

This review sheet is intended to cover everything that could be on the exam; however, it is possible I may have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

In general, I will not ask about what is happening in a specific country. So you do not need to memorize the many tables. However, using examples of different countries will help your explanations, so reading the sections where the book talks about different countries will help you understand the principle and help you to give a clearer answer.

The review session will be Thursday, 10/19, at 7:30 in Old Main 109 if it is available.

Chapter 4: How does growth reduce poverty? How do growth and gender equality affect each other? Ignore the sections on Ricardo, Marx, the Neo-classical and the labor surplus models. What are the advantages and disadvantages of the timing of redistribution and growth, i.e., which should come first or simultaneously?

Chapter 5: What are the economic reasons for government intervention and why do they require government intervention? They are monopoly power, economies of scale, externalities, infant industry, underdeveloped institutions, macroeconomic imbalances, and national goals. Note that what the book calls "external economies" is normally called "positive externalities," and what it calls "external diseconomies" is normally called "negative externalities." The infant industry argument is controversial, know why it is. What are the advantages and disadvantages of "shock therapy"? What is rent seeking and why is it a problem? This chapter goes into more detail about import substitution and export orientation that we covered in chapter 3. Why are the five conditions on page 169 important for market reforms?

Chapter 6: What is meant by sustainable development? Why do the market failures of externalities cause a need for regulation? What is the "tragedy of the commons" and how can it be corrected? Be able to understand the example of the fisheries and understand why we want to be at a particular point but do not go there. How do we calculate the marginal net benefit? Why do we do present value calculations? Why are property rights important? How do we decide the optimal level of pollution? How can we get there with quotas, taxes, and marketable permits? What are human-made capital (not to be confused with human capital) and natural capital? How do they relate to ANNP? How do we get NS and why is it significant? Do not worry about Malthus. Why do some pollution problems rise with population increases while other sources decrease and some take an inverted U-shape?

This is the non-graded assignment #4A that will be reviewed with assignment #4.

1) (15 points) Suppose that a tree could be cut now and provide \$200 worth of wood. If you let it grow for another year, it will produce \$240 worth of wood. Set up the present value calculation which would determine the highest interest rate which you would still let the tree grow. What is that value? Explain your logic.

2) (35 points) Use the MAC/MEC diagram to prove that a tax is the way which will reduce the pollution to the desired level with the least costs incurred. Explain your logic. Why will marketable permits give the same result as a tax?

3) (30 points) What is meant by ANNP? Why is it important? What is meant by NS? Why is it important?

4) (10 points each) For EACH of the following, draw the curve of that variable as a function of per capita income. Explain why the curve takes its shape.

- A) Urban Concentration of Sulphur Dioxide.
- B) Population without safe water.