

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will 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.

The review session will be Sunday, 11/4, at a time to be determined in class, unless the class chooses a different day. It will probably not be in Morlan 101 because of tutoring.

Chapter 8:

What is *human capital* and why does it matter? What are *stocks* and *flows*? How do they relate to education? What are *net enrollment rates* and how can it be greater than 100%? If it is greater than 100%, then is that good or bad? How does education differ between boys and girls? What is the difference between schooling and education? How do earnings depend upon education? Be able to calculate the private return using the present value calculations. How do you calculate the social return? How do the social costs and benefits differ from the private costs and benefits? Be able to set up the formula to calculate the internal rate of return. Understand why the numbers in Table 8-3 take the patterns they do. Why might those numbers be inaccurate? How can we make schooling more productive? This includes changing underinvestment and misallocation of resources, as well as improving schools and lowering the costs of going to school.

Chapter 9:

What determines the shape of mortality pyramids like those on page 316? What are the *under-five mortality rate*, the *morbidity rate*, and *mortality rate*? What causes *stunting*? How do *life expectancy* and *HALE life expectancy* differ? Why is that difference important? What is meant by *epidemiological transition*? What are the three stages and why do they occur? How are health and income related? How do they relate to growth? For the three diseases, HIV/AIDS, malaria, and tuberculosis, what causes those diseases? Where are they problems? What are the effects of them on society and the individual? How have they been effectively reduced? How was polio eradicated in Latin America? How were diarrheal deaths reduced?

Chapter 10:

Why is savings so important for growth? What is meant by *domestic savings*, *foreign savings*, *resource gap*, *corporate saving*, *household saving*, *official foreign saving*, *private foreign saving*, *FDI (foreign direct investment)*, and *portfolio investment*? For the Keynesian Absolute-Income Hypothesis, Duesenberry Relative-Income Hypothesis, Friedman's Permanent-Income Hypothesis, and Modigliani's Life-cycle model, understand how those models estimate the MPS. Why is it important to understand the MPS? What else determines private household savings? Why are we not concerned with corporate savings? What is Ricardian Equivalence? Why do we care if it holds or not? What are the types of official foreign savings and foreign private savings?

Chapter 11:

What is the difference between private investment and public investment? Why would we want to do private investment? How do you calculate the numbers in Table 11-1? Why is the type of investment important? Be able to do cost-benefit analysis using net cash flow. This is just like for education. The internal rate of return is done in the same manner as before. What are shadow prices and why are they important for doing the calculations? Why might projects be approved even if the return is negative? How do macroeconomic and political stability, good infrastructure, openness to trade, and reduced bureaucracy encourage private investment? What are the benefits and costs of FDI and portfolio investment? How can MNCs or TNCs cause increased access to markets, increased specialization, technology transfer, training of managers, more pollution, less control of production, and reduced profits staying in the country? How do improved investment

environment, export zones, tax incentives, and trade protection encourage FDI? How do requirements like joint ventures, domestic content laws, and production requirements reduce FDI?

This is the non-graded Assignment #7A that will be reviewed with Assignment #7.

- 1) (20 points) 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. What is the net present value of the project if the interest rate is 10%? Suppose the shadow price of foreign exchange is really 10% higher and labor is 20% lower. What is the net present value of the project measured at the same 10% interest rate? Show all work. If you were the company would you do this project? From society's view, should it be done?
- 2) (10 points) How does having an open economy encourage private investment?
- 3) (20 points) What is the greatest strength of allowing MNCs into a country? Explain how MNCs do that and why that is good.
- 4) (25 points) In net, are tax incentives for FDI good or bad? Explain your logic stating one good and one bad aspect of them.
- 5) (25 points) In net, are domestic content laws for FDI good or bad? Explain your logic stating one good and one bad aspect of them.