Economics 316A: The Underground Economy
Short Essay Questions 2019

Students do a midterm and final short-answer essay, each worth 25% of final grade. Students pre-prepare answers to all the questions listed below using both course materials and their own research. Note they are divided into questions for October, and for November. Students will submit one from the October list by the date given below and one for the November list. Both are based on a random draw in class.

Note: at the bottom a question 5 that can be selected ONLY for the November essay – read the instructions below very carefully.

Each answer is maximum three double spaced pages (four for question 5 only) using Times New Roman 12-point font in WORD format – NO PDFs. Don’t waste time or space on long intros, repeating class material or trying to be cute. Answer ALL parts of a question about equally. PROVE you understand technical terms used in answering.

CORE IDEA: The point is to resolve a problem by subterfuge. Do NOT claim you bribed cops or regulators! Make sure you specify which (and whose) laws are violated by the offense that earns and/or hides illegal money.

WORKING RULES

1) You can form groups to discuss and share materials, but each person hands in a separate product.
2) Don’t just repeat lecture or class-reading material or invent a fantasy world. Originality is rewarded but must be guided by both logic and imagination.
3) Don’t include formal endnote references. No one will read them and you burn up valuable space. But brief reference in the text to actual events (with enough info to trace back what you claim) increases your credibility.
4) For TA feedback, submit to him/her a draft of one double-spaced page of your thoughts and questions. Remember that TA’s have exams & papers too.
5) Late submissions will be penalized at the rate of 5 points out of 25 per day, starting at 6:01 PM on the due date.
6) On Tuesday October 8 in class there will be a random draw to select ONE of the posted questions, 1 or 2, your answers to be submitted by e-mail to the TA by 5 PM Thursday, October 10. You are free to submit earlier.
7) On Tuesday November 26 in class another random draw selects ONE of questions, answers to 3 or 4 to be submitted by e-mail to the TA by 6 PM Thursday, November 28. (Those who braved question 5 – see below - submit directly to Professor Naylor with the same deadline.) Early submission is fine.
8) Penalty for late submissions, five marks (out of 25) per day, starting at 6:01 PM on the due date.
9) Make sure you include name, student number AND date plus time of submission. Believe it or not, some students submit without even their names.

QUESTIONS 1 & 2 are for October draw: QUESTIONS 3 & 4 for November with question 5 possible – but READ THE RULES CAREFULLY.
1. The economy is in the dumps - housing prices are falling again while the jobless rate and cost of living both continue to rise. President Trump needs a political success before impeachment papers are finalized by the House of Representatives. His advisors suggest reviving the War on Drugs that worked so well for Nixon (heroin) and Reagan (cocaine). Meanwhile the Pentagon and CIA warned Trump that since ecstasy decreases anxiety and stimulates emotional empathy, it poses a national security threat. So President Trump issues an executive order instructing police and intelligence agencies to increase surveillance of sources of equipment and chemicals useful to manufacture Ecstasy and stamp out its use. The government doubles penalties for possession and threatens anyone trafficking with charges of material support for terrorism. Explain how you would bring Ecstasy back to the USA market in THREE stages: first relying on strictly domestic manufacture from all-American materials; second using imported raw materials; third outsourcing full production to China before reimporting and distributing across the country. Explain how you would reduce dangers from each mode of operation as you equip your lab, assemble raw materials (when necessary), and sell your product (whether it was home made or imported) in the face of intense surveillance from both police and intelligence services. They will try to closely monitor of sources of chemicals and equipment and constantly snoop electronically. Explain how you could evade or defeat all of these obstacles.

2. You are the proud owner of a busy bar at the corner of Ste. Cathérine and St. Laurent. Inside your establishment are signs declaring smoking off limits and barring sale of alcohol to or use of video-poker machines by anyone under 18. The place has a reputation for respecting community quiet hours and exhorting clients to contribute their change (after tips) to Save The Children collection boxes. You faithfully report your earnings to all relevant tax collectors. Each night the friendly and honest young cop assigned to that neighbourhood drops in for an after-duty drink, usually chocolate milk, and a chat with some of the young people sitting at tables with McGill logos on their school bags. However things are not quite as they appear. Some of the booze you sell is unloaded outside in barrels from unmarked trucks, then bottled in your basement. Some of your income comes as a franchise fee from crack dealers who set up in a corner each evening. Your enterprising nephew sells smuggled cigarette (actually fake Marlboros) in the back alley behind the bar and kicks back half the profits to you in cash. And you rent out reserved places at the bar to “sex-trade workers,” most smuggled in from South East Asia by a trafficking ring in which you are a silent partner. Explain how you get away with all this in the face of each relevant (identify them precisely) regulatory, revenue and police agency. Do NOT assume you just bribed the police or any other level of authority, except maybe the local Liberal Party bagman. (Note: there is no need to worry about laundering in this question – that will come in question 3 for the November submission.)
Second Set for November Submission

3. Your best friend, Nick the Shark, has been busted and sent to Kingston penitentiary. Before starting his sentence, Nick entrusted you with collecting profits from his loan-sharking business (explain how it works) and of protecting his accumulated assets from the possibility the police will seize them. Nick’s income comes in strictly in cash. His assets consist of:

   1. several luxury properties along the Riviera held by Monaco trustees on behalf of a deceased maiden aunt whose will, that stipulates Nick as legatee, is stashed in a Cayman Island lawyer’s safe;
   2. a suitcase of $100 bills in the garden of his two-bedroom bungalow in a rancid part of Detroit that the cops are trying to get a warrant to search;
   3. a pile of gold bars in a safety deposit box in an Isle of Mann trust company.

