

Read All Instructions Carefully. Use a blue book. Be sure to put your name on the blue book cover, but not inside it. Clearly tell me which questions you are skipping; if you answer more than necessary, I will skip the last one(s) in your blue book.

I. (30%) Short Descriptions: Answer 10 of 12 (3% each) In two to three articulate sentences each, define and/or explain each of the following, with some comment on their importance, context, or relevance.

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| 1. Coase Theorem | 7. Imperialism and the Weak Link |
| 2. Condorcet's Voting Paradox | 8. Iron Law of Wages |
| 3. Creative Destruction | 9. Public Failure |
| 4. Feudalism | 10. Public Good |
| 5. Gershchenkron effect | 11. Socialism |
| 6. Hegelian Dialectic | 12. Surplus Value Theory |

II. (30%) Short Answers. Answer *three* of the following four questions in a single paragraph each. Each is worth 10%. Don't answer more than is necessary.

- Compare, contrast, and explain Adam Smith's Invisible Hand versus the Prisoner's Dilemma model. What are their implications for the appropriate role of the state in a market economy?
- Compare, contrast, and explain 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?
- Compare, contrast, and explain Keynes' General Theory versus the views of the Monetarist/New Classical economists, especially as they pertain to ideal macroeconomic policies.
- Compare, contrast, and explain *Laissez Faire* versus Mercantilism. What arguments did Smith, Hume, and Ricardo put forth in favor of *Laissez Faire*?

III. (40%) Essay Topics. Write an essay each on *two* of the following four topics, answering all questions in each topic in a single coherent essay. Each essay counts for 20%. You should be able to write a clear, concise, cogent, and coherent essay which addresses each issue raised without sacrificing the flow of your essay. Demonstrate an understanding of the lectures and readings, and reference readings where appropriate.

- 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?
- What are the three Arrow-Debreu welfare theorems? What do they mean, and what do they tell us about perfect markets? What are the three conditions for perfect markets, and what do they mean? If these conditions are not met, what does the Theorem of the Second Best tell us about the relative efficiency of a market economy?
- 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.

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