

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) (10 points) Why should $MSB = MSC$?

2) (20 points) What are the advantages of a government in a developing country helping a few industries vs. many industries? Explain your logic.

3) (15 points each) For each of the following items on the “Washington Consensus”, explain why economists feel it is important for economic development. Make sure you explain what it means.

A) Reorder public priorities.

B) Liberalize interest rates.

C) Secure property rights.

4) (25 points) Suppose the first quintile has 5% of the income; the second quintile has 8% of the income; the third quintile has 15% of the income; the fourth quintile has 30% of the income; and the tenth decile has 25% of the income. Draw the Lorenz Curve. Explain how you found it. Use that to estimate the Gini Coefficient. Explain how you estimated it.