

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, 2/15, 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 GNP (GNI) and GDP differ? What is NEW? What is the HDI? 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 we need factor accumulation, increased efficiency, and technology change? Do not worry about the production function diagram. For the Solow model, understand that it assumes the items on page 68 and the equations on page 70. Be able to calculate the TFP. Why does that mean countries may converge to the same GDP per capita? Why don’t we see that? For the *Characteristics of Rapidly Growing Countries*, know why those characteristics help the economies grow faster. Except for #5, *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 4, only pages 136 - 147: 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 142 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.

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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.

2) (15 points) What is meant by underemployment? Why is it a big problem?

3) (25 points) Why do farm workers get paid their APL but other workers get paid their MPL?