

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 240 points (to be scaled down to 180 points) and is scheduled to take 120 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give some extra time, but not much.

1) (12 points) Answer EITHER Part A OR Part B.

- A) Which decreases first, the crude birthrate or the crude death rate? What is the reason for this?
- B) What is population momentum? What causes it?

2) (16 points) Answer EITHER Part A OR Part B.

- A) Suppose that a project will cost \$1000 this year and \$1090 next year. When the company is running, starting in two years, they will make \$400 a year for 6 years. Set up the calculation which will determine the *Benefit - Cost Ratio* (BCR) for the project if the interest rate is 9%. Do not worry about doing the actual calculation. How can you tell if the project is worthwhile to do?
- B) Suppose that the nominal interest rate is 10%, the tax rate on interest income is 30%, and the inflation rate is 5%. What is the real interest rate? Show all work and briefly explain how you chose each number in your calculation.

3) (16 points) Answer EITHER Part A OR Part B.

- A) Why might real GDP per capita be a misleading measure of how well off a developing country is, even if it is measured using PPP? Give at least TWO reasons.
- B) Draw a Lorenz Curve which would yield a Gini Coefficient of about .6. Explain how you could see the Gini Coefficient is about .6.

4) (18 points) Answer EITHER Part A OR Part B.

- A) The last time I checked, Russia had a required reserve ratio of 20% while it is 10% in the USA. Why do you think Russia has such a high rate? What is the problem with such a high rate?
- B) What is  $S_{fpd}$ ? What are an advantage and a disadvantage of that type of savings?

5) (18 points) Answer EITHER Part A OR Part B.

- A) An article on BBC.com's web page written on 2006/12/11 is entitled "Gender bias 'increases poverty'." What is the economic reason that gender bias slows economic growth?
- B) Explain why is it important that "firm managers, farmers, and other decision makers must be able and willing to respond to market signals" for a successful transition from a socialist based economy to a market based one.

6) (18 points) Answer EITHER Part A OR Part B.

- A) MNCs offer many positive aspects to the host country. What are TWO of them? Explain how MNCs can bring these positive aspects.
- B) Developing countries will sometimes place requirements on FDI in the form of *domestic content laws*. What are these? What are the good and bad aspects of such laws?

7) (18 points) Answer EITHER Part A OR Part B.

- A) The Solow Growth Model concludes that for a developing country to develop, it must do at least one of four things. State ONE of them. Explain why it is a requirement for the economy to grow faster.
- B) What is a problem with a distribution of income which is too equitable? What is a problem with a

distribution of income which is too inequitable?

8) (20 points) Answer EITHER Part A OR part B.

A) What is meant by disguised unemployment? What can the government do to reduce the problem? Explain how that would reduce the problem.

B) Most developing countries have problems caused by a poorly educated populous. However, a population with too much education can be a problem too. Explain the problems which result from a populous which is too educated. State two problems and explain how the high level of education can cause it.

9) (20 points) What topic did you want me to ask about, but was not on this exam? Explain why that topic is an important one for this course.

10) (22 points) For EITHER an import tariff on all imports OR a sales tax on a particular item (excise tax), explain why a country might want to use that tax to collect revenue. Also explain why they might want to not use it to collect revenue.

11) (26 points) Answer EITHER Part A OR Part B.

A) We mentioned at least seven economic reasons for government intervention in the market. What are TWO of the reasons? Explain how they create a reason for government intervention.

B) If you were running a developing country, would you choose *import substitution* or *export orientation* as the method to develop the economy? Explain both why you chose that method and why you did not choose the other one.

12) (36 points) Answer EITHER Part A OR Part B.

A) Draw the three labor supply and demand diagrams for the urban formal sector, the urban informal sector, and the rural sector. Illustrate an increase in the minimum wage in the formal sector. Explain why the curve(s) moved as drawn. If a diagram has no movement of either line, then briefly state why the curves do not move.

B) Draw the labor supply and demand diagram which has two vertical axes and illustrates the number of workers in the rural job sector and the number in the formal job sector assume that there is NO minimum wage. Illustrate an increase in the population. Explain why the curve(s) moved as drawn. What happens to the labor used in both sectors? How does your graph show that?