

This review sheet is intended to cover everything that could be on the exam; however, it is possible I may 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 Sunday, 12/3, at 2:00 in Old Main 108.

#### Chapter 11:

What are capital, investment, and saving? What are the good and bad points about foreign saving? Why is it best to have public investment in the case of externalities and public goods? How do we determine if a public investment is worthwhile? (That is more chapter 12.) Why does the capital-intensity of the investment matter for long-run growth? Do not worry about calculations like the ones on page 386. Understand what  $S_{gb}$ ,  $S_{ge}$ ,  $S_{pc}$ ,  $S_{ph}$ ,  $S_{fo}$ ,  $S_{fpd}$ , and  $S_{fpe}$  are and what will cause them to change. For  $S_{ph}$ , understand the Keynesian, Duesenberry's, and the neo-classical (Friedman's permanent income hypothesis) explanations of it. Ignore the life cycle model because it is basically the same as Friedman's. Which ones apply to developing countries? Why? What is Ricardian Equivalence? What are bilateral aid, multilateral aid, World Bank, and International Monetary Fund (IMF)? Why is conditional aid increasingly common? (That is why Israel and Egypt are the biggest two recipients of US aid.) Why is technical assistance important?

#### Chapter 12:

What are current and recurrent expenditures? Why is it important to have appropriate wages and salaries? What determines the amount of expenditures spent on the military? Why is Bono so concerned about interest on debt? What are the advantages and disadvantages of having an industry as a state-owned enterprise? Like we did in the chapter on education, be able to find the net present value of a project to determine if it is worthwhile to do. The benefit-cost ratio in the book is wrong. The number "2" which appears twice in it, should be "-" because you should be dividing by  $(1+i)^t$  rather than multiplying by it. What are some of the opportunity costs that governments should be aware of? What are shadow prices? Why are they important? What are the disadvantages and advantages of the different types of taxes on page 443? Pay particular attention to costs of implementing, costs of changed behavior, and equity. What the book calls "excess burden" is normally called "dead weight loss." What is import substitution? What is meant by the incidence of the tax? What is efficiency of taxes?

#### Chapter 13:

What are the three properties of money? What is in M1, M2, and M3? Why is financial intermediation important for development? What are inflation, chronic inflation, acute inflation, and hyper inflation? What causes them and how do they affect savings, interest rates, and investment? How do you calculate the real interest rate net of taxes? How do reserve requirements and interest ceilings affect the financial system? What are panics and moral hazard? How do they cause financial collapse? What causes financial deepening and shallow finance? How do informal markets work? What are the advantages and disadvantages of a pegged exchange rate, an adjustable peg, a crawling peg, managed float, wide band float, and free float?

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#### Review for the Final

#### Chapter 14:

What are FDI, MNCs, and TNCs? What are the six advantages of their entering a developing country? (Transfer of capital, employment, technology transfer, managerial help, access to world markets, and

specialization.) What are the effects of policies like performance requirements, joint ventures, protection, and tax holidays? We will not cover beyond page 536 due to a lack of time.

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This is the non-graded assignment #9A that will be reviewed with assignment #9.

This is a non-graded homework assignment that will be gone over the same class we go over assignment #9. The purpose of this assignment is to give you sample questions for the material we covered after you handed in assignment #9, and will be on the final exam.

- 1) (30 points) Why is financial deepening desirable? Give at least two reasons.
- 2) (15 points) Why do low interest rates cause shallow finance?
- 3) (20 points) Explain why moral hazard is a problem for financial systems.
- 4) (30 points) If you were elected the new President of Iraq, what exchange rate regime would you choose? Why would you choose that? Give two reasons for your choice.

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Questions based upon Chapter 14:

- 1) (20 points) How do MNCs help the transfer of technology to a developing country?
- 2) (35 points) How does a requirement that foreign firms must use a certain percentage of domestic content affect the volume of FDI, type of FDI, and the economy of the host (developing) country? Explain your logic.
- 3) (25 points) What are the advantages and disadvantages of *tax holidays*?
- 4) (20 points) How do MNCs help with specialization?