

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. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment.

- 1) (30 points) If you ran a poor country, would you prefer FDI or foreigners doing portfolio investment? Explain your logic.
- 2) (20 points) Friedman says savings is a function of permanent income and transitory income. Explain the difference between the two types of income and which will be more important for savings.
- 3) (20 points) Many people complain that official aid to developing countries does not help them. Explain two reasons why this may occur.
- 4) (15 points) Referring to recurrent expenditures, explain why it will be so hard for the US government to reduce the deficit.
- 5) (15 points) Economists have long tried to separate out government consumption and government investment. Explain why this is an important endeavor.