

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1) These questions refer to the labor surplus model.

A) (10 points) Why do we have the  $APL_A$  rather than the  $MPL_A$  for determining the amount of labor supplied from agriculture?

B) (10 points) Why is the  $MPL_A = 0$  when  $APL_A =$  the subsistence wage?

C) (35 points) Redraw the diagram 3-3 with two vertical axes. Illustrate what will happen if the population grows. Explain why the curve(s) moved as drawn, what happens to labor in both sectors, and the wages.

2) (15 points) If the  $MPL_A$  is not zero, then how would that affect the industrial production trying to expand?

3) (30 points) There are three general theories about which goods a developing country should try to produce. They are balanced growth, import substitution, and export orientation. The first is described in the book. The second is where you try to produce what you currently import. The last one is where you try to produce more of what you currently export. All three have good points and bad points. Which do you think is best? Explain what is good about it and what is bad about the others. Since we have not covered the latter two, I will be lenient on your explanations of them.