

TRUE/FALSE/UNCERTAIN (6 pts each) Justify your answer in less than 10 lines. No points will be given for correct answers without justification.

1. The First Welfare Theorem implies that as long as there is perfect competition in each market the overall outcome will be Pareto efficient.
2. Suppose there was a way to make theft forever impossible – perhaps by adding a chemical to the water supply that would make anyone who steals anything feel intolerably guilty. By a standard revealed preference argument, all people who are presently thieves must be opposed to such policy.
3. If polygyny (one man marrying multiple women) is allowed then women will be worse off. (assume all marriages are completely voluntary)
4. Suppose people differ in their wealth and entrepreneurial ability and define *microcredit* as the policy of making any person with wealth below some given threshold eligible for a small, uncollateralized loan with the condition to use the loan to start up a small business. Then microcredit would be efficiency-improving if implemented on a nation-wide scale.
5. Abolishing limited liability (the legal limits on how much and what creditors can take from borrowers in case of default) in borrowing relationships can be efficiency improving.

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1. The Second Welfare Theorem implies that redistribution is Pareto efficient.
2. Monopoly is always inefficient because it generates a deadweight loss to society.
3. Increasing the price of cigarettes is likely to have small short-run effects on the overall smoking rate but larger long-run effects.
4. A risk-averse person will tend to search more to find a lower price outlet that sells a good than would a risk-neutral person.
5. *Deductibles* (pre-specified amount a person has to pay out of pocket in case of an insurance event) charged by insurance companies serve solely as a component of a two-part tariff designed to extract consumer surplus.