

Name: _____

Economics 854 Final
Prof. Bryan Caplan
Spring, 2010

Instructions:

- You have 100 minutes to complete this exam.
- Write all answers directly on the exam.
- You may use any books, notes, or other materials that you wish, but avoid spending too much time on any one question.
- Partial credit may be awarded on all questions.
- The maximum possible number of points is 120.
- You should have five pages, counting this one.

Part 1: True, False, and Explain**(10 points each - 2 for the right answer, and 8 for the explanation)**

State whether each of the following six propositions is true or false. In 2-3 sentences (and clearly-labeled **diagrams**, when helpful), explain why.

1. Suppose that politicians earn \$1000 when they vote for a program in the public interest, but earn \$10,000 when they vote for a program that benefits only a special interest. Half of all programs are public-interested and benefit each voter by \$1000; the rest are special interested and hurt each voter by \$2000. Voters know how many “yes” votes their representatives cast, but only have a 5% chance of discovering whether a piece of legislation was public- or special-interested.

T, F, and Explain: If a “cruel and unusual punishment” clause caps voters’ maximum punishment of politicians at \$50,000, voters will prefer to vote for candidates who cast a higher fraction of “yes” votes.

2. Suppose voters in a Meltzer-Richards framework are purely *group*-interested; they vote for whichever candidate maximizes the average income of their group.

T, F, and Explain: If all groups have equal average incomes, the equilibrium tax rate will be zero; otherwise, the equilibrium tax rate will be positive.

3. "Donald Wittman (1995) has recently argued that the neoclassical model of political processes purports to demonstrate democratic inefficiencies, but when pushed to its logical conclusion shows the opposite: democratic bargaining, like economic bargaining, yields the best possible outcome given the constraints... [I]f the full costs of any action are taken into account - including the costs associated with achieving an alternative arrangement of affairs - then at any point individuals are doing the best they can given the situation." (Peter Boettke, "Is There An Intellectual Market Niche for Austrian Economics?")

True, False, and Explain: Boettke understates the thesis of Wittman's *The Myth of Democratic Failure*.

4. T, F, and Explain: **Voter irrationality logically implies political slack.**

Part 2: Short Essays
(20 points each)

In 6-8 sentences, answer all of the following questions.

1. Pretend you're Donald Wittman. Write a half-page summary of your new book, *The Myth of Dictatorial Failure*. Be as persuasive and true to Wittman as possible.

2. Building on Cowen's "Does Technology Drive the Growth of Government?," predict how the size and scope of the U.S. government will change over the next century. Defend your answer.

3. Analyze the global financial crisis of 2008 using Caplan's "Idea Trap" model. What major patterns does the model correctly predict? What are the main anomalies?

4. "Once adopted, free-market anarchism would work better than futarchy, but futarchy is more likely to actually be adopted." Do you agree or disagree? Explain your answer.

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Part 1: True, False, and Explain**(10 points each - 2 for the right answer, and 8 for the explanation)**

State whether each of the following six propositions is true or false. In 2-3 sentences (and clearly-labeled **diagrams**, when helpful), explain why.

1. T, F, and Explain: **The empirical evidence against the SIVH undermines the central conclusion of Wittman's *The Myth of Democratic Failure*.**

2. According to Mises' Democracy-Dictatorship Equivalence Theorem, dictatorships adopt the policies favored by their median citizen.

T, F, and Explain: **This does not imply that on average, democracies and dictatorships will have identical policies.**

3. True, False, and Explain: **Education, job security, and income level all make people “think like economists,” but conservative ideology does not.**

4. “To deal with this welfare bug problem, we could also allow such proposals to be vetoed if another market clearly estimated bad consequences for welfare as it will be defined in the future, say in one year. If someone then spotted a bug, they could bet that elected representatives would agree that it is a bug and fix it within one year. If speculators agreed, the proposal would not be implemented.” (Robin Hanson, “Shall We Vote on Values But Bet On Beliefs?”)

