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 students have an exam after your class.

1) (12 points) Answer EITHER Part A OR Part B.
A) What is meant by a cleanly floating exchange rate? What is the advantage of having one?
B) What is meant by *open market operations*? How can it be used to increase the money supply?

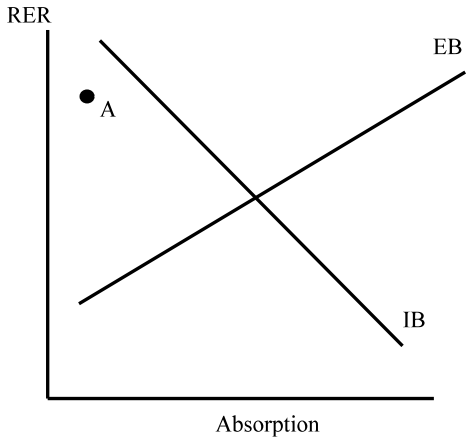
2) (12 points) Answer EITHER Part A OR Part B.
A) Recently, there have been a lot of protests at fast food restaurants trying to get them to pay their employees more. If their wages are increased, then given the two-sector model we discussed, what would the economic impact be? Explain your logic, but do not draw the graph.
B) In the two-sector labor model, which sector pays the APL? Why does that sector pay the APL?

3) (14 points) Answer EITHER Part A OR Part B.
A) There were ten components to the "Washington Consensus." One is *trade liberalization*. Explain why economists feel it is important for economic development. Make sure you explain what it means.
B) What is the *dependency ratio*? Why is it a concern for many developing countries?

4) (14 points) Answer EITHER Part A OR Part B.
A) If a developing country is trying to improve their economy, do you feel it is more advantageous for them to help many industries a little bit, or a few industries a lot? Explain your logic.
B) In Chapter 3, there is a list of "Characteristics of Rapidly Growing Countries." One of the items on the list is *effective governance and institutions*. What does that mean and how does it help a country develop?

5) (16 points) Answer EITHER Part A OR Part B.
A) What are the two ways that health and income affect each other? Briefly explain both effects.
B) We had several criteria for determining whether a tax was a good tax. What are TWO of them? Explain why it is important for a tax to have that property.

6) (18 points) Answer EITHER Part A OR Part B.
A) If the economy started at Point A on the diagram to the right, which direction would it be moving if left alone? Explain why it would move that direction.
B) Explain why the EB line slopes up and why the IB line slopes down.



7) (18 points) Answer EITHER Part A OR Part B.
A) Suppose a country has a *debt service/revenue* ratio of 20%. Is that a problem of illiquidity or insolvency. Explain how that criterium signifies a problem and why you chose illiquidity or insolvency. Is it an external transfer problem, or an internal transfer problem? Explain your logic.
B) The debt to export ratio, D/X will approach $a/(g_X-i)$ where "a" is the current ratio of (M-X)/X. Explain why TWO of the following will make it increase: a larger "a," a larger "i," and a smaller "g_X."

8) (20 points) Answer EITHER Part A OR Part B.
A) What do you see as the biggest problem facing education in developing countries? What can a country do about that? How would that reduce the problem?

B) MNCs are controversial. Do you think they are normally a net benefit or a net detriment to the developing host country? Explain your logic using two arguments.

9) (20 points) Answer EITHER Part A OR Part B.
A) Draw different two Lorenz Curves which would yield the same Gini Coefficient. State how you know they have the same Gini Coefficient. In which country is the middle class better off? Explain your logic.
B) What is meant by *population momentum*? Explain why it occurs.

10) (22 points) Answer EITHER Part A OR Part B.
A) For the Millennium Development Goal (MDG) Target 7C (Halve, by 205, the proportion of people without sustainable access to safe drinking water and basic sanitation.), 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.
B) Which do you think is a better measure of the welfare of a country, real GNI per capita, HDI, or NEW? Explain why you chose that one citing the differences between it and the other two.

11) (24 points) Answer EITHER Part A OR Part B.
A) Name a situation or a type of aid which you think will end up not helping the recipient country and may hurt it. Explain why it would not help or might hurt the recipient country. Name a situation or a type of aid which you think will end up helping the recipient country. Explain why it would help the recipient country.
B) When the World Bank or the IMF lend money to countries, they often put conditions on the recipient country. What is one common condition? Why would the lender put that restriction on? Why is this practice controversial?

12) (24 points) Answer EITHER Part A OR Part B.
A) Draw the two-sector labor supply model with two vertical axes without a minimum wage. Illustrate the effects of an improvement in technology in the rural agriculture. 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.
B) 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 ..."

13) (26 points) Answer EITHER Part A OR Part B.
A) Suppose that four years of college cost $15,000/year (at the state school). The state pays $25,000/year for your education. If you got a job straight out of high school, you could earn $20,000/year for the rest of your life. After graduating, you could earn $30,000/year for life. Suppose that if you went to work straight out of high school, you would work for 50 years but if you wait until you graduate from college, you would work for 46 years. You and society both want to get a 4% return. Set up, **but do not calculate**, the equation which you would use to determine the net present value (NPV) of your education to you **and** NPV society gets from your education. Explain how you determined what numbers to put into each location, how you would determine if the education is worth it, **and** whether the return to society is bigger or smaller than the return to you.
B) Suppose your company is considering building a factory. The factory will cost it $2000 to build. Of that money, $400 is labor and $300 is foreign exchange. The building will result in a profit of $500 a year for 5 years. That profit includes $550 worth of foreign exchange and $50 worth of labor. Your company wants a 5% return. The shadow price of labor is 20% lower than the wage rate and the shadow price of foreign exchange is 10% higher than the official rate. Set up **but do not calculate** the equation which would tell you whether or not the factory is worth building **and** whether or not the country will feel it is worth building. Explain how you determined where to put the numbers in the equations.