

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 can give extra time.

1) (10 points) For ONE of the following taxes, explain one reason why it is a good tax and one reason why it is a bad tax for a developing country.

- A) a tax on food.
- B) a tax on imports
- C) an income tax

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

- A) What do you feel is the greatest problem with trying to educate children in developing countries? Explain why that is a big problem.
- B) We said that there are positive externalities from education. What are they? Explain your logic.

3) (12 points) Answer EITHER Part A OR Part B.

- A) Draw the typical mortality pyramid for a developing country. Explain why it takes its shape.
- B) When I was living in Egypt, I noticed there was a distinct height difference between my students and the people who swept the streets. Which were taller? Why was that? Explain your logic.

4) (14 points) Answer EITHER Part A OR Part B.

- A) What are SOEs? Why are they often bad for a developing country? Explain your logic.
- B) Why do most developing countries have large budget deficits? Why is that bad for the country?

5) (16 points) Answer EITHER Part A OR Part B.

- A) Many tropical countries have a problem with malaria. What would you do to reduce the problem? Explain how that would reduce the problem.
- B) Explain how HALE differs from life expectancy. Why is HALE controversial? Explain your logic.

6) (16 points) Answer EITHER Part A OR Part B.

- A) What are export process zones? Do you feel they help or hurt the host country? Explain your logic.
- B) How do laws making it hard to fire employees affect entrepreneurship? Explain your logic.

7) (20 points) Do EITHER Part A OR Part B.

A) Suppose the cost of another year of public education is \$1000 to the student and \$1500 for the government. With one more year of education, the person will earn \$100 more per year and the economy will get \$50 per year in positive externalities. Assume the person will work for 40 years if they go to school for one more year. Set up two calculations. The first which would be able to calculate the private return and the second to calculate the public (social) return. Briefly state how you chose where to put each number. **Without** doing the calculation, briefly explain how you would use the numbers to tell what the rate of return is.

B) Suppose a project would take \$800 to build including \$100 worth of labor. The profits of the project will be \$200 per year for 7 years. The profits in the future include \$300 worth of labor. The shadow price of labor is 25% less than the actual wage. Assume the rate of return is 10%. Set up two calculations. The first to determine if the company would do it. The second to determine if the net return to society is worth it. Briefly state how you chose where to put each number. **Without** doing the calculation, briefly explain how you would use the numbers to tell if the project is a good one.