T, F, and Explain: **Hanson is essentially proposing futarchy constrained by a supermajority veto.**

Part 2: Short Essays
(20 points each)

In 6-8 sentences, answer all of the following questions.

1. Bartels' "The Opinion-Policy Disconnect" points out important inconsistencies in public opinion. Use both expressive voting theory, and rational irrationality to explain these inconsistencies. Which theory is more plausible? Why?

2. Apply Mosca's insights in chapter 7 of *The Ruling Class* to any political movement you know a lot about. Give details. From Mosca's perspective, what would be the *most* surprising fact about the political movement you're discussing?

3. Suppose you're an advisor to Gorbachev in 1985. You want to help him maximize the Soviet Empire's economic growth subject to the constraint that he remain dictator for the rest of his natural life with 90% probability. Taking full advantage of your knowledge of public choice and dictatorship, write a short Machiavellian political-economic strategy memo to Gorbachev.

4. Caplan argues that from a global point of view, national defense *cannot* be a public good. Explain his argument. Does this have any interesting policy implications? Why or why not?

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Spring, 2012

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Part 1: True, False, and Explain**(10 points each - 2 for the right answer, and 8 for the explanation)**

State whether each of the following six propositions is true or false. In 2-3 sentences (and clearly-labeled **diagrams**, when helpful), explain why.

1. “[M]any of Beard’s examples are efficiency enhancing rather the distributive, and... the most important redistributive effects were of a different level and kind from the ones considered by Beard.” (Wittman, *The Myth of Democratic Failure*)

T, F, and Explain: Buchanan would largely agree with Wittman’s critique of Beard.

2. In an “idea trap” model, suppose that ideas remain fixed if growth is good, but improve if growth is mediocre or bad.

T, F, and Explain: This implies two steady-state equilibria, one where growth, policy, and ideas are all good, and another where growth, policy, and ideas are all bad.

3. Suppose voters have rational expectations about everything *except* for the effect of policies.

True, False, and Explain: **If voters vote on a purely retrospective basis, this will only partially mitigate the effects of their biased policy beliefs.**

4. T, F, and Explain: **Economic calculation under worldwide socialism is impossible.**

Part 2: Short Essays
(20 points each)

In 6-8 sentences, answer all of the following questions.

1. In the real world, to what extent is ideological voting a symptom of expressive voting? What kinds of voter behavior are evidence of one but not the other? Explain your answer.

2. Construct a simple example with rational expectations where voters' asymmetric information *increase* demand for government. Does your example have any real-world relevance? Why or why not?

3. The Kim family has ruled North Korea for three generations. Doesn't the stationary bandit model imply that the country should be prospering? If so, what's wrong with the stationary bandit model? If not, why not?

4. Vigorously defend Tyler Cowen's "network industries" critique of anarcho-capitalism against his critics.

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Spring, 2013

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Part 1: True, False, and Explain**(10 points each - 2 for the right answer, and 8 for the explanation)**

State whether each of the following six propositions is true or false. In 2-3 sentences (and clearly-labeled **diagrams**, when helpful), explain why.

1. Suppose educational attainment is an important part of group identity. College grads identify with other college grads, high school grads identify with other high school grads, and so on.

T, F, and Explain: **The group-interested voting model clearly predicts that the well-educated will support more government spending on education.**

2. Wittman usually assumes the SIVH.

True, False, and Explain: **Making Wittman's assumption about voter motivation more realistic would undermine his conclusions about democratic efficiency.**

3. The Enlightened Preference literature begins by measuring Political IQ.

T, F, and Explain: **If the Enlightened Preference approach is valid, exogenously increasing PIQ will raise property values.**

4. “Public choice can argue, coherently, that the voter derives expressive benefits solely from the *act* of voting, and not at all from voting one way rather than another.” (Brennan and Lomasky, *Democracy and Decision*)

T, F, and Explain: **Brennan and Lomasky’s view here implies that the median person who actually votes will be more expressive than the median person eligible to vote.**

Part 2: Short Essays
(20 points each)

In 6-8 sentences, answer all of the following questions.

1. How would U.S. *states'* tax codes change if U.S. states were Tiebout competitors? Carefully explain your answer.

2. Identify a Machiavellian insight that public choice ignores. How would taking Machiavelli's insight seriously improve upon existing research? Be specific.

3. “A world totalitarian government could permanently ignore the trade-off between stability and openness.” (Caplan, “The Totalitarian Threat”) Why does Caplan claim this trade-off exists? What existing dictatorship is currently closest to the longevity-maximizing stability-openness trade-off? Explain your answer.

4. Does anarcho-capitalism qualify as a “constitutional change”? If so, does it escape the “endogenous institutions” critique of the social value of constitutional change? Why or why not?

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Part 1: True, False, and Explain**(10 points each - 2 for the right answer, and 8 for the explanation)**

State whether each of the following six propositions is true or false. In 2-3 sentences (and clearly-labeled **diagrams**, when helpful), explain why.

1. Suppose that politicians earn \$1000 when they vote for a program in the public interest, but earn \$10,000 when they vote for a program that benefits only a special interest. Half of all programs are public-interested and benefit each voter by \$1000; the rest are special interested and hurt each voter by \$2000. Voters know how many “yes” votes their representatives cast, but only have a 5% chance of discovering whether a piece of legislation was public- or special-interested. Politicians are risk-neutral.

T, F, and Explain: If a “cruel and unusual punishment” clause caps voters’ maximum punishment of politicians at \$50,000, rational voters will prefer to vote against candidates who cast a higher fraction of “yes” votes.

2. Suppose voters in a Meltzer-Richards framework are purely *group*-interested; they vote for whichever candidate promises the tax rate that maximizes the average income of their group.

T, F, and Explain: The equilibrium tax rate will equalize group incomes if less than half of voters belong to the richest group.

3. “But, obviously, citizens will react to the costs they bear only insofar as they are aware of them. The possibility of driving a wedge between actual and publicly perceived costs creates an irresistible temptation for governments pursuing high-cost policies in times of national emergency. Except perhaps where lives are being lost, no costs are so easily counted as pecuniary costs... It therefore behooves any government wishing to sustain a policy that entails suddenly heightened costs to adopt devices to substitute nonpecuniary for pecuniary costs. (Higgs, “Crisis, Bigger Government, and Ideological Change”)

T, F, and Explain: **Wittman would accuse Higgs of assuming “a serious lack of competition” under democracy.**

4. T, F, and Explain: **Buchanan’s appeal to the “veil of ignorance” at the constitutional level of politics is consistent with his belief in the SIVH.**

Part 2: Short Essays
(20 points each)

In 6-8 sentences, answer all of the following questions.

1. Environmental regulators usually adopt “command-and-control” remedies for pollution instead of pollution taxes or tradeable permits. If you were Donald Wittman, how would you explain this fact?

2. “Whether a political or religious teaching is to win wide acceptance depends almost exclusively on three factors.” (Mosca, *The Ruling Class*) Use Mosca’s analysis to explain the “wide acceptance” of either liberalism or conservatism in the modern United States.

3. Suppose Communist China switched to democracy. Using everything you have learned, predict what major policy changes would be adopted during the first five years of Chinese democracy. Carefully explain your answer.

4. Say something new and insightful about the economics of anarchy.

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Part 1: True, False, and Explain**(10 points each - 2 for the right answer, and 8 for the explanation)**

State whether each of the following six propositions is true or false. In 2-3 sentences (and clearly-labeled **diagrams**, when helpful), explain why.

1. “A great deal of our information about revolutionary overthrows comes from the memoirs of people who have participated in them, either on the winning or the losing side. These people rarely explain their own participation or nonparticipation in terms of selfish motives. Indeed, they very commonly ascribe selfish motives to rivals or to the other side, but always explain their own actions in terms of devotion to the public good.” (Tullock, “The Paradox of Revolution”)

T, F, and Explain: Tullock is rebutting critics of the SIVH.

