

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will probably be Sunday, 9/16, at a time to be determined in class.

Chapter 1: What is development? How do we categorize countries into “**low-income**”, “**lower-middle-income**”, “**upper-middle-income**”, and “**high-income**” countries? What do the terms, *transitional economy*, *third world*, *North-South*, and *emerging economies* mean? Why shouldn't we make generalizations about developing countries?

Chapter 2: What is meant by **PPP** and how do we use it to calculate **real GNI per capita**? How does **GNI** and **GDP** differ? What is **NEW**? What is the **HDI**? I will provide you the following numbers: 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>) Why did we create it? I.e., why not use GNI as a measure of how well off a country is? Be able to calculate it. For the **MDGs**, be able to come up with a method to achieve that goal and why it is a goal. In general, which are we close to achieving?

Chapter 3: What is required for economic **growth**? Why do small changes in rates of growth make a big difference to the doubling time? Why do we need **factor accumulation**, **increased efficiency**, **savings**, and **technology change**? Know why the production function diagram is drawn as we drew it. For the Solow model, understand that it assumes the items on **Page 65** and the equation on Page 68. Be able to calculate the **TFP**. For the *Characteristics of Rapidly Growing Countries*, know why those characteristics help the economies grow faster. Except for #6, *Favorable Geography*, know what the government can do to fix the problem. What happens to the proportion of different types of production economy as it grows?

Chapter 16 (formerly in Chapter 4), only Pages 583 - 603: Know what is meant by *diminishing returns*, *labor surplus*, *underemployment*, *disguised unemployment*, *marginal product of labor (MPL)*, and *average product of labor (APL)*. Be able to do the **two sector model of labor supply/demand**. Note that I added a second vertical axis and the distance from that axis, leftward to the intersection is the amount of labor in the rural farming. The bottom graph on Page 596 is not easy to use and not necessary if you have the second vertical axis. For increases in the population, you can do it either as the book does, or as I did – moving the right-hand axis. Why are the workers paid MPL or APL depending on where they work? Be able to move the diagram around both with and without the subsistence wage.

This is the non-graded Assignment #2A that will be reviewed with Assignment #2.

1) (30 points each) Draw the two sector model of labor supply/demand with two vertical axes. Illustrate the following events on the graphs described. Explain why the curve(s) moved as drawn. What happens to the wage rate and the amount of labor in each sector?

- A) Population increases when there is a minimum/subsistence wage.
- B) A new technology improves the productivity on the farm when there is no minimum/subsistence wage.
- C) More factories are built with a minimum/subsistence wage.

2) (10 points) What is meant by underemployment? Why is it a big problem?