

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 160 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 extra time.

1) (14 points) Answer EITHER Part OR Part B.

A) In some countries, people in the 5 to 10 years age bracket are expected to live more additional years than somebody in the 0 to 5 age bracket. For example a 1-year old person may have a life expectancy of 45 while a 5-year old may have a life expectancy of 55. Explain why this is the case.

B) We mentioned why saving is important for the economy. Explain it is important.

2) (16 points) Answer ONE of the following parts.

A) What is meant by *population momentum*? Explain how it occurs.

B) Some development economists are called *population optimists*. What do they believe? Why do they believe that?

C) What is meant by *democratic transition*? Explain how it occurs.

3) (18 points) Answer EITHER Part A OR Part B.

A) The book says that one way to stop a financial panic/creditor rush for repayment is to restructure the debt. What does that mean and how could it solve the problem in some cases?

B) Most developing countries have pegged exchange rates. What is the advantage of that system for them? Explain your logic.

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

A) In the formula for the HDI, they assume the maximum income per capita is \$75,000, minimum income per capita of \$100, maximum life expectancy is 85, minimum life expectancy of 20, maximum mean years of schooling is 15, and maximum expected years of schooling is 18. Suppose a country has an income of \$5000 per capita, an average life expectancy of 50, a mean years of schooling as 12 and an expected years of schooling of 15. Set up the calculation which will give us the HDI. **Do NOT** calculate it. Briefly state what you did.

B) For the two parts of the HDI calculation which are **not** the GDP per capita, explain the reason why adding component to the calculation gives a more realistic indication as to how well off the country is. For example, if the number of people in the government was part of it, explain why more people in government is a good indicator of how well off the country is.

5) (20 points) For EITHER the Millennium Development Goal in Part A OR the MDG in Part B, explain why that goal is desirable. If you ruled a developing country in 1990, what would you do to achieve this goal? Explain how that would help to achieve the goal.

A) Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.

B) Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate.

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

A) Explain why the principle-agent problem means that aid might not be as effective as it could be.

B) Draw the EB/IB Phase Diagram. Explain why the IB curve takes its shape.

7) (20 points) Answer EITHER Part A OR Part B.

A) If a country's NPV debt/revenue > 200%, is that a problem of illiquidity or insolvency. Explain your

logic including how a number greater than 200% is a problem. Also tell me if it is an external transfer problem or an internal transfer problem and why you chose that.

B) There are four ways the central bank can increase the money supply described in your book. What are THREE of them? For ONE of them, explain how the central bank can use that to change the money supply.

8) (20 points) For EITHER a tax on property OR a sales tax, explain one reason why it is a good tax and one reason why it is a bad tax for a developing country.

9) (20 points) Answer EITHER Part A OR Part B.

A) One of the components of the Washington consensus for helping developing countries is to limit monopoly power. What does that mean and how does it help the economy? Explain your logic.

B) What is the formula for the poverty gap? Why might it be a better measure of how poor a country is than the percentage of the population below the poverty line.

10) (22 points) Answer EITHER Part A OR Part B.

A) Draw a Lorenz Curve diagram with a Gini Coefficient of about .33. Explain how you know the Gini coefficient is around .33.

B) What is the Gini Coefficient? Why is a large number bad and why is a small number bad?

11) (24 points) Answer EITHER Part OR Part B.

A) The book says that one of the characteristics of fast growing economies is a “favorable environment for private enterprise.” What does that mean? How can a developing country move in that direction? Explain how it will help the country.

B) Draw the two-sector labor supply/labor demand diagram with a minimum wage. Illustrate the effects of an improvement in technology in the industry. Explain why the curve(s) moved as drawn. What happens to the number of workers in the industry, number of workers in agriculture, the wage rate in the industry, and the wage rate in agriculture? Briefly state how you found each answer on the graph.

12) (28 points) Do EITHER Part A OR Part B.

A) Suppose the cost of another year of public education is \$1000 to the student and \$1500 for the government. With one more year of education, the person will earn \$100 more per year and the economy will get \$50 per year in positive externalities. Assume the person will work for 40 years if they go to school for one more year. Set up two calculations. The first which would be able to calculate the private return and the second to calculate the public (social) return. Briefly state how you chose where to put each number. **Without** doing the calculation, briefly explain how you would use the numbers to tell what the rate of return is.

B) Suppose a project would take \$800 to build including \$100 worth of labor. The profits of the project will be \$200 per year for 7 years. The profits in the future include \$300 worth of labor. The shadow price of labor is 25% less than the actual wage. Assume the rate of return is 10%. Set up two calculations. The first to determine if the company would do it. The second to determine if the net return to society is worth it. Briefly state how you chose where to put each number. **Without** doing the calculation, briefly explain how you would use the numbers to tell if the project is a good one.