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. Great Society
2. Market power
3. Extensive growth
4. Property rights
5. Economic mobility
6. Lorentz curve

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

a. What are the special roles of arbitrageurs and speculators in a market economy? Make sure you explain what they do and why this is important for effective functioning of a market economy.

b. Explain the institution of incentives in an economy. What are the main elements of a successful incentive system? Which types of incentives exist in an economy?

c. What are the three main functions (activities) of a government in an economy? Explain each.

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

A. Explain the concept of a perfect market? What makes a market perfect? Elaborate on each item and explain what the consequences when each of the items are not satisfied.

B. Explain the five main criteria we use to evaluate outcomes of economic systems? How do we measure each? Are there real life attempts to combine more than one economic outcome into single performance measure? Could there be any conflicts between any economic systems' outcomes?
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,” regulation imposed on the auto industry in the 1980s was the most helpful to

   (a) GM, the patent holder for catalytic converters.
   (b) Honda, the most efficient car maker at the time.
   (c) Toyota, the least polluting car maker at the time.
   (d) Ford, the most profitable car maker at the time.
   (e) Chrysler, the patent holder for the anti-brake system.

2. The philosopher John Rawls argued for

   (a) a more unequal distribution of income.
   (b) marginal cost pricing.
   (c) antitrust laws.
   (d) the income distribution that would exist behind the “veil of ignorance.”
   (e) none of the above.

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

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

4. According to Douglass North, institutions in a modern economy arise to

   (a) provide jobs for the government.
   (b) lower transaction costs.
   (c) reduce income inequality.
   (d) manage economic stability.
   (e) increase intensive growth.

5. 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) John Rawls