(1) Why does Milton Friedman support the decentralization of government?

(2) According to Friedman, what are the different approaches available to a society for allocating goods? Which approach does Friedman support, and why?

(3) What are some of the key features of a competitive market economy?

(4) What did Adam Smith mean by "The Invisible Hand"?

(5) What was the main point of Hornbeck’s article regarding barbed wire fencing? What evidence did he provide to support his argument?

(6) What is Pareto optimality? Show that the competitive equilibrium for the following economy is Pareto optimal

There are two types of individuals, each of whom owns an intermediate good that is used in production. Each individual has one unit of their specific intermediate good. These intermediate goods are combined to produce a single final good that is consumed. The household chooses how much of the intermediate good to sell, which we denote as \( x \). The intermediate good that is not sold for production is consumed by the individual.

Preferences for individual "i" depend on produced consumption as well as their own intermediate good, and are given by:

\[
\max \{ u(c_i) + v(1 - x_i) \} \tag{1}
\]

subject to the budget constraint:

\[
p_i x_i \geq c_i \tag{2}
\]

The technology for producing the final consumption good from the intermediate goods is given by:

\[
Ax_1^{1/2} x_2^{1/2} \geq c_1 + c_2 \tag{3}
\]
(7) In the following economy, there is a single type of household which has one unit of time available each period. The economy operates for two periods. The resource constraint for the first period is, where \( k \) is the capital stock, and \( l \) is labor, and \( c \) is consumption.

\[
Ak_1^{1/3}l_1^{2/3} + (1 - \delta)k_1 \geq c_1 + k_2
\]

The resource constraint for the second period is given by

\[
Ak_2^{1/3}l_2^{2/3} + (1 - \delta)k_2 \geq c_2
\]

The preferences for the household are given by

\[
\max\{\ln(c_1) + \beta \ln(c_2)\}, 0 < \beta < 1
\]

(A) Show that second period consumption is increasing in the parameter \( \beta \). That is, all other things equal, a higher value of \( \beta \) means a higher value of \( c_2 \) relative to \( c_1 \)

(B) Explain why labor input in each period will be equal to 1.