2. **T, F, and Explain: Controlling for religious variables consistently depresses the estimated effect of ideology on party identification by over one-third.**

3. **T, F, and Explain: Mosca believes that political actors are irrational, but never suggests that they are what Caplan calls “rationally irrational.”**

4. Suppose voters consistently used Beckerian punishments to discipline politicians.

T, F, and Explain: **This would backfire because it would reduce the supply of competent politicians eager to implement the median voters' preferences.**

Part 2: Short Essays
(20 points each)

In 6-8 sentences, answer all of the following questions.

1. "If voters were really group-interested, group leaders would try harder to *negotiate* with rival groups instead of fighting with them." Flesh out this argument, then apply it to a real-world example of your choosing.

2. Name two major facts the sociopathic bandit model designed to explain? Can the stationary bandit model provide plausible alternative explanations of these two facts?

3. Out of the twenty five common objections to futarchy (Hanson, "Shall We Vote on Values But Bet on Beliefs?"), which is the *best*? State the argument in its strongest form, then argue that Hanson's response is unconvincing.

4. Suppose Canada adopted anarcho-capitalism. Would the Canadian experiment be able to survive the *international* reaction? Why or why not?

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Economics 854 Final
Prof. Bryan Caplan
Spring, 2016

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Part 1: True, False, and Explain**(10 points each - 2 for the right answer, and 8 for the explanation)**

State whether each of the following six propositions is true or false. In 2-3 sentences (and clearly-labeled diagrams, when helpful), explain why.

1. T, F, and Explain: **Rational irrationality in democratic elections is Pareto efficient but not Kaldor-Hicks efficient.**

2. T, F, and Explain: **The Enlightened Preference approach tests public opinion for systematically biased descriptive beliefs.**

3. T, F, and Explain: **Strictly speaking, the “Paradox of Revolution” predicts that large political changes will never occur.**

4. Suppose U.S. Presidents served for a single eight-year term with no possibility of re-election, rather than a four-year term with a chance for re-election.

T, F, and Explain: **Theoretically, this will lead to less socially efficient policies.**

Part 2: Short Essays
(20 points each)

In 6-8 sentences, answer all of the following questions.

1. Does Gelman et al. ("Rich State, Poor State, Red State, Blue State: What's the Matter with Connecticut?") strengthen or weaken the evidence for group-interested voting? Carefully explain your answer.

2. "Correlation between information and interests seem like a strong objection to the Miracle of Aggregation." (Caplan, *Myth of the Rational Voter*) Explain Caplan's position on this issue. How would Wittman likely respond?

3. Identify one constitutional provision from any country and time period with a big effect on policy; i.e., if the provision did not exist, the country would adopt *markedly* different policies. How is this possible?

4. What has the growth of the Internet shown about the viability of moderate privatization of rule formation, dispute resolution, and enforcement? The viability of radical privatization?

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4. T, F, and Explain: Jones and Olken (“Do Leaders Matter?”) contradicts Mises’ Democracy-Dictatorship Equivalence Theorem.

Part 2: Short Essays
(20 points each)

In 6-8 sentences, answer all of the following questions.

1. What would Machiavelli say about the 2016 U.S. presidential election? Be specific.

2. Discuss two important but neglected social benefits of selfish voting. Why are these benefits so often overlooked?

3. "Elected representatives could in principle directly get whatever decisions they wanted by encoding them in welfare definition. For example, if they wanted a certain road built, they might put a term in the welfare definition that takes on a large positive value if the road is built as specified, and zero otherwise. Speculators would then have to agree that building the road would raise expected national welfare." (Robin Hanson, "Shall We Vote on Values But Bet On Beliefs?")

Methodically explain exactly what Hanson is talking about.

4. Careful cost-benefit analyses often find that the social benefits of extra policing far exceed the social costs. How would a thoughtful advocate of police privatization respond? Who's right?