

Check the weights given each, and answer appropriately (i.e., more points implies a longer essay). Both the quality and the content of your writing matters! You must demonstrate what you have learned from the lecture and the readings. Use a large blue book, and put your name on only the outside front cover. You must finish by 12:30 pm.

I. (50%) Longer Essay Questions: Answer Two of Three

A. (25%) How do we measure the performance of an economic system? What are the major criteria we use? What are the major problems of measuring economic performance? In addition to the institutions and policies underlying the economic system, what other factors affect its performance?

B. (25%) What are the basic theoretical and practical reasons for state intervention in the economy? What functions might the state fulfill to improve a country's economic performance? Why might the state find it difficult to intervene efficiently in the economy?

C. (25%) Are democratic societies more likely to choose relatively optimal economic policies? In your answer, consider the implications of Arrow's general impossibility theorem, Olson's theory of coalitions, and Madisonian Liberalism, briefly explaining each.

II. (20%) Short Essay Questions: Answer Both

D. (10%) What four conditions are necessary for evolution to occur? Is the hypothesis of economic evolution consistent with the neoclassical view of gradual, stable, and predictable progress? Explain.

E. (10%) Explain, compare, and contrast Olson's bandit model versus Locke's social contract. What are their implications for the objectives of state intervention? Under what circumstances would they have similar implications?

III. (30%) Short Descriptions: Answer 10 of 12

(3% each) In two to three articulate sentences each, define and explain each of the following, with some comment on their importance, context, or relevance. Clearly mark which two you are dropping. If you answer all 12, I will drop the last two.

1. Capitalism
2. Coase Theorem
3. Condorcet's Voting Paradox
4. Creative Destruction
5. Feudalism
6. Invisible Hand
7. Kaldor's Compensation Criterion
8. Mercantilism
9. Pareto Optimality
10. Prisoner's Dilemma
11. Socialism
12. Surplus Value Theory

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