

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 10-point question should take 5 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.

- A) Do the firms pay their employee their APL or their MPL? Explain why they behave that way.
- B) Why is it difficult for developing countries to grow?

2) (10 points) Answer EITHER Part A OR Part B.

- A) What is *NEW*? Why is it better than GNI for evaluating how well off a country is?
- B) Why shouldn't we make general statements about developing countries?

3) (16 points) Two of the MDGs are *promote gender equality and empower women*, and *reduce child mortality*. For ONE of them, explain how you would attempt to achieve that goal if you were the ruler of a developing country. Explain how you would get any necessary funding.

4) (16 points) Answer EITHER Part A OR Part B.

- A) Macedonia has a life expectancy at birth of 73.9 years; an adult literacy rate of 96.1%; combined gross enrolment ratio for primary, secondary, and tertiary schools of 70%; and a GDP per capita of US\$6610 using PPP. Set up the equations to calculate the HDI. Calculate the HDI showing all work and briefly explaining your calculation.
- B) Suppose a country has had a 5% increase in the labor force, 3% increase in capital, and 4% increase in GDP. If the share of labor in the national income is 60%, then what is the growth rate of total factor productivity (TFP)? Show all work and briefly explain your calculations.

5) (24 points) For EITHER *invest in health and education* OR *favorable environment for private enterprise*, explain why that is important for a country to grow rapidly. What can the government do if they do not have that?

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

- A) Draw the two-sector model diagram with two axes showing the supply and demand for labor in the industry. Illustrate an increase in the labor force if there is NO minimum wage or subsistence wage. Explain why the curve(s) moved as drawn. What happens to the wage rate in industry, wage rate on the farms, and the number of workers in industry and farming? Briefly explain how you see that in the graph.
- B) Draw the two-sector model diagram with two axes showing the supply and demand for labor in the industry. Illustrate an increase in the minimum wage. Explain why the curve(s) moved as drawn. What happens to the wage rate in industry, wage rate on the farms, and the number of workers in industry and farming? Briefly explain how you see that in the graph.