Wilf Csaplar Jr.   Economics 260   Homework #3   **Due Friday 9/22**

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 10 points. 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) (15 points each) The Washington Consensus had the following advice for developing countries. For each one, explain what that means and give the economic reason for it. Answer each part in separate paragraphs.
A) Reordering public expenditures.
B) Privatization.
C) Tax reform.

2) (15 points) The Washington Consensus says that liberalization of FDI is good. However, Jagdish Bhagati disagrees. Why does he argue that liberalization of FDI may be bad.

3) (15 points) What is meant by Pareto optimality? Why do we want that? Why isn't that enough to get the best outcome for society?

4) (25 points) Suppose the bottom quintile earns 5% of the income, the second quintile earns 10% of the income, the third quintile earns 20% of the income, the fourth quintile earns 30% of the income and the rest of the income goes to the fifth quintile. Plot the Lorenz Curve showing all work you do and briefly explaining how you got it. What is the estimate of the Gini Coefficient? Explain how you reached that conclusion.