

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 240 points (to be scaled down to 150 points) and is scheduled to take 240 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 only if neither you have an exam after this.

1) (14 points) Answer EITHER Part A OR Part B.

A) Some people feel that all foreign aid other than emergency assistance, like for a drought or tsunami, hurts the country in the long run. Explain their logic.

B) Why might the fungibility or non-fungibility of aid play a role as to whether the aid will be a net help or a net detriment to the receiving country?

2) (14 points) For EITHER the Millennium Development Goal of “Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2025.” OR “Halve, between 1990 and 2015, the proportion of people who suffer from hunger.” Explain why that MDG is important for economic development. Do you think it was achieved?

3) (14 points) For EITHER a crawling peg exchange rate OR a cleanly floating exchange rate, explain what that means. Explain why a developing country might want that type of exchange rate.

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

A) Much of Sub-Saharan Africa has a problem of illiteracy. If you were advising a government of one of those countries, how would you suggest they address that problem? Explain why that would reduce the problem and if it requires money, how you would finance it.

B) In most developing countries, which type of education gives the greatest rate of return? Why is that the case?

5) (18 points) For EITHER NPV debt/revenue of 200% OR debt service/exports of 26%, explain why it is a potential problem. Also determine if it is an illiquidity problem or a insolvency problem. Explain your logic.

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

A) If you are giving aid to a developing country and could only add one condition to it, what condition would you add? Why would you add that one?

B) When giving aid to a developing country, why is recipient participation important for the aid to be effective? Explain two reasons.

7) (18 points) For EITHER export process zones OR trade barriers, define it and state both how it can help the developing country and how it can hurt the developing country.

8) (18 points) Answer EITHER Part A OR Part B.

A) Viruses are becoming resistant to many antibiotics. This is worst in many developing countries. Explain what is happening there that means many of those strains are developed there. How can the

government fight that? Explain how that would work.

B) Draw the mortality pyramid for a typical developing country. Explain why it looks like that.

9) (18 points) Answer EITHER Part A OR Part B.

A) Explain why the HDI is a better than GNI per capita as a measure of how well off a country is. Make sure you mention all of the items used to calculate the HDI.

B) Explain how NEW is different from GNI. Which is a better measure to use for evaluating how well off a country is? Explain your logic.

10) (18 points) Answer EITHER Part A OR Part B.

A) Draw a Lorenz Curve which has a Gini Coefficient of about .5. Explain how you know the coefficient is