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 14-point question should take 7 minutes. I can give extra time but not much.

1) (14 points) Answer EITHER Part A OR Part B.
A) Explain why most developing countries have some sort of a pegged exchange rate. What is the disadvantage of this policy?
B) What are the advantages of a floating exchange rate?

2) (14 points) Answer EITHER Part A OR Part B.
A) Explain why trying to fight morbidity can adversely affect the population growth rate in the short-run.
B) Why is HALE life expectancy a better measure of the health of the citizens of a country than life expectancy?

3) (14 points) Answer EITHER Part A OR Part B.
A) Suppose a country has a life expectancy at birth of 70, an adult literacy rate of 81%, a gross enroll-ment rate of 75%, and a GDP per capita of $10,000. Set up the calculation for HDI. Briefly explain how you set up the calculation.
B) One of the Millennium Development Goals is to *promote gender equality and empower women.* Explain why that goal is important and how a government could work towards that goal.

4) (14 points) Answer EITHER Part A OR Part B.
A) The book says that a government should do have *tax reform*. What type of reform do they mean and how would that help the economy?
B) The book says that a government should do *secure property rights*. How would that help the economy?

5) (14 points) Answer EITHER Part A OR Part B.
A) The Solow model concludes that the countries of the world will converge to have the same GDP per capita. How does it reach this conclusion and why don't we see it occurring?
B) The book says that a country needs a *favorable environment for private enterprise* to have a rapidly growing economy. Explain why that is necessary.

6) (18 points) Answer EITHER Part A OR Part B.
A) The book says that the government could buy back its debt as a method of stopping a financial panic. How would that work? What is the weakness of it?
B) The book says that the government could do a debt-equity swap (like GM has proposed to save itself) as a method of stopping a financial panic. How would that work? What is the weakness of it?

7) (20 points) For EITHER *infant industry* OR *economies of scale*, explain why that is an economic argument for government intervention in the market. What type of government intervention do you feel is best? Explain your logic.

8) (20 points) Answer EITHER Part A OR Part B.
A) Write the general equation a student would use to determine if an additional year of education would be worth it. Explain how you would determine what numbers to put in for each variable and how they

would determine if the education would be worth it. How would the equation be changed if we were taking it from society's point of view? Explain your logic.
B) Write the general equation a company would use to determine if a factory would be worth building. Explain how you would determine what numbers to put in for each variable and how they would decide whether to build the factory. How would the equation change if we were using shadow prices? Explain your logic.

9) (20 points) Answer EITHER Part A OR Part B.
A) For most foreign aid, do you think it helps the recipient country in the long-run or hurt it? Explain how it can have that effect and why you feel most aid has that effect.
B) Concessional aid is controversial. Why does the IMF normally give that type of aid and why do developing countries dislike it?

10) (20 points) Answer EITHER Part A OR Part B.
A) Having artificially low nominal interest rates causes one positive result and one negative result. Explain how it has those results.
B) Suppose you were thinking about levying an excise tax. What are two qualities that a good could have which would make a good a desirable good to tax? Explain why those two qualities make that product a good candidate to tax?

11) (22 points) Answer EITHER Part A OR Part B.
A) Do you think that Keynes' Absolute Income Hypothesis, or Friedman's Permanent Income Hypothesis is more accurate for developing countries? Explain your logic including a short description of both theories.
B) If you were running the country you wrote your paper on and you wanted to attract FDI, what change would you make? Why would you make that change? How would that attract FDI?

12) (24 points) Answer EITHER Part A OR Part B.
A) Use the following data to draw the Lorenz Curve and estimate the Gini Coefficient. Explain how you did both.

Bracket	1st quintile	2nd quintile	3rd quintile	4th quintile	top decile
% of income	5%	10%	15%	20%	30%

B) Draw two Lorenz Curves which have the same Gini Coefficient. In which country is the middle class better off? Explain how you know the two Gini Coefficients are the same and why the middle class is better off in the one country.

13) (26 points) Answer EITHER Part A OR Part B.
A) Draw the two-sector labor supply and demand diagram with the two vertical axes. Assume there is a minimum wage. Draw an increase in the population. Explain why the curve(s) moved as drawn. What happens to the quantity of labor in industry, the quantity of labor in agriculture, and the wages in the two sectors? Briefly explain how you reached each conclusion.
B) Draw the two-sector labor supply and demand diagram with the two vertical axes. Assume there is **not** a minimum wage. Draw an increase in the productivity of workers in industry. Explain why the curve(s) moved as drawn. What happens to the quantity of labor in industry, the quantity of labor in agriculture, and the wages in the two sectors? Briefly explain how you reached each conclusion.