

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) We make general sweeping statements about developing countries and act as if the statements apply to all developing countries. Give an example of one such statement and a developing country which does not fit that description. Explain your logic.

B) How could classifying countries by income level be misleading about the welfare of the country? Explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.

A) What is meant by underemployment? Why is it a problem?

B) Why do we use the Solow Residual to find the improvement in technology? Make sure you define it.

3) (18 points) Answer EITHER Part A OR Part B.

A) Suppose a country's GNI per capita is \$50,000. Their average life expectancy is 70. Their mean years of schooling is 10, and their expected years of schooling is 14. What is their HDI? Maximum income per capita is \$87,478, maximum life expectancy is 83.6, maximum mean years of schooling is 13.3, and maximum education index is .971. (Source: <http://hdr.undp.org/en/media/HDR%202013%20technical%20notes%20EN.pdf>) Show all work. **You do not need to do the calculation out**, but briefly explain what you did. For example, if you were doing an algebraic average of $(10-2)/(4-2)$ and $(6-1)/(5-1)$ you could write: " $X=(10-2)/(4-2)$ and $Y=(6-1)/(5-1)$ and the answer is $(X+Y)/2$ because it is that algebraic average of the two indices where $(10-2)/(4-2)$ is ..."

B) When calculating the HDI, the new formula makes several changes over the old formula. Why is the formula for each individual sub-index of the formula $(\text{actual}-\text{minimum})/(\text{maximum}-\text{minimum})$? What does that number tell us? Why do they now take the geometric mean rather than the algebraic mean of the three sub-indices? Give a numerical example of how the method of taking the mean will affect the result.

4) (20 points) For EITHER the Millennium Development Goal (MDG) in Part A OR the MDG in Part B, explain why that is important for helping a country to develop. What can be done by developed countries to help developing countries achieve the goal? Explain how that action will help.

A) Target 1C: Halve between 1990 and 2015 the proportion of people suffering from hunger.

B) Target 3A: Eliminate Gender disparity in primary and secondary education, preferably by 2005 and to all levels by 2025.

5) (20 points) Answer EITHER Part A OR Part B.

A) For *favorable environment for free enterprise*, explain how it will help the country grow faster. What can the government do to achieve this? Explain how the government's action will help the economy.

B) Why is capital accumulation important for economic development? Why is it hard for poor countries to accumulate capital? Explain your logic.

6) (20 points) Draw the two-sector labor supply model with two vertical axes. Illustrate the effects of EITHER the event in Part A OR the event in Part B on the graph. Explain why the curve(s) moved as drawn. What happens to the quantity of labor in the two sectors and the wage rate in both sectors. Explain how you found the two quantities of labor and the two wage rates.

A) Population increases without a minimum/subsistence wage.

B) There is an improvement in technology in urban industrial sector with a minimum/subsistence wage.