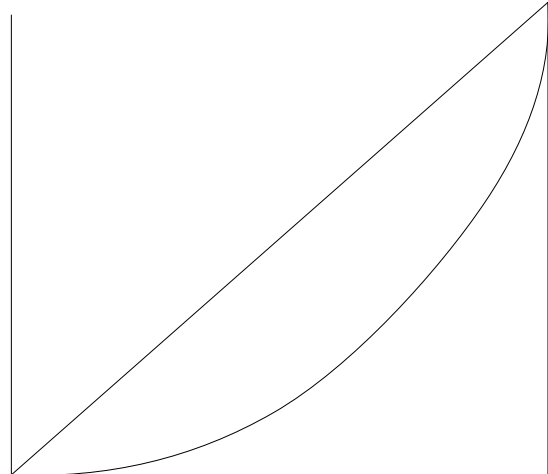


Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 150 points and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. Therefore, a 18-point question should take 9 minutes. I will give a few extra minutes, but probably no later than about 5 or 10 after the hour.

1) (12 points) What label goes on the axes of the graph on the right? What is your guess for the Gini Coefficient? Why do you say that? Be brief.



2) (14 points) Do EITHER part A OR part B.

A) According to the table in the workbook, Egypt is near the top of the lower-middle income countries measured by PPP. However, when I was in Egypt, I saw statistics that said it had just moved into the lower end of the lower-middle income countries based upon the exchange rate. How could the two be so far off?

B) One of the goals of many developing countries is to get the growth rate of population to decrease. Use the Solow model to explain why this is important.

3) (16 points) The following parts refer to the fictitious land of Pumpernickel, a poor country where 70% of the people are farmers and 30% live in urban areas. The farmers eat nothing but corn (the traditional crop) whereas the urban households eat nothing but bread (the main industrial product). Farmers grow corn for personal consumption and rye as a cash crop to sell to bakers. Do EITHER part A OR part B.

A) Wood-fired ovens used by bakers are a major cause of air pollution and deforestation in Pumpernickel. Are the resources used efficiently? If yes, how can you tell? If not, then why not?

B) Suppose that a merger results in a monopoly in the baking industry. How will that affect the farmers and the urban dwellers? Why do you say that?

4) (18 points) Do EITHER part A OR part B.

A) What is the argument that more gender equality leads to more growth of GDP?

B) It is often the case that the Gini Coefficient grows as GDP per capita increases, and then eventually decreases. Why might that happen?

5) (18 points) Do EITHER part A OR part B.

A) The Solow model predicts that the GDP per capita of developing and developed countries should be merging. What are two reasons that we do not see that? Explain why they prevent it.

B) Explain why having the official exchange rate near the “street price” is important for development. Explain why having strong rule of law is important for development.

6) (20 points) Do EITHER part A OR part B.

A) What are the advantages and disadvantages of the shock therapy method of going to a market economy?

B) What are the advantages of import substitution while keeping an outward orientation? Make sure you explain what that means and explain both halves (import substitution and outward orientation).

7) (24 points) There are many different measures of development, including some that have many variables not listed in any of the ones we discussed. What variables would you include in calculating a measure? Explain why you chose them. Make sure that you mention TWO including one that we did not discuss. Remember that they must be able to be quantified.

8) (28 points) Do EITHER part A OR part B. Both parts refer to the diagram with two vertical axes and show labor supply and demand for industry and agriculture.

A) Some people say that companies like Nike should pay their employees more, even though they already pay more than the going wage. Illustrate that on the diagram and explain the results of that policy. Do you think it would be good or bad for Nike to do that? Why?

B) Suppose that there was no horizontal line on the diagram. Illustrate what happens to the diagram when the population increases. What happens to the wage, the amount of labor in industry, and in the rural farming? Explain why those variables changed as described.