

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 12-point question should take 6 minutes. I cannot give extra time because I have a meeting after your class.

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

A) Normally, does privatization or nationalization lead to an improvement in the outcome of efficiency? Explain your logic.

B) On Page 110, they show that farms were government owned. Why does this make logical sense?

2) (12 points) Answer EITHER Part A OR Part B. For these questions, you should mention one of the outcomes: economic growth, efficiency, income distribution, stability, long-run viability, and environmental sustainability.

A) After the next exam, we will be talking about capitalism what do you think will be the greatest weakness of capitalism? Explain your logic.

B) After this exam, we will be talking about communism what do you think will be the greatest weakness of communism? Explain your logic.

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

A) What is *crony capitalism*? Is that going to be good for the outcome of *economic growth*? Explain your logic.

B) What is a *kleptocracy*? Is that going to be good for the outcome of *income distribution*? Explain your logic.

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

A) The income tax system in the USA is progressive. What does that mean? Is that good for the outcome of *income distribution*? Explain your logic.

B) Governments often put a lot of regulations on companies. Is that good for the outcome of *economic growth*? Explain your logic.

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

A) Define the problem with *adverse selection*. Give an example from banking. Explain how it leads to a sub-optimal outcome.

B) Define the *principal-agent problem*. Give an example from capitalism. Explain how it leads to a sub-optimal outcome.

6) (14 points) Answer EITHER Part A OR Part B referring to following fact about FDI. Some countries put restrictions on FDI, like requiring a certain percentage of the factory be owned by a domestic firm, or limiting the amount of profits which can be taken out of the country in a year.

A) For ONE of those two restrictions, why is that a good restriction? Explain your logic.

B) For ONE of those two restrictions, why is that a bad restriction? Explain your logic.

7) (18 points) Answer EITHER Part A OR Part B.

A) Draw a Lorenz Curve. Given your diagram, what do you estimate is the Gini Coefficient for your graph? Explain how you reached that conclusion.

B) One of the outcomes was *economic growth*. How do we measure that? Explain the difference between *intensive growth* and *extensive growth*. Make sure you give a brief example of both.

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

A) Why might an improvement in the outcome *economic growth* cause the outcome of *environmental sustainability* to deteriorate? Explain your logic. Make sure you define both terms.

B) Why might an improvement in the outcome *income distribution* cause the outcome of *efficiency* to deteriorate? Explain your logic. Make sure you define both terms.

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

A) We said that the two Koreas were a natural experiment for comparing capitalism and communism. What made them a good experiment? Explain your logic. What was the problem I pointed out with the experiment? Explain my logic.

B) If you were to determine the weights for the weighted average of the six outcomes (economic growth, efficiency, income distribution, stability, long-run viability, and environmental sustainability), which outcome would you weight the most? Explain your logic. Which outcome would you weigh the least? Explain your logic.

10) (18 points) Answer EITHER Part A OR Part B.

A) Do you think *moral incentives* or *material incentives* do a better job at motivating people? Explain your logic. Make sure you define both terms.

B) What are *public goods*? Why do they require government action? Explain your logic. Why isn't police protection a public good? Explain your logic.