

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) There are several qualities you want the tax base to have for the tax to be a good tax. State ONE of them and explain why that is a desirable quality.

B) I argued that most sales taxes are regressive. What does that mean? Explain my logic.

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

A) What is meant by the *principal-agent* problem? Explain how that could result in an inefficient production level in capitalism.

B) What is meant by *moral hazard*? Explain how that could result in an inefficient production level in capitalism.

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

A) According to the Heritage Foundation, Sri Lanka has a “Government Integrity” score of 30.7 on a scale of 0 - 100, where 100 is best. Why is such a low score bad?

B) The Heritage Foundation has a score for how secure property rights are. What does that mean? Sri Lanka’s score is 46.5 on a scale of 0 to 100 where 100 is best. Why is such a low score bad?

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

A) Give the economists’ definition of a *public good*. I argued that police service is not a public good. Explain my logic.

B) State ownership of property has one advantage over private ownership. What is that advantage? Explain your logic.

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

A) Why do we use *real GDP per capita* to measure how well off a country is? What is one problem with using it as a measure of happiness a country is? Explain your logic.

B) Why do democracies normally have better economies than totalitarian governments? Explain two reasons.

6) (14 points) Answer EITHER Part A OR Part B. The six outcomes are Economic Growth, Efficiency, Income Distribution, Stability, Long-run Viability, and Environmental Viability. (Obviously, we have not studied capitalism yet, so I will be lenient when grading your answers.)

A) Which ONE of these six outcomes do you think capitalism will do well at? Explain your logic.

B) Which ONE of these six outcomes do you think capitalism will do poorly at? Explain your logic.

7) (14 points) Answer EITHER Part A OR Part B. The six outcomes are Economic Growth, Efficiency, Income Distribution, Stability, Long-run Viability, and Environmental Viability. (Obviously, we have not studied communism yet, so I will be lenient when grading your answers.)

- A) Which ONE of these six outcomes do you think communism will do well at? Explain your logic.
- B) Which ONE of these six outcomes do you think communism will do poorly at? Explain your logic.

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

- A) We measure economic stability two ways. What is ONE of those two methods? Briefly explain how it is done. Explain why we want economic stability.
- B) How do we measure income equality? Briefly explain how that is measured. Why do we care about income distribution?

9) (20 points) Answer EITHER Part A OR Part B.

- A) What is meant by “reducing trade barriers”? Is that a good thing? Explain two reasons.
- B) Define *import substitution* and *export orientation*. Which is more likely to help the economy? Explain your logic.

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

- A) In your opinion, do moral incentives or material incentives work better for most people. Explain your logic using an example of both types of incentives.
- B) In your opinion, does an economy with centralized decision making or decentralized decision making normally do better? Explain your logic using an example of each type of decision system.