

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) According to the Brennan Center for Justice (named in honor of the late Supreme Court justice) states that the USA has entered “A New Era of Crony Capitalism”. What does that mean? Is that good or bad for the USA? Explain your logic.

<https://www.brennancenter.org/our-work/analysis-opinion/new-era-crony-capitalism>

B) According to Foreign Policy Magazine, America is moving towards a kleptocracy. What does that mean? Is that good or bad for the USA? Explain your logic.

<https://foreignpolicy.com/2025/03/25/america-kleptocracy-trump-musk-corruption/>

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

A) Would you expect that water distribution systems are mostly privately owned or publicly owned in most countries? Explain your logic.

B) Would you expect that agriculture is mostly privately owned or publicly owned in most countries? Explain your logic.

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

A) According to The Heritage Foundation, Finland has a score of 100 out 100 on property rights while its neighbor, Russia, has a score of 18.9. Given just that information, which country will be doing better over time? Explain your logic. <https://www.heritage.org/index/pages/all-country-scores>

B) President Trump has increased import tariffs on almost everything. Is that good or bad for the long-run economy? Explain your logic.

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

A) Are progressive or regressive taxes better for achieving the outcome of income distribution? Explain your logic.

B) If you were the leader of an extremely poor African country, would you encourage FDI or not? Explain your logic.

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

A) If you were to use only one variable as a measure of economic stability, what variable would you choose? Explain how you would use that variable.

B) There are several types of efficiencies in economics. Explain one of them and how you would determine how well an economy does at it.

6) (16 points) Answer EITHER Part A OR part B.

A) Suppose an economy improved on the outcome of environmental sustainability but went backwards on income distribution. Would you say that country was improving or going backwards? Explain your logic.

B) We have six outcomes we use to evaluate an economy, economic growth, efficiency, income distribution, stability, long-run viability, and environmental sustainability. Which one would you weight the most if we were to do a weighted average? Explain why you feel that one is so important.

7) (16 points) Answer EITHER Part A OR Part B.

A) What is the *principal-agent problem*? Explain how it is a problem in communism.

B) One of the enforcement mechanisms is *convention*. What is that? Is that a moral incentive or a material incentive? Explain your logic.

8) (16 points) Answer EITHER Part A OR Part B.

A) What is meant by *moral hazard*? Explain how that is a problem for insurance.

B) What is meant by *adverse selection*? Explain how that is a problem for lending money.

9) (16 points) Answer EITHER Part A OR Part B.

A) What is meant by a *public good*? Why does the existence of it mean that theoretical capitalism cannot exist in its pure form?

B) What is meant by *fixed country effects*? Explain why that makes generalizing to all countries from the results of one country problematic.

10) (20 points) Answer EITHER Part A OR Part B.

A) Draw a PPF. Use it to explain the difference between extensive growth and intensive growth.

B) According to this link, the Gini Coefficient for Belarus is 24.4. Draw a Lorenz curve for Belarus.

(You can round it to 25 if you find that easier to draw.) Explain how you graph has a Gini Coefficient of about 25. Why is a low number like that bad for economic growth? Explain your logic.

<https://worldpopulationreview.com/country-rankings/gini-coefficient-by-country>