

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.

There is no review session. The time of the exam needs to be determined.

Chapter 8: What is *human capital* and why does it matter? What are *stocks* and *flows*? How do they relate to **education**? What are *gross and net enrollment rates* and how can the former 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 300? 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? (Shouldn't the latter be just called HALE?) 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: How do you do a **project appraisal** using the **cost-benefit analysis** and a **NPV** calculation. This is just like in Chapter 8 except we also have the value of the equipment at the end of the time. What are **opportunity costs** and how do they relate to the **shadow prices**? How do **commercial project appraisal** differ from **economic project appraisal** and **social project appraisal**? Be able to do a calculation like that in the table on Page 357. Why does using the shadow price of labor instead of the wage rate always increase the NPV while using the shadow price of foreign exchange has an ambiguous effect on the NPV? What is **rent seeking**? Why is it bad? (I am not referring to what the Dead Kennedys sing about.) How do the following hurt a country's ability to have entrepreneurs start new companies: **corruption, licenses & permits, laws restricting firing employees, poor courts for enforcing contracts, lack of domestic savings, and taxes on firms**? Explain how **MNCs** benefit the **host country** through **supplying capital, creating employment, provide expertise, specialization in production, access to the world, and spillovers**. Understand how **MNCs** hurt the host company by taking profits out of the country, giving the locals less control over decisions, and uneven bargaining power. Understand the pros and cons of the following policies **export process zones, tax holidays, trade barriers, joint venture requirements, and domestic content laws**. Understand what determines the different types of savings: **foreign savings, private domestic savings, domestic government savings, and domestic corporate savings**. For private domestic savings, understand why the **life-cycle model** may or may not hold. If it does not hold, we will use the **Keynesian model of savings** which is  $S = -a + (1-b)(Y - T)$ . What is **Ricardian Equivalence**? Why might it hold and why might it not hold? Understand why  $I = (T-G) + S_p + (M-X)$ . Foreign savings can come in the form of **official savings** and **private savings**. The former is usually **concessional** (gifts or lower interest rates.)

Chapter 11: What are **fiscal and monetary policies**? What is a *public good*? Why should the government provide it? What are the differences between *current* and *recurrent* expenditures? Why do they matter? How do **wages, salaries, capital goods, maintenance, military spending, interest payments, subsidies, state-owned enterprises (SOEs), and intergovernmental transfers** affect the budget? Note that they vary greatly in size between countries,

but each type of spending has its own unique properties. What is meant by **tax capacity**? What are the advantages and disadvantages of the following types of taxes: **taxes on international trade, personal & corporate income taxes, and sales & excise taxes** (including VATs)? What is the problem with raising taxes too high? What other sources of taxes might be available? How can changes in tax administration and/or tax reform help the government to collect more money? How do taxes affect saving, investment, income redistribution, and equity? Why might taxes be inefficiently collected?

---

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

- 1) (25 points) The last time I checked, the US government was borrowing approximately 38 cents of every dollar spent. Why is it so hard to reduce that number? Explain the two generic ways of balancing the budget and why both are hard to do.
- 2) (10 points each) For each of the following taxes, tell me the advantage(s) and disadvantage(s) of the tax.
  - A) Sales tax.
  - B) Import tariffs.
  - C) Property tax.
- 3) (10 points) If you were to cut the budget of the USA, where would you cut and why?
- 4) (20 points) Some economists feel that cutting the income tax will not affect the country's savings. Why do they feel this? Do you agree? Explain your logic.
- 5) (15 points) How does importing more than we export help us to invest more?