

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 150 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because of the class which follows yours.

1) (12 points) The book says that a country should have four qualities, otherwise it is hard to develop. For EITHER the quality in Part A OR the quality in Part B. Explain why that quality is helpful for development.

A) Countries with a fairly highly developed systems of commerce, finance and transport, mainly run by local people (not monopolized).

B) Countries with long traditions of self-government especially prior to the 1950s.

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

A) Why is real GDP per capita probably a poor measure of the production in a developing country?

B) How do we use PPP to covert GDP from one currency to another?

3) (14 points) For EITHER the Harrod-Domar Model OR the Solow Model, explain why that model may not apply to developing countries.

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

A) Why do workers in agriculture get paid their APL while workers in industry get paid their MPL? Which would farm workers in the USA get paid?

B) Why might it be normal for the Gini Coefficient to grow and then shrink as a country develops?

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

A) Why does the Solow Model imply that countries will converge to the same GDP per capita? Why do we not see this convergence?

B) If a country has a large population growth, why does that hurt their chance for development? What can a government do to lower the population growth rate? Explain how your proposal would reduce the population growth rate.

6) (24 points) Answer EITHER Part A OR Part B.

A) Use the diagram with two vertical axes which represents the supply and demand for labor in industry to illustrate the effects of an increase in the population. Assume there is **NO** minimum payment for the industry. Explain why the curve(s) moved as drawn. What happens to the amount of labor in the industry and the amount of labor in agriculture?

B) Use the diagram with two vertical axes which represents the supply and demand for labor in industry to illustrate the effects of an increase in the marginal productivity of labor in the industry. Assume there **IS** a minimum payment for the industry. Explain why the curve(s) moved as drawn. What happens to the amount of labor in the industry and the amount of labor in agriculture?