

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

- 1) (25 points) Why does the Solow Model imply that countries will converge to the same GDP per capita? Why do we not see this convergence?
- 2) (20 points) The equation  $g_Y = a + W_K * g_K + W_L * g_L$  says that if we want GDP to grow certain things have to happen. What is  $g_k$  and why is it needed for GDP to grow?
- 3) (15 points) Why would an official exchange rate far from the unofficial exchange rate reduce the economic growth of an economy? (Page 70 says that it does.)
- 4) (25 points) Give two reasons why more developed economies have a larger proportion of the economy in industry than in agriculture.
- 5) (15 points) What is disguised unemployment? Why is this a problem in developing countries?