

Part A: Answer each of the following questions in one to three paragraphs. Each answer is worth 10 points.

1. Why is the right of *private property* an essential characteristic of a market system?
2. *Rivalry* and *excludability* are the two characteristics of goods that are produced through the competitive market system. Compare and contrast the difference in private and public goods based on these two characteristics. Then, explain the concept of the *free-rider problem* with public goods.
3. How do economists distinguish between the absolute and relative sizes of the United States public debt? Why is the distinction important?

Part B: Answer each of the following questions in one to four sentences. Each answer is worth seven points.

1. State at least one economic benefit to increased international trade.
2. Why might a corporation prefer to obtain financing through bonds instead of stocks? In contrast, why might a corporation prefer to obtain financing through stocks instead of bonds?
3. Is a credit card considered to be money? Explain.
4. Explain what is meant by a *command economy*.
5. What are the two main investor preferences, and how do they conflict?
6. Why does competition force firms to use the least-cost, most-efficient productive techniques?
7. Explain the aspects of *expansionary* and *contractionary* fiscal policy. During which phases of the business cycle would each be appropriate?
8. When measuring the GDP for a particular year, why do economists include only final goods? Why don't they include the value of stocks and bonds sold?
9. What is meant when economists say that the Federal Reserve Banks are bankers' banks?
10. What is the effect on the money supply when a commercial bank buys government securities from the public?