Wilfrid W. Csaplar Jr., Ph.D. Economics 260 Exam #1 2004/09/29

Write your name on the cover of the test booklet and nowhere else. Failure to follow these directions will cost you 1 point. The test has 150 points (to be scaled up to 180 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I can give some extra time, but not much.

1) (14 points) Do EITHER Part A OR Part B.
A) Explain how two countries with different Lorenz curves can have the same Gini Coefficient.
B) Why do many organizations feel that HDI is better for determining economic development than the GDP per capita.

2) (14 points) For EITHER the item in Part A OR the item in Part B, explain why it is important for a country to have that property if they want to develop.
A) Open economy
B) Developed, fair, court system

3) (14 points) For EITHER the reason in Part A OR the reason in Part B, explain why it is an argument for government intervention in the market.
A) External diseconomies (negative externalities)
B) Infant industry.

4) (14 points) Do EITHER Part A OR Part B.
A) For EITHER the Harrod-Domar model, OR the Solow model, explain what happens if the population grows faster. Explain the logic. You do not need to draw a graph.
B) Some development economists complain that the Solow growth model does not apply to developing countries. Explain the reason for this.

5) (16 points) The book lists four qualities that help a country to develop. For EITHER the quality in Part A OR the quality in Part B, determine if that quality will help or hinder development. Explain your logic.
A) A country with a fairly highly developed system of commerce, finance, and transport, mainly run by local people (not monopolized by European or Asian immigrant minorities.)
B) A country with a long tradition of emphasis on education and an elite that was highly educated (not a country with an mostly illiterate population.)

6) (18 points) For EITHER the event in Part A OR the event in Part B, explain how that will affect the growth of GDP. It is helpful to use the graph of GDP per capita as a function of capital-to-labor ratio, but it is not necessary. If you do not draw the graph, I expect you will go into more detail.
A) The savings rate increases.
B) The depreciation rate of capital decreases.

7) (18 points) Do EITHER Part A OR Part B.
A) The model of supply and demand for labor in industry, also known as MPL_I and APL_A,

sometimes predicts that an increase in the demand for workers in the industry will not increase the wage rate. Use the graph to show why this may occur. Explain the economic reason for this.
B) Use the model of supply and demand for labor in industry, also known as MPL_I and APL_A, to illustrate an increase in the population. Explain why the curve(s) moved as drawn. Illustrate the change in labor in agriculture and in industry. Explain why they changed as drawn.

8) (20 points) Draw the Lorenz Curve for the following country. Explain how you got the points. The entries are not cumulative percentage points. Estimate the Gini Coefficient and give one sentence explanation how you got it.

Quintile	first	second	third	fourth	top decile
% of income	5	10	15	20	30

9) (22 points) Do EITHER Part A OR Part B.
A) Suppose a developing country wants to start producing a more technologically advanced product. What steps should it take to move into that industry. Explain how that would help them and explain why you chose that method.
B) Define *balanced growth*. Explain both an advantage and a disadvantage of following that development strategy.