Midterm I

You have 50 minutes to complete the 100 points worth exam. Be precise and to the point. Good luck!

PART I (24%) - Short Descriptions: answer 4 of 6
In two to three coherent sentences, explain and/or define each of the following concepts.

1. Stakeholders  
2. *Homo Economicus*  
3. Classical liberalism  
4. Soft-budget constraint  
5. Reaganomics  
6. HDI

PART II (40%) - Short Answers: answer 2 of 3

a. “A complete, competitive, full-information general equilibrium is efficient.” Explain this statement in detail and discuss what happens when each of the conditions is violated.

b. Describe the hunter-gatherer economic system (society). What were its main characteristics? Why and how did it change?

c. Explain why Hayek, in his article “The Use of Knowledge in Society,” refers to the price mechanism as a marvel?

PART III (26%) - Essay Topics: answer 1 of 2

A. “An economic system is the set of institutions and rules that define and constrain the production of goods and services.” Which institutions form the core of an economic system? Explain each institution in a market capitalist economy.

B. What are the four possible solutions, which we discussed in class, to economic externalities? Explain each briefly.

Turn over ⇒
PART IV (10%) - Readings: answer all 5

Multiple choice

1. The ability of individuals to improve their economic status is called?
   (a) economic justice.  (d) economic mobility.
   (b) fair tax.  (e) a utopian dream.
   (c) intensive growth.

2. The philosopher John Rawls argued for
   (a) a more unequal distribution of income.
   (b) marginal cost pricing.
   (c) antitrust laws.
   (d) equal distribution of income.
   (e) none of the above.

3. According to the podcast titled “Market Failure, Government Failure and the Economics of Antitrust Regulation,” how did the government influence power plants in the 1980s?
   (a) It completely limited any emission of SO2 by power plants.
   (b) It issued limits to the amount of SO2 that power plants could emit.
   (c) it issued caps of SO2 emission and allowed power plants to trade (cap-and-trade).
   (d) It did nothing and allowed social norms to emerge.
   (e) It mandated a particular type of technology to limit SO2 emission by power plants.

4. What was the name of Ayn Rand’s character from Atlas Shrugged?
   (a) Friedrich Hayek
   (b) Hank Poulson
   (c) Hank Rearden
   (d) Vilfredo Pareto
   (e) Jean Colbert

5. Ronald Coase has argued that external effects can be corrected by
   (a) antitrust legislation.
   (b) having the government set price equal to marginal cost.
   (c) voluntary agreements.
   (d) taxation.
   (e) all of the above.