

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 200 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) (12 points) Answer EITHER Part A OR Part B.

A) In the two sector model with a minimum wage, why is the wage rate in the rural areas lower than the wage rate in industry?

B) Do people in the rural area get paid their MPL or their APL? Explain your logic.

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

A) Why is saving very important for economic growth? Why does that make economic growth difficult in a developing country?

B) Some economists feel that Neo-Classical models, like Solow's growth model, do not apply to developing countries. Explain their argument.

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

A) Suppose that a country has a life expectancy of 65, mean schooling of 10 years, 14 years of expected education, and a GNI per capita (PPP 2011 US\$). Set up the calculation the HDI for the country. State how you got the numbers, but do not do the calculation.. The maximum income per capita is \$75,000, minimum income per capita of 20, maximum life expectancy is 85, minimum life expectancy of 20, maximum mean years of schooling is 15, and maximum expected years of schooling is 18. (Source: Page 2 of the 2015 UN's HDR [http://hdr.undp.org/sites/default/files/hdr2015\\_technical\\_notes.pdf](http://hdr.undp.org/sites/default/files/hdr2015_technical_notes.pdf))

B) The millennium development goal 7C listed on Page 48 says, "Halve by 2015 the proportion of people without access to safe drinking water and sanitation." If you headed a government back in 1990, how would you have tried to achieve this? Explain how your proposal would achieve the goal.

4) (16 points) for EITHER *investment in health* OR *effective governance*, explain what that term means. Explain why that is important for a country which wants to develop.

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

A) What is the formula for Net Economic Welfare (NEW)? Why is it a better measure of how well off a country is than either GNI or GDP? What is a problem with trying to measure it?

B) What is meant by "PPP"? Explain how it is used to compare GDP or GNI across countries? Why not use the exchange rate?

6) (24 points) Answer EITHER Part A OR Part B.

A) Draw the two-sector labor supply and demand diagram without a minimum wage. Illustrate the effects of an increase in the number of tractors in the farming sector. Explain why the curve(s) moved as drawn. What happens to the wages in the two sectors and the level of employment in the two sectors? State how you reached those conclusions.

B) Draw the two-sector labor supply and demand diagram with a minimum wage. Illustrate the effects of an increase in the minimum wage. Explain why the curve(s) moved as drawn. What happens to the wages in the two sectors and the level of employment in the two sectors? State how you reached those conclusions.