

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. 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) Explain why efficiency wants $MB = MC$.
- 2) (25 points) Is theoretical capitalism good at environmental sustainability? Use a diagram in your explanation.
- 3) (10 points) We will see that the European model of capitalism involves a large government with lots of regulations. Does that fit Hobbe's model or Smith's model of capitalism? Explain your logic.
- 4) (20 points) One problem with theoretical capitalism is *public goods*. What are they and why can't the market work well for them? Explain your logic.
- 5) (15 points) What is meant by monopoly power? Explain why it causes problems for theoretical capitalism.
- 6) (15 point) Is theoretical capitalism good or bad at economic stability? Explain your logic.