

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will be Wednesday, 9/29, at 7:00, in the normal room.

In general, I will not ask about what is happening in a specific country. So you do not need to memorize the many tables. However, using examples of different countries will help your explanations, so reading the sections where the book talks about different countries will help you understand the principle and help you to give a clearer answer.

Chapter 1: What do the terms on pages 7 and 8 mean? Why should we use PPP to adjust for different currencies? (Chapter 2 goes into more detail.) What are the four pre-requisites for growth? (Page 17) What are some alternatives to them?

Chapter 2: What are GDP, GNP, and per-capita income? What are some of the limitations of using them to measure development? What is inflation and how is it measured? What is the production function? For the growth model, it is important to know the economics, but not the mathematics. For example, be able to explain the economic reason that more savings causes a larger long-term GDP per capita, but do not worry about the calculation of how much the capital stock is. What are strengths and weaknesses of the Harrod-Domar growth model? What are the strengths and weaknesses of Solow's model? Note that small letters are per capita values of the variables. Basically understand the economics behind the conclusions, but ignore the graphs, unless you understand them. What does the evidence say about the conclusions? What causes the apparent difference between theory and reality? Understand why the "characteristics of rapidly growing economies" listed on pages 69 - 71 help to foster growth. Do not worry about "beyond Solow."

Chapter 3: What are the reasons that the percentage of the economy which produces agriculture decreases as the country develops? What are diminishing returns, labor surplus, rural unemployment, unemployed, underemployment, and disguised unemployment? How does the production function on page 89 show diminishing marginal product of labor? Why are rural farm workers paid APL while other workers are paid their MPL? Be able to understand the implications of the diagram on page 92. It is probably easier if we convert it to the double vertical axis diagram, like we did in class. What happens as the industry grows and when population grows? How do the diagrams change if the supply of labor is not perfectly elastic (horizontal)? Do not worry about the terms of trade effect on it or the neoclassical model. (In my opinion, neoclassical models can only apply to developed countries because they assume markets, especially the labor market, are fluid and move towards equilibrium quickly. I do not think that is possible in most developing countries.) What are early, middle, and late industries? What are the advantages and disadvantages of balanced growth, import substitution, and export orientation? How can backward linkages be used to get into an industry? (See also chapter 5.) Ignore the pages 104 through 114 on linkages and the Leontief input - output equations. They require either linear programming or matrix algebra. Both of which are beyond the scope of this course.

Chapter 4: What are poverty and inequality? Why are they important concepts? What is the Lorenz curve and the Gini coefficient? What do they tell us and what are the problems with them? Some economists propose that the ratio of the income of the top decile to the bottom decile is a good measure of inequality. What would be good or bad about that? How do we measure poverty? What are the good points and the bad points about using measures like the percent of people below poverty and HDI as a way to determine if the country is becoming more developed? What is meant by time-series and cross-sectional data? How does growth reduce poverty? How do growth and gender equality affect each other? Ignore the sections on Ricardo, Marx, the Neo-classical and the labor surplus models. What are the advantages and disadvantages of the timing of redistribution and growth, i.e., which should come first or simultaneously?

Chapter 5: What are the economic reasons for government intervention and why do they require government intervention? Note that what the book calls "external economies" is normally called "positive externalities," and what it calls "external diseconomies" is normally called "negative externalities." The infant industry argument is controversial, know why it is. What are the advantages and disadvantages of "shock therapy"? What is rent seeking and why is it a problem? This chapter goes into more detail about import substitution and export orientation that we covered in chapter 3. Why are the five conditions on page 169 important for market reforms?

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This is the non-graded assignment #3A that will be gone over with assignment #3.

- 1) (20 points) Why is the HDI considered to be a better measure of development than GDP per capita? Give at least two reasons and explain them.
- 2) (20 points) Why might it be normal for the Gini Coefficient to grow and then shrink as a country develops?
- 3) (25 points) Countries have a choice to focus on redistributing income before focusing on growth, focusing on them at the same time, or focus on the growth first. What are the advantages and disadvantages of growing first?
- 4) (15 points) The market failures mentioned in chapter five are all reasons for government intervention in the market. They can be summarized how? (They are all cases where . . .) Explain how you reached that conclusion.
- 5) (20 points) The implementing of reforms on page 169 lists a series of reforms which should be implemented. For the first one, explain why it is important.