

Write your name on the cover of the test booklet and on an otherwise blank page of the Excel file and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 240 points (to be scaled down to 190 points) and is scheduled to take 120 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I can give you extra time, but I will not give you much.

1) (12 points) Answer EITHER Part A OR Part B.

A) Why are property rights important?

B) Why is ANNP important?

2) (16 points) Answer EITHER Part A OR Part B.

A) Too large of an inequitable distribution of income can result in slower economic growth. Explain why this is true.

B) Some economists say that looking at the ratio of the income of the top decile to the income of the bottom decile is a better measure of inequity than the Gini coefficient. Why might they argue that?

3) (16 points) Answer EITHER Part A OR Part B.

A) What are indirect and secondary job creation? Why are they often ignored when calculating the costs and benefits of a new factory?

B) What is the potential problem with *manpower planning*?

4) (18 points) Answer EITHER Part A OR Part B.

A) Suppose a government could undertake a project which would cost \$3000 this year and yield benefits of \$1331 a year for three years, starting next year. Would this project be worth doing if the desired rate of return for the government is 10%? Show all work and explain your logic.

B) Many developing countries have interest rate ceilings. Explain BOTH one positive result of them AND one negative result of them. Explain how the interest rate ceilings have those effects.

5) (18 points) Answer EITHER Part A OR Part B.

A) What are three problems of using real GDP per capita as a measure of economic development?

B) What are two characteristics of rapidly growing economies? Explain why those characteristics lead to faster economic growth.

6) (18 points) Answer EITHER Part A OR Part B.

A) If you were a ruler of a developing country, how would you encourage financial deepening?

B) What is the best type of capital for a developing country? If you were a ruler of a developing country, how would you encourage the firms to invest in the correct type of capital?

7) (20 points) For EITHER the reason given in Part A OR the reason given in Part B, explain that reason for government intervention. Explain a problem with that logic.

A) Infant industry.

B) Import substitution.

8) (20 points) Answer EITHER Part A OR Part B.

A) There are many governmental policies which on the surface appear to be excellent, but in reality cause the demand for labor to decrease. What are two of these policies and how do they have these

negative effects?

B) What are two reasons why developing countries should not adopt the latest technology from the USA. Explain the reasons.

9) (24 points) Answer EITHER Part A OR Part B.

A) Explain the advantages and disadvantages of tax holidays for FDI. Make sure you define them.

B) Give an example of a *performance requirement* that may be placed on FDI. Why might it be placed and what is the disadvantage of doing so?

10) (24 points) Answer EITHER Part A OR Part B.

A) Illustrate an increase in the savings rate on the Solow growth model diagram of  $y$  vs  $k$ . Explain why the curve(s) moved as drawn and why GDP per capita changes as you drew it.

B) Draw the diagram with two vertical axes and showing the MPL of urban formal sector and the APL of the rural farm sector as a function of the labor supply. Illustrate on it an increase in the productivity of workers in the formal sector. Explain why the curve(s) moved as drawn. What happens to the wage rate? Explain why it changed or failed to change.

11) (24 points) Answer EITHER Part A OR Part B.

A) Use an appropriate diagram to show that marketable permits is a better way to restrict air pollution than fixed quotas on pollution.

B) Use a supply and demand for a good with a positive externality to show the optimal government intervention.

12) (30 points) Assume you are the ruler of a developing country. For EITHER the problem in Part A OR the problem in Part B, explain why that problem is a problem and explain what you would do to reduce that problem. How would your policies work?

A) The illiteracy rate is high.

B) The population is growing.

Happy Holidays.