

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. 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) (20 points) Suppose you ran a communist country which was trying to go capitalist. How would you decide whether to use shock therapy or go gradual? State a criterion you would use and explain how you would use that test to come to your decision. Why did you use that criterion? Given your criterion, should Russian have gone gradual or used shock therapy? Explain your logic.
- 2) (15 points) The book says that for privatization, a country must first let prices and wages adjust to market conditions. Why must that be done before the companies are sold off? Explain your logic.
- 3) (15 points) Why is it difficult for large companies to be valued correctly? Explain your logic.
- 4) (20 points) There are advantages and disadvantages to letting foreigners bid on large companies. What are the advantages and what are the disadvantages? Do you think a country privatizing a large company should allow foreigners to bid? Why or why not?
- 5) (15 points) Explain why bankruptcy laws must be written when a country goes from communism to capitalism.
- 6) (15 points) Explain why the distribution of income is very inequitable in Russia now.