists feel that developing countries should be allowed to rely on trade taxes for income? Why do some economists feel that is a bad idea? Explain their logic in both cases.
  
- 5) (10 points) Most macroeconomics textbooks say that money should be a good store of wealth. Would M1, M2, or M3 be better at that? Explain your logic.
  
- 6) (15 points) Why do economists say that governments of developing countries should pay for some spending by printing more money? Why should they not do too much of that? Explain your logic.
  
- 7) (15 points) What is the difference between recurrent government expenditures and government investment? Which is more likely to help a country to develop? Explain your logic.