

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) (10 points) Answer EITHER Part A OR Part B.

A) The book says that there is disguised unemployment even when people are working very long days. How can that be?

B) The formal sector has a wage above the equilibrium. Why is that? What are the advantages and disadvantages of that?

2) (14 points) Answer Part A OR Part B.

A) According to the book, Nigeria has a high savings rate, but a low net savings rate. What are the differences between the two and what could cause them to be so far apart?

B) A recent article says that higher taxes on energy and other pollution sources hurt the poor more than the rich. Explain why this might be true by referring to an environmental problem like urban population without sanitation. You can talk about other problems rather than sanitation.

3) (16 points) For EITHER the requirement in Part A OR the requirement in Part B, explain why that requirement is a prerequisite for development. Give an example of a reason why it may not exist in some countries.

A) There must be competition.

B) Most goods and services must be bought and sold through market mechanisms.

4) (16 points) Answer EITHER Part A OR Part B.

A) Use an equation to explain why increasing the production of industry, may have little effect on employment.

B) Without writing the equation from Part A, explain two reasons why the equation under-estimates the change in employment.

5) (20 points) Answer EITHER Part A OR Part B.

A) Use an example to explain why a country may have population growth for 30 or 40 years after it gets its fertility rate down to two children per woman. Make sure you define fertility rate, death rate, and birth rate.

B) Draw the diagrams for the labor market in the urban formal sector, the urban informal sector, and the rural informal sector. Illustrate an increase the supply of manufacturing jobs. Explain why the lines moved as drawn.

6) (24 points) Use the MEC/MAC diagram to explain why the method of reducing pollution in EITHER Part A OR the method of reducing pollution in Part B is a low-cost or an high-cost method of reducing pollution.

A) Strict quotas on the amount of pollution a firm can produce.

B) Tradeable permits for creating pollution.

7) (24 points) If you were the government of a developing country, what two policies would you take to decrease the population growth? Explain why those two policies would help solve the problem.

8) (26 points) Answer EITHER Part A OR Part B.

A) Suppose that with your current level of education, you could earn \$10,000 a year. If you graduate from Bethany, suppose that you get a \$30,000 a year job. Further, assume you have three years left here, each year costs \$12,000 in tuition, and you will work for 40 years after graduating from Bethany. Set up the equation that would be used to determine the rate of return you are getting on your education. Briefly explain how you got the equation and what variable you would solve for IF you had to calculate your rate of return. What did I assume that caused me to leave out room and board?

B) Explain two big reasons why many developing countries have a problem getting the students educated. What could be done about them? How would your proposals work?