

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 be Sunday, 3/8, at a time and date to be determined in class.

Chapter 5: What are *centrally planned*, or *command economies*? How are the following market failures? *Monopoly power*, *economies of scale*, *external economies (positive externalities)*, *external diseconomies (negative externalities)*, *infant industry*, *underdeveloped institutions*, *macroeconomic imbalances*, *national goals*. What can and/or should be done about them? What are the advantages and disadvantages of balanced growth, import substitution, export orientation, and import substitution with an export orientation? What is *rent seeking* and why is it a problem? Understand the list on page 163 and why those actions are important for improving the welfare of the country. What are the advantages and disadvantages of *shock therapy* and gradualism? The list on pages 179 - 180 gives more specific reforms. Understand why each are needed. (Number 7 is not as much of a consensus as they claim.) I will not ask you to list them all, but I will probably choose two and ask you to explain why one of them is necessary for development.

Chapter 6: What is meant by frequency distribution? Be able to draw a Lorenz Curve and estimate the Gini Coefficient. Understand what deciles and quintiles are. What is the problem of too large or too small Gini Coefficient? What is the Kuznets Curve? Why might it take that shape? What is meant by *absolute poverty*? What are the two most common values chosen for that? Why do some people disagree about them? Be able to calculate the *poverty gap*. Know what that means. Is growth good for the poor? What can be done to help the poor more with growth? What are safety nets?

Chapter 7: What are *crude birth rate* and *crude death rate*, and how do they relate to the *rate of natural increase*? Why does the demographic transition curve often look like the one they drew for Finland? What is the *total fertility rates*? What causes it to change? Why is a 2% growth rate a big problem? What is *population momentum* and how does it cause populations to continue to grow after the fertility rate equals the replacement rate? What did Malthus say? What were the strengths and weaknesses of his theory? Understand how the five items on page 254 affect the fertility rate. How does faster population growth hurt development? What is the *dependency ratio* and why does it matter? What are the arguments of the *population "optimists"*. What are the strengths and weaknesses of their theory? What can be done to reduce the population growth? What are the strengths and weaknesses of the various approaches?

Chapter 8: What is *human capital* and why does it matter? What are *stocks* and *flows*? How do they relate to education? What are *gross* and *net enrollment rates* and how can the former be greater than 100%? If it is greater than 100%, then is that good or bad? How does education differ between boys and girls? What is the difference between schooling and education? How do earnings depend upon education? Be able to calculate the private return using the present value calculations. How do you calculate the social return? How do the social costs and benefits differ from the private costs and benefits? Be able to set up the formula to calculate the internal rate of return. Understand why the numbers in Table 8-3 take the patterns they do. Why might those numbers be inaccurate?

This is the non-graded Assignment #4A that will be reviewed with Assignment #4.

1) (20 points) Explain how a population distribution like Nigeria's on page 261, can cause the population to increase for forty years after the replacement fertility rate is achieved.

2) (25 points) Obviously, both the "population pessimists" and the "population optimists" have views that apply to different countries. Which do you think applies to more countries? Explain your reasoning using both an argument for that theory and one against the other.

3) (20 points) Suppose that you are finishing your sophomore year at Bethany College. If you took a job now, you could earn \$20,000/year for the rest of your life. If you stay at Bethany, it will cost you \$15,000/year. After graduation, you could earn \$25,000/year. Suppose you expect to work for 42 years if you start now and 40 years if you start after graduation. You want to earn a 5% return. Set up the calculation which will determine if you will be making the necessary return. Do not do the calculation. Explain how you put numbers in the equation.

4) (10 points) Why does table 8-3 show lower social return for education than the private return?

5) (25 points) Suppose you are the leader of a poor country. If you have only a small amount of money for improving education, what would you spend it on? Be specific about how you would spend it and why you made those choices.