

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 and failure to type it will cost you 10 points.

1) (15 points) In the equation, $S = [(S_{gb} + S_{ge}) + (S_{pc} + S_{ph})] + (S_{fo} + S_{fpd} + S_{fpe})$ what do S_{ge} and S_{pc} represent. Give an example of each of them.

2) (25 points) What type of investment should be done? Why should that type of investment be done? Give an example of that type of investment.

3) (20 points) What is Ricardian Equivalence? Why might it occur? What does this say about the savings for the country?

4) (20 points) What is Duesenberry's hypothesis? Do you believe it? Why or why not?

5) (20 points) Which type of foreign aid is the best for the developing country? Explain your logic.

This diagram is from a recent article in the BBC and they got it from the World Bank. I thought you would be interested in it.

