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. Natural monopoly
2. Economic system
3. Progressive Era
4. Public failure
5. Keynesian revolution
6. *Homo Economicus*

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

a. **Economic Outcomes** How do we evaluate outcomes of economic systems? State the five performance criteria and briefly explain each.

b. **Invisible Hand** What is meant by the invisible hand in the context of a market economy? Why is it called the invisible hand.

c. **The Use of Knowledge** What is the main point of Hayek’s article “The Use of Knowledge in a Society?” According to the article, what is the function of prices in a market economy? How does Hayek’s article relate to one of the strengths of the market system which says that the need for information is minimized in the market system.

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

A. **Market Failure** Market failures are considered a weakness of the capitalist economic system. What are the four major market failures we have covered in class? Explain each in detail and give a brief example of how a government could remedy each particular market failure.

B. **Perfect Market** 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.
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,” in a world of free market fishing there is too much fishing because the ocean is not owned, so the size of the average fish decreases and the quantity caught in each time period decreases. Of the following, which statement is NOT correct?

(a) Government could choose to do nothing. As the stock of cod become smaller, fishermen would stop fishing and allow the stock of fish to grow.

(b) Government could regulate fishing by the means of command and control, i.e. imposing limits on the amount of fishing could be created.

(c) This could be solved with a system of property rights. People can buy and sell rights.

(d) This is called the tragedy of the commons.

(e) Government could choose to do nothing and see if moral system evolves, like littering—social norms.

2. Which of the following concepts does the “veil of ignorance” exercise cover?

(a) antitrust laws.  
(b) unequal distribution of income.  
(c) unequal distribution of wealth.  
(d) progressive income taxation.  
(e) economic justice

3. Who was Hank Rearden?

(a) Hayek’s main figure in “The Use of Knowledge in Society.”

(b) A guest in the podcast “Market Failure, Government Failure and the Economics of Antitrust Regulation.”

(c) A character from Atlas Shrugged.

(d) The founder of the American Addiction Center.

(e) The economist vital in the Socialist Calculation Debate.

4. 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 people to find jobs that fit their educational level.

(d) the ability of individuals to improve their economic status.

(e) the ability to move to a more prosperous country.

5. According to the video on fair taxes, which of the following statements is the most correct? Fair taxes

(a) are a matter of economic freedom.  
(b) are a matter of value judgment.  
(c) should create equal opportunity.  
(d) are progressive.  
(e) promote equality.