

Due 9 Oct 2014. Turn in neatly written/typed answers.
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1. (4 points) Landsburg [page 196] says:

Enhanced competition, enforceable contracts, appropriate incentives, attention to consistency, and market forces generally serve us well, and I believe we should be ever on the lookout for new settings where we can employ them.

There is nothing in economic theory to suggest that existing political institutions are even close to optimal, in any sense of the word. If the best policy proposal seems bizarre, it might be only because we are unused to seeing anything like the best policy proposal in action.

Each of these proposals has serious flaws. That is no argument against them. Some standard is required for determining how their flaws compare to those of the status quo. Initially much analysis is called for – and we’ll learn something from that analysis, even if the proposals are rejected. But eventually there is no substitute for the daring experiment.

Describe an LUC policy that should be changed because its costs exceed its benefits for the average student.

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2. (6 points) You wake up one morning in the People’s Republic of Radioactive Spending (PRRS), where “plutos” made of plutonium are used as money. The leaders of PRRS have adopted this currency to stimulate the economy through spending. Assume that there are no banks and that all transactions (purchases of goods or services varying from apples to houses to haircuts to monthly salaries) must be paid in plutos. People can either choose to hold money (losing one hour of life per pluto held per day) or dump it into the commons, where anyone else can take plutos and use them to buy things.

In your answers, compare the situation in PRRS to that in our world today.

- (a) (1 point) How do interest rates function in PRRS?

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(b) (1 point) How frequently would you want to be paid wages in PRRS?

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(c) (2 points) How would you know someone is rich in PRRS?

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(d) (1 point) Would prices for goods (food, bikes, rent, etc.) be *relatively* higher or lower in PRRS?

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(e) (1 point) Would the average citizen of PRRS be better off or worse off, in terms of consumption?

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