

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 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give extra time but not much.

1) (10 points) Answer EITHER Part A OR Part B.

A) Which do you think is normally a better government style, hard governments or soft governments?

Explain your logic.

B) What does Pareto optimality mean? Why is it important to have?

2) (12 points) Answer EITHER Part A OR Part B.

A) Suppose a country grows at 4%. Its capital grew at 3% and its labor grew at 4%. How much did total factor productivity grow? Show all work.

B) What determines the pay of workers in agriculture in developing countries? Why are they paid that?

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

A) What is meant by NEW? How is it calculated? Why are the changes from calculating NNP important?

B) For the MDG 8, Develop a global partnership for development, and target 8D, Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long run, explain why that goal is important.

4) (16 points) Answer EITHER Part A OR Part B.

A) Explain the difference between GNI and GDP. Which do we normally look at in this course? Why?

B) Explain the process we use to convert GPI per capita from one currency to another. Why don't we use the exchange rate?

5) (18 points) For EITHER the characteristic of a rapidly growing economy in Part A OR the one in Part B, explain why that is important for the economy. What can the government do to move in that direction. Explain how that government action will help the economy.

A) Favorable environment for private enterprise.

B) Trade openness

6) (18 points) Answer EITHER Part A OR Part B.

A) Draw a Lorenz Curve such that you would guesstimate that the Gini Coefficient is about .4. Explain why you feel your graph shows a Gini Coefficient of .4.

B) According to WIID citing the CEQ project, Ecuador had a Gini coefficient of .479 in 2012. What is the problem caused by that value? Explain your logic. According to WIID, two different estimations for the Gini Coefficient for Portugal in 2010 gave values of .522 and .337. The former was for "market income" while the latter was for "disposable income". Which number do you think is more important? Explain your logic.

7) (18 points) For EITHER the item from the Washington Consensus in Part A OR the one in Part B,

explain why that is important for the economy. What can the government do to move in that direction. Explain how that government action will help the economy.

- A) Liberalization of interest rates
- B) Secure property rights

8) (20 points) Answer EITHER Part A OR Part B.

A) Suppose a country has a GNI per capita of \$5000, average life expectancy of 30, mean years of schooling of 5, and an expected years of schooling of 9. Set up the three calculations for the three components of the HDI. State how you would calculate the one component which has two parts. Then, **without doing the calculations**, call your three values X, Y, and Z. Show the calculation which would convert X, Y, and Z to the HDI.

B) Suppose a bond has a face value of \$1000 and a coupon rate of 5% with annual payments. The maturity date is three years from today. Suppose you pay \$990 for the bond. Set up the calculation which would enable you to figure out what return you are getting. Tell me what part of the equation is your return **Without doing the calculation**, tell me if you are earning <5%, 5%, or >5%. Explain your logic.

9) (22 points) Answer EITHER Part A OR Part B.

A) Draw the two sector model for agriculture and industry. Assume there is NO minimum wage. Illustrate the effects of an increased productivity in the agriculture sector. Explain why the curve(s) moved as drawn. What happens to the wage in both sectors and the amount of labor in both sectors? State how you see them on the diagram.

B) Draw the two sector model for agriculture and industry. Assume there IS a minimum wage. Illustrate the effects of an increased productivity in the industry sector. Explain why the curve(s) moved as drawn. What happens to the wage in both sectors and the amount of labor in both sectors? State how you see them on the diagram.