

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (15 points) Draw the per capital production function. Use it to explain why an increase in the population growth rate will hurt the development of the country.
- 2) (15 points) Explain why investment requires savings.
- 3) (10 points) Suppose a country grew at 2.8%, had its capital stock grow at 3.0%, and its population grew at 2.0%. What was its growth rate of total factor productivity? Show all work and briefly explain what you did.
- 4) (30 points) Given the events in Libya of the past year, do you think that its economy will be growing slower or faster next year? Explain your logic using two of the five qualities which foster growth.
- 5) (30 points) Some of the more radical conservatives in the US government said they would not vote for a budget which raises taxes. This nearly caused Congress to default on its obligations. As far as growth of the economy is concerned, there was one very good aspect to what they did and one very bad aspect to their strategy. Explain both the good aspect and the bad aspect of what they did and why they had those effects. Overall, do you think their strategy was good or bad? Explain your logic.