Wilf Csaplar Jr.   Economics 260   Homework #3   **Due Tuesday 2/5**

All parts of the assignment will be turned in at the end of the lab. 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 10 points. 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) (20 points) Draw the diagram I taught you for the two-sector model. Draw 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 and number of workers in both industry and agriculture? Briefly state how your diagram shows what you said happens to the variables.

2) (20 points) Draw the diagram I taught you for the two-sector model. Draw a minimum wage. Illustrate the effects of an increase in the population. Explain why the curve(s) moved as drawn. What happens to the wages and number of workers in both industry and agriculture? Briefly state how your diagram shows what you said happens to the variables.

3) (20 points) *Import substitution*, *export orientation*, and *import substitution* with an eye to future export orientation all have potential pitfalls. Explain one problem for each of them. Which do you think is best the vast majority of the time? Explain your logic.

4) (10 points each) Answer each part in separate diagrams. For each of the following parts of the Washington Consensus, state what it means and explain why it is important for a developing country's government to do that.
A) Reorder public expenditure priorities.
B) Have fiscal discipline.
C) Privatization of as much of the industries as possible.

5) (10 points) The Washington Consensus says there should be *liberalization of FDI*. However, Jagdish Bhagwati says that is a bad idea. What does *liberalization of FDI* mean? Why does Bhagwati feel it is a bad idea?