ECON 107
Quiz 2
This quiz will last 10 minutes.

1. *(6 points)* **Honor Statement:** Please read and sign the following statement:

   I promise that my answers to this test are based on my own work without reference to any notes, books, or the assistance of any other person. I will also neither help others nor use a calculator or other electronic aid for calculation.

   Name and Surname: _

   Student ID: _

   Signature:

   _

2. *(7 points total)* About *rationality*:

   (a) *(3 points)* Define what it means for a decision maker to be rational.

   Definition 1 *A decision maker is rational if they optimize, or in other words given their preferences (a mixture of primitive urges, social and personal expectations) they choose the best outcome.*

   (b) *(4 points)* Why should social scientists assume people are rational?

   Definition 2 *In a word, humility. It is the height of arrogance to assume that the people who are studing—who have real stakes on the line in their decisions—will make bad decisions. Of course the second generation of this type of excuse is "they are rational but they have weird preferences," and that—and all types of arrogance—also needs to be watched out for, but at least they recognize they should be assuming rationality.*

3. *(4 points)* Define *Pareto efficiency*, if you use another key welfare concept in your definition you have to define that one too.

   Definition 3 *An allocation is* Pareto efficient *if you can not make some people better off without making other strictly worse off.*

   Definition 4 *An allocation is* Pareto efficient *if it is not Pareto dominated.*

   Definition 5 *Allocation A* Pareto dominates *(or* Pareto improves on) *allocation B if no one likes B better and some like A strictly better.*

4. *(3 points total)* Standard feedback questions:

(a) *(1 point)* Out of ten, my level of comprehension of the material covered this week is:

(b) *(1 point)* My favorite topic of the week was:

(c) *(1 point)* The topic I understood the least this week was: