

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) Explain why *macroeconomic and political stability* are important for a country to grow. Explain why both types of stability are important.

2) (15 points) What is meant by *effective institutions*? Why is that important for economy to grow?

Dakota, you will need me to teach you this because it is the only place in the course that I can remember changing how it is taught. I turned their graph into one with two vertical axes.

3) (15 points) This question refers to the two-sector labor supply/demand diagram. Explain why the labor demand for industry is the MPL but the labor supply for industry (effectively the labor demand for the rural areas) is the APL.

4) (20 points) Draw the two-sector labor supply and demand diagram without a minimum wage. Illustrate the effects of an increase in the population. Explain why the curve(s) moved as drawn. What happens to the wages in the two sectors and the level of employment in the two sectors? State how you reached those conclusions.

5) (20 points) Draw the two-sector labor supply and 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 wages in the two sectors and the level of employment in the two sectors? State how you reached those conclusions.

6) (15 points) What is meant by *underemployment* or *disguised unemployment*? Why is that such a big problem?