

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 some students have a class after your class.

1) (14 points) Answer EITHER Part A OR Part B.

A) What is the greatest advantage of being a host country to a MNC? Explain how the MNC helps the country in that manner.

B) What is the greatest disadvantage of being a host country to a MNC? Explain how the MNC hurts the country in that manner.

2) (14 points) Answer EITHER Part A OR Part B.

A) Suppose you ruled a developing country and wanted to encourage FDI, how would you go about doing it? Explain why you made that choice and how it would increase FDI.

B) If you ruled a developing country with a problem HIV/AIDS, what would you do? Explain how you would finance it and how that would decrease the problem.

3) (16 points) Answer EITHER Part A OR Part B.

A) Explain the difference between mortality and morbidity. Why do we care about both?

B) Health and income are inter-related. Explain how both affect the other.

4) (18 points) Answer EITHER Part A OR Part B.

A) Explain how Modigliani's Life-cycle Model determines the savings rate. Why does the national savings depend upon the dependency ratio?

B) Which model has a larger MPS, the Keynesian Absolute-Income Hypothesis, or Friedman's Permanent-Income Hypothesis? Explain your logic.

5) (18 points) Answer EITHER Part A OR Part B.

A) For this question, just set up the calculations and explain why you set it up like that. Do not do the calculations, rather just explain how you would use the results to answer the question. Suppose that project has \$1000 worth of cost in the first year, of which \$150 is foreign exchange cost and \$100 of which is wages. If in the next 5 years, there is a net gain of \$250 per year of which \$300 is a net gain in foreign exchange and \$50 is a cost of labor. What is the net present value of the project if the interest rate is 10%? Suppose the shadow price of foreign exchange is really 10% higher and labor is 20% lower. What is the net present value of the project measured at the same 10% interest rate? Show all work. If you were running the company would you do this project? From society's view, should it be done?

B) Explain why the shadow price of foreign exchange is usually higher than the official rate and why the shadow price of labor is usually lower than the wage rate.

6) (20 points) Answer EITHER Part A OR Part B.

A) Many school systems in developing countries are not very productive. Give one reason why some schools are not productive. What could be done about that problem? Explain how your solution would reduce the problem.

B) Suppose Ricardian Equivalence holds. Can the government increase national savings? If yes, then explain how. If not, then explain why they could not.