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. Gini coefficient
2. Arbitrageurs
3. Capture of regulators
4. Public failure
5. Intensive growth
6. Rule of law

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

a. What is the role of capital markets in the “life of a firm?” What happens if capital markets are absent?

b. How are economic systems classified? What are the five main dimensions of classification? Explain each of them briefly.

c. What is the main point of Douglas North’s argument as to why formal institutions arise in a modern economy. (*Hint: How come formal institutions did not exist in “primitive” societies, but exist in modern economies?*)

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

A. One reason for government involvement in the market economy is redistribution of income and wealth. How can this be done? List and explain three arguments for a redistributive government. Explain what determines income and the role of the redistributive government with regards to income. (*Hint: Make sure you discuss a relationship between wealth and human capital.*)

B. According to Hayek’s article “The Use of Knowledge in Society,” what is the role of prices in the economy? What happens when prices are determined by the state rather than by interaction of many buyers and many sellers? Relate the time period when the article was published to the economic debates at that time.
PART IV (10%) - Readings: answer all 5

Multiple choice

1. According to the podcast titled “Market Failure, Government Failure and the Economics of Antitrust Regulation,” which regulation was put in place by the government to reduce the emission of pollution in the air:

   (a) Government increased a tax on gasoline to reduce gas consumption by consumers.
   (b) Government lowered a tax on gasoline to reduce gas consumption by consumers.
   (c) Government increased tax on vehicles that had high gasoline consumption.
   (d) Government required car manufacturers to limit emissions by installing catalytic converters.
   (e) Government encouraged car manufacturers to produce more gas efficient cars.

2. Who was Hank Rearden?

   (a) Hayek’s main figure in “The Use of Knowledge in Society.”
   (b) Treasury Secretary during the Reagan presidency.
   (c) A character from Atlas Shrugged.
   (d) A person that invented the HDI.
   (e) A German utopian socialist.

3. Economic mobility refers to

   (a) the ability to move to a job in a different part of the country.
   (b) speed at which goods can be transferred from producers to consumers.
   (c) the ability of individuals to improve their economic status.
   (d) the ability of people to find jobs that fit their educational level.
   (e) the ability to move to a more prosperous country.

4. In his article “The Use of Knowledge in Society,” Hayek refers to the price mechanism as?

   (a) a paradox.   (d) an intentional invention.
   (b) a marvel.   (e) leading to a fair distribution of income.
   (c) being equitable.

5. According to the late American philosopher John Rawl, a just society is the one

   (a) with equal distribution of income.
   (b) with equal distribution of opportunity.
   (c) in which you would want to live in even though you did not know what your place in it would be.
   (d) where you get taxed fairly.
   (e) where economic justice prevails.