

Do NOT write your name anywhere. (Canvas will tell me who turned in the exam.) Take pictures of your answers and use your own software or <https://pdfcandy.com/> to create a PDF for each answer which requires an upload. If it is large, resize it to A4. Upload that to Canvas. Upload each answer as a separate file with that question. Failure to follow directions will cost you one point. People with Apple products may need to use CamScanner app.

You are not allowed to use your books, notes, the internet, or other people when taking this test. You can use the internet to access Canvas and to convert your answers to PDF files. Nothing else.

If you run out of time or lose your internet connection, you can do a second submission. You do NOT have to redo the questions you already did. I will be able to see every submission. If you have problems, you can always contact me via Zoom or e-mail. If you use Zoom, open it in a new tab or window.

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 1 hour 15 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I have it set up to only give you two hours.

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

A) The book calls North Korea and South Korea as a natural experiment. What makes them such a good experiment? Explain your logic.

B) We say that business freedom is important for an economy. Explain why that is true.

2) (12 points) Answer EITHER Part A OR Part B.

A) What are *property rights*? Why are they important?

B) We use *real GDP per capita* as a measure of how well off a country is. Explain two problems with doing that.

3) (12 points) Answer EITHER Part A OR Part B.

A) It is common to see written that police protection is a public good. Explain why that is wrong.

B) What is a *moral incentive*? Do you think that is normally a strong or weak type of incentive? Explain your logic.

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

A) Do you think *customs (informal social control)* or *state rule* will be more effective way to enforce a certain behavior? Explain your logic.

B) What are fixed country effects? Why do they make comparing economies difficult to do?

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

A) Why is freedom important for economic growth? Explain your logic.

B) Why is *import substitution* normally considered a bad policy? Explain your logic.

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

A) Which is going to be better for income distribution, a *regressive tax* or a *progressive tax*? Explain

your logic.

B) Which is going to be better for efficiency, decreasing trade barriers or increasing trade barriers? Explain your logic.

7) (14 points) Answer EITHER Part A OR Part B.

A) Would *privatization* or *nationalization* normally be better for efficiency? Explain your logic.

B) Do you think that the technological advances in the past few decades, especially the internet, have helped or hurt the goal of income distribution? Explain your logic.

8) (18 points) Answer EITHER Part A OR Part B.

A) What is meant by *moral hazard*? Give an example of it. Use your example to explain why moral hazard causes agreeing to a contract to be difficult.

B) What is meant by *principal-agent problem*? Give an example of it. Use your example to explain why it causes agreeing to a contract to be difficult.

9) (18 points) Answer EITHER Part A OR Part B.

A) We have six desirable economic outcomes. Sometimes improving one outcome will worsen another outcome at other times it will improve the other outcome. Do you think *efficiency* and *environmental sustainability* work with each other or against each other? Explain your logic.

B) We said that *economic stability* was a desired outcome. Why is it desirable? There are several ways we can measure this. What are two of them? Briefly state how that variable can indicate if the economy is stable or not.

10) (22 points) Answer EITHER Part A OR Part B.

A) Draw a Lorenz Curve which would correspond to a Gini Coefficient of about .67. ($\frac{2}{3}$ as a decimal is about .67.) Explain how your graph shows a Gini Coefficient of about .67.

B) Draw a PPF for any two goods of your choice. Use it explain what *static efficiency* and the two types of *dynamic efficiency* are.