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 240 points (to be scaled down to 150 points) and is scheduled to take 120 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 may have an exam after this.

1) (14 points) Answer EITHER Part A OR Part B.
A) Why might letting a financial panic run be the best course of action?
B) If your country was starting to face a financial panic, how would you try to convince creditors to not pull their money out of your country? Explain how that action might have the desired effect.

2) (14 points) Answer EITHER Part A OR Part B.
A) Why is multilateral aid preferred to bilateral aid?
B) Why is a *short term debt to foreign exchange reserves* ratio of over 1:1 a bad sign for the economy?

3) (14 points) For EITHER the MDG goal of *halve by 2015 the proportion of people without sustainable access to safe drinking water* OR the MDG goal of *reduce by three quarters, between 1990 and 2015 the maternal mortality ratio*, what can the **developed** countries do to help achieve the goal? Explain how that would help to reach the goal.

4) (14 points) Answer EITHER Part A OR Part B.
A) Which country do you think the mortality pyramid to the right is for? Explain your logic. (Needless to say, you need not get the country. The logic is the important part.)
B) If you were ruling a country which has a high HIV/AIDS problem, what would you do to fight it? Explain how taking that action would reduce the problem.

5) (16 points) Answer EITHER Part A OR Part B.
A) Real GDP per capita is often used as a measure of how much production occurs in a country. What are two problems with doing this? Explain how those problems result in an inaccurate measure of production.
B) We use the unemployment rate as a measure of the under-utiliziation of human resources. What are two problems with doing that?

6) (18 points) Answer EITHER Part A OR Part B.
A) What are *shadow prices*? Give an example of where the shadow price is different from the actual price. Which price is higher? Explain your logic.
B) If you ruled a poor country which wanted more FDI, what would you do to attract it? Why would that attract FDI?
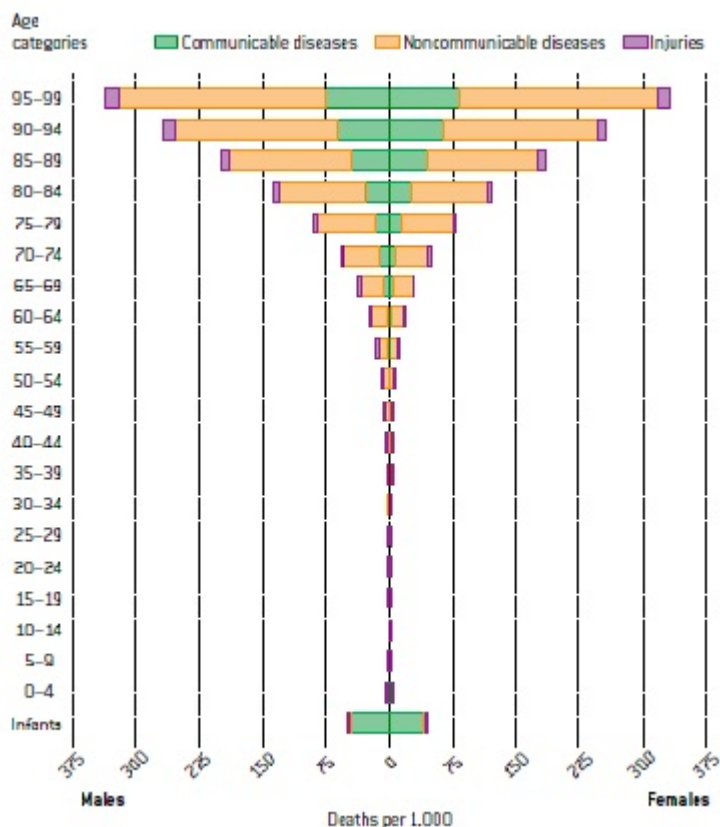
7) (18 points) Answer EITHER Part A OR Part B.
A) Why is *deregulation of industries* generally a good policy for a country? Explain your logic.
B) What is meant by *rent seeking*? Give an example and explain why it is a bad problem.

8) (18 points) Answer EITHER Part A OR Part B.
A) Suppose you are about to graduate this spring. You have two choices. Option #1 is to start working now and earn $40,000 per year. Option #2 is to go to graduate school for an MBA. The schooling will cost you $25,000 each year for two years. After getting your MBA, you will earn $55,000 per year. You want to get at least a 7% return. Set up the calculation you would use to determine whether or not to get the degree. Explain how you chose which numbers to put in each spot and how you would use the equation to answer the question of whether or not to get the degree. If any information is missing, give me the number and tell me why you chose that number. Do not actually solve it.
B) Suppose you run a company who is thinking of building a new factory. It will cost $100,000 to build. The five years after it is built, it will bring in $20,000 of profit. The value of the building at the end of the five years is $40,000. Set up the equation which could be used to calculate the internal rate of return. Explain how you chose which numbers to put where and how you could find the internal rate of return. Do not actually solve it.

9) (20 points) Answer EITHER Part A OR Part B.
A) Obviously, Malthus's initial prediction was false. Where did he go wrong? Do you think that his ultimate prediction of mass starvation will eventually occur? Explain your logic.
B) What is population momentum? Explain why it happens.

10) (20 points) For EITHER *investment in health* OR *effective institutions*, explain how that helps a country develop. What can a government do to encourage that?

11) (22 points) Answer EITHER Part A OR Part B.
A) How does *raising negative real interest rates* cause financial deepening? What can the government do to encourage that? Explain how that action will have the desired results.
B) At some point in the past decade, Russia lowered its required reserve ratio from 20% to 0% - 3% depending upon whose account it is. What will be a good result of this action? What will be a bad result of this action? Do you think this was a good action or a bad action? Explain your logic.

12) (24 points) Answer EITHER Part A OR Part B.
A) If you had to chose between the argument "foreign aid normally helps the economy in the long run" and "foreign aid usually has virtually no effect or possibly negative effects on the economy in the long run," which would you choose? Why would you choose that side? Explain **two** reasons. No, you cannot choose "it depends."
B) Most countries have large budget deficits now. Specify a country and tell me **two** actions you suggest that country takes to reduce their budget deficit. Explain how those actions would reduce the deficit. You can choose any country. If I were you, I would choose the USA or the country you researched, but that is not required.

13) (28 points) Answer EITHER Part A OR Part B.
A) Suppose the poorest quintile earns 10% of the income, the second quintile earns 15% of the income, the third quintile earns 20% of the income, the fourth quintile earns 25% of the income, and the top decile earns 16% of the income. Use this data to draw the Lorenz Curve and to estimate the Gini Coefficient. Briefly explain how you found the points and how you estimated the Gini Coefficient.
B) Draw the two-sector labor market diagram with two vertical axes. Place a minimum wage above the equilibrium point. Illustrate the effects of an increase in marginal productivity of labor in industry. Explain why the curve(s) moved as drawn. What happens to the number of workers in each sector and the wage rate in both sectors? Briefly explain how you found those numbers.