

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 some students have a class after your class.

1) (12 points) For EITHER *infant industry* OR *external diseconomies (negative externalities)*, explain why it is an economic argument for government intervention.

2) (12 points) Answer EITHER Part A OR Part B.

A) Which normally falls first, the crude birth rate or the crude death rate? Why is this true?

B) What is *population momentum* and what causes it?

3) (14 points) Answer EITHER Part A OR Part B.

A) Suppose that Fidel and Raoul Castro were to die and you became the leader of Cuba. Would you use *shock therapy* or a gradual approach to reforming that economy? Explain your logic.

B) Suppose that Fidel and Raoul Castro were to die and you became the leader of Cuba. Would you import substitution or export orientation to help them develop? Explain your logic.

4) (16 points) For EITHER *privatization* OR *trade liberalization*, explain what is meant by it. Why is it a necessary reform when transitioning from a command economy to a capitalist economy?

5) (20 points) Answer EITHER Part A OR Part B.

A) If you were trying to reduce the fertility rate of a poor country, how would you do it? State ONE action you would take. Explain how you would fund it and how it would have the desired results.

B) Obviously, both the “population pessimists” and the “population optimists” have views that apply to different countries. Which do you think applies to more countries? Explain your reasoning using both an argument for that theory and one against the other.

6) (26 points) Answer EITHER Part A OR Part B.

A) Draw two Lorenz Curves which would have the same Gini Coefficient. State how you know they have the same Gini Coefficient. In which country are the middle class better off? Explain your logic and assume that the total income in the two countries is the same.

B) Suppose the poverty line in a country is \$5/day. Suppose that 20% of the population is in poverty and the mean expenditure of those people is \$3/day. What is the poverty gap of that country? Show all work and briefly explain your calculations. Why do some economists say that one poverty line for all countries makes little sense.