Wilf Csaplar Jr.   Economics 260   Homework #7   **Due Monday 10/28**

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) (20 points) Suppose that project has $1000 worth of cost in the first year, of which $200 is foreign exchange cost and $100 of which is wages. If in the next 5 years, there is a net gain of $250 per year of which $300 is a net gain in foreign exchange and $50 is a cost of labor. What is the net present value of the project if the interest rate is 10%? Suppose the shadow price of foreign exchange is really 10% higher and labor is 20% lower. What is the net present value of the project measured at the same 10% interest rate? Show all work. If you were the company would you do this project? From society's view, should it be done? Explain your logic.

2) (10 points) Why is the shadow price of labor less than the wage rate?

3) (10 points each) For each of the following, explain how MNCs either help or hurt the host company. Why is that good or bad respectively?
A) Technology transfer.
B) Less local control over production.

4) (15 points) The relationship between the average health of people in a country and their average income, it is a *chicken and egg* type problem. Explain why the causation goes both ways.

5) (10 points) What does *DOTS* mean? Why is it so important for eradicating diseases?

6) (10 points) How do domestic content laws affect the decisions of MNCs? Explain your logic.

7) (15 points) Explain Ricardian Equivalence. Do you think it applies to developing countries? Explain your logic.