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 160 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 I have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.
A) What do you think is the biggest health problem facing developing countries. Briefly explain why you chose that problem.
B) What is the advantage of using HALE rather than traditional life expectancy?

2) (14 points) Answer EITHER Part A OR Part B.
A) If you were the ruler of a country with a bad HIV/AIDS problem, what action would you take to reduce the problem? How would they work?
B) What can be done to fight the resurgence of tuberculosis (TB)? Explain how that will help fight it.

3) (16 points) Answer EITHER Part A OR Part B.
A) There have been a lot of changes in Libya this year. Do you think the events will increase or decrease FDI in Libya? Explain your logic citing two changes.
B) If you were trying to increase FDI in a developing country, what two actions would you recommend the government to do? Explain why you chose those to actions.

4) (16 points) Answer EITHER Part A OR Part B.
A) Suppose a project has a building cost of $50,000. The five years after it is built, the company makes $10,000 profits. Then after that, the building can be sold for $5,000. Suppose you want a 10% return. Set up the calculation which would enable you to determine if the building is worth building. Explain how you determined which numbers go where. Explain how you would use that equation to determine if the project is worthwhile without actually doing the calculation.
B) Suppose you are about to graduate highschool at the age of 18. You could get a job paying $13,000 a year or you can go to a four-year college costing $22,000 a year. After graduation, you would earn $33,000 a year. Either way, you will retire at the age of 67. Set up the calculation which would enable you to determine the internal rate of return on the education. Explain how you set it up and how you would use it to find the internal rate of return. Do not do the calculation. How would you use the internal rate of return to determine if the education is worthwhile?

5) (18 points) Answer EITHER Part A OR Part B.
A) Do you think that Keynes Absolute Income Hypothesis' explanation of savings, or Friedman's Permanent Income Hypothesis' explanation of savings is more realistic for a developing country? Explain your logic with a brief explanation of both theories.
B) If Ricardian Equivalence holds, then what would be the impact of an temporary tax cut on the total savings for the country? Explain your logic. Why might Ricardian Equivalence not hold for a developing country?

6) (26 points) Answer EITHER Part A OR Part B.
A) According to the table in your book, is the highest private return for low income countries in primary, secondary, or tertiary education? Why does that have the highest private return? Which is a close second? Why does it have a high private return? However, the social returns for those two types of education are quite different? Why is that?
B) Two problems facing education systems in developing countries include mis-allocation of resources for education and students not attending classes. State the causes of the problems. What would you do to reduce both problems? Explain how that would work.