Nick offers you a ten percent fee if you can not only protect his money from seizure but also recycle it into things he wants. When he steps out of prison in five years time, he expects to have free-of-worries access to a Beverly Hills dream 12-bedroom mansion, a classic Silhouette Lamborghini, and a portfolio of blue-chip shares in highly rated companies like Tesla. Explain step by step how you, his trusted friend, can accomplish this while also protecting your 10% share from police and revenue agency probes. In your answer pay strict attention to relevant regulatory measures designed to facilitate finding, freezing, and forfeiting allegedly criminal assets. You are free to assume you operate out of the US, Canada, or Britain, provided you specify which. Moving and hiding the money will almost always require some knowledge of haven country laws. (Do not waste time with crypto currency nonsense.)

4. On Saturday night, your chauffeur-driven salon (an Audi A8-L extended) picks up your dinner guests and delivers them to the front door of your Manhattan penthouse (corner Lafayette and Broadway) promptly at 8:00 PM. You know the exact time from watching the hands sweep on your superbly jeweled Rolex. Soon your guests are savoring Russian Beluga caviar and quaffing 1950 Chateau Pétrus, a rare Bordeaux. Then they are ushered into a dining room graced with Sumerian vases to sit at a table carved from Brazilian big-leaf mahogany under the watchful eyes (both on one side of its face) of a previously unknown Picasso, while your Lear’s Macaw parrot leers and caws from its cage. In reality, your “Rolex” was manufactured in a Chinese sweatshop, the vases (that are on an Interpol watch list) were lifted from the Iraq National Museum by an American three-star general, the Picasso was finished a few days before by a talented second cousin hiding out in Paraguay, the mahogany in the table along with the parrot in the cage are both banned under the Convention on the International Trade in Endangered Species, and the only thing vintage about the wine is the label. Explain how you acquired ANY FOUR of these from places of origin, moved them past border guards and Customs on both sides, and have sufficient confidence in your proof of ownership and of origin to display them at a dinner where the honored guests are the woman projected to be the next Secretary of Homeland Security and the incumbent U.S. District Attorney for Manhattan.
**OPTIONAL QUESTION** FOR SECOND SET: THE WORD LIMIT ON THIS QUESTION IS FOUR DOUBLE SPACED PAGES WITH 12 POINT TYPE. If you choose this one, it eliminates the double preparation necessary before the second draw. It also gives you an extra page. BUT BE WARNED: It might take more work than preparing both 3 & 4. On the other hand, it will review most of the course for you.

You have finished your BA at McGill with a 2.5 GPA and $50,000 in student loans outstanding. You desperately need a job to start repaying that debt before the Nick the Shark, working for a well known international bank, sends a couple of bikers to break your leg. The want ads have openings for flipping burgers, but you need a bachelor of mechanical engineering degree to even get an interview. While drowning your sorrows at Gerts one evening, a recruiter for a small, rather obscure “shipping company” offers to pay off the first five years of loan installments in return for you signing up for those five years as a cargo handler. Financial salvation, foreign travel, and adventure all rolled into one - wow! You borrow money from the recruiter at the current bank rate (18%) to fly to Panama to join the ship. There you turn in your passport to the captain who wears a black patch over one eye, and settle down in the crew cabin with 12 other political refugees, war-displaced persons, and people on the lam from the law. The ship is carrying a load of toxic incinerator ash from New Jersey to sell as “fertilizer” in West Africa past local customs agents; from there the ship will pick up a load of bootleg Marlboros to smuggle into Venezuela that just banned American brands; from there the ship will load war-surplus contraband Israeli assault rifles for Somalia, then try to run an Anglo-American naval blockade with a load of qat (a popular Somali drug) for the trendy European market. During this time your pay is being deposited in a Swiss bank minus costs of “room and board.” List the main laws you participate in breaking (explaining briefly but accurately how that is done); and plot a means by which you can safely access your remaining funds in the British Virgin Islands in the face of a much publicized international crackdown on bank secrecy and money laundering. You also have to get home in time to address the McGill convocation about how well your arts degree opened the doors of career opportunity.

**Academic Integrity:**

All students are required to understand the meaning and consequences of cheating, plagiarism and other academic offenses under the Code of Student Conduct and Disciplinary Procedures. In the event of extraordinary circumstances beyond the University’s control, the content and/or evaluation scheme in this course is subject to change. All students have the right to submit their written work in English or in French.