

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (15 points) What is HALE? Why is it an improvement over life expectancy? Why might it not be an improvement?
- 2) (10 points) Why are most of the leading causes of death in Africa communicable diseases while in Europe most are non-communicable diseases?
- 3) (15 points) Most of Africa has a big problem with AIDS. If you were advising an African country how to fight it, what would you do? Explain how you would get the funding and why that would reduce the problem.
- 4) (10 points) Suppose a building project has a cost of \$10,000 per year for two years. The resulting building will make a profit of \$3,000 per year for 20 years. At that point, the building will be worth \$2,000. Set up the equation which will be able to calculate the internal rate of return. Explain why you put the numbers where you did. Without doing the calculation, explain how you would determine if the building would be worth it.
- 5) (15 points) Suppose a project has an initial cost of \$2000, of which foreign exchange is \$400 and wages are \$300. In the future, it makes a profit of \$600 per year for 5 years which results in an NPV of \$274. That \$600 profit includes \$250 worth of labor costs but \$200 of foreign exchange revenue from exporting the product. If the shadow wage is 20% less than the going wage and the foreign exchange shadow rate is 10% above the actual exchange rate, then what happens to the NPV? Show all work and explain your logic. (The table on Page 357 says that the second column is per year, so that is what I did here. However, there is an internal inconsistency with their equations. Do the calculations as they did. It is the concept that is important, not the actual numbers.)
- 6) (10 points) Referring back to the chapter with the graph of the wages in the rural and urban areas, explain why the shadow price of labor is below the wage paid, even if there is no minimum wage. It may help to draw the graph, but it is not necessary.
- 7) (10 points) What do you feel is the greatest drawback of FDI? Explain your logic.
- 8) (15 points) What is *rent-seeking*? Why does it occur? Why is it bad?