

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 150 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 cannot give extra time because some students have a class after your class.

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

A) What is the economic problem caused by too small a Gini Coefficient? Explain how the low Gini Coefficient causes that problem

B) What is *NEW* and why should we use it instead of *GNI*?

2) (12 points) For EITHER *investment in education* OR *fewer trade restrictions*, explain why that will help the country to develop.

3) (12 points) Answer EITHER Part A OR Part B.

A) Would you expect the *gross domestic savings* to increase or decrease as the *age dependency ratio* increases? Explain your logic.

B) What would you expect the MPS to be if Modigliani's Life-Cycle Model is accurate? Explain your logic.

4) (16 points) Answer EITHER Part A OR Part B.

A) What is meant by shallow finance? Why is it a problem?

B) What is meant by a fixed exchange rate? Why might a developing country want one?

5) (16 points) Answer EITHER Part A OR Part B.

A) Explain how the social rate of return for education is different from the private rate of return.

B) What are the three stages of the *epidemiological transition*? Explain what causes them.

6) (20 points) Answer EITHER Part A OR Part B.

A) Give TWO reasons why development economists normally do not like to use *real GIN per capita* as a measure of how well off a country is.

B) Give TWO problems with using *unemployment rates* as a measure of how unproductive a country is. (I.e., what is it ignoring?)

7) (24 points) Answer EITHER Part A OR Part B.

A) Explain TWO problems which might cause taxes to be inefficiently collected, especially in developing countries.

B) Some economists feel that the poorest of the developing countries should have higher inflation rates than more developed countries. What is their logic? Give at least TWO reasons.

8) (24 points) Answer EITHER Part A OR Part B.

A) When discussing foreign debt, why are a high debt/export ratio AND a high debt service/revenue bad for the economy?

B) When a developing country has a large foreign debt problem, what are a plus and a minus to refinancing the debt?

9) (26 points) Answer EITHER Part A OR Part B.

A) Copy the table to the right into your bluebook. Show all work and briefly explain how you did the calculations. Assume the MPK is 0.2 and invest-

Year	2007	2008	2009	2010
Investment	1000			
GDP	10,000			

ment grows at 10% per year. Repeat the calculations with an MPK of 0.4 but a growth rate of investment of 5%. Show all work and briefly explain how you did the calculations.

B) Suppose that project has \$1000 worth of cost in the first year, of which \$200 is foreign exchange cost and \$100 of which is wages. If in the next 5 years, there is a net gain of \$250 per year of which \$300 is a net gain in foreign exchange and \$50 is a cost of labor. Suppose the shadow price of foreign exchange is really 10% higher and labor is 20% lower. Write out all terms of the equation which would calculate the net present value of the project measured. Show all work. Do not solve it.

10) (26 points) Answer EITHER Part A OR Part B.

A) Use the following table to draw the Lorenz Curve and estimate the Gini Coefficient. Show all work and briefly explain how you got the values for your entries and how you estimated the Gini Coefficient.

	1 st quintile	2 nd quintile	3 rd quintile	4 th quintile	10 th decile
Percent of income	5%	10%	15%	25%	25%

B) What is *population momentum*? Explain how it can cause a country problems for a couple of decades? Use a numerical example to illustrate what you describe.

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

A) Suppose the ruler of a country which had been communistic wants to turn it capitalistic. They ask you for advice. What two questions would you ask them before advising them as to whether they should use *shock therapy* or *gradualism* to convert? Explain how you use their answers in your decision.

B) If you were advising a country on how to decrease the *crude birth rate*, what two policies would you propose? Explain how those proposals would reduce the problem and why you would choose them.

12) (26 points) Answer EITHER Part A OR Part B.

A) Draw the two-sector supply/demand for labor with two vertical axes **and a minimum wage**. Illustrate an increase in the marginal productivity of labor in industry. Explain why the curve(s) moved as drawn. What happens to the wage in the industry, wage in the rural area, the number of workers in the industry, and the number of workers in the rural area? Briefly explain how you reached these conclusions.

B) Draw the two-sector supply/demand for labor with two vertical axes **without** a minimum wage. Illustrate an increase in the population. Explain why the curve(s) moved as drawn. What happens to the wage in the industry, wage in the rural area, the number of workers in the industry, and the number of workers in the rural area? Briefly explain how you reached these conclusions.

Happy Holidays. Enjoy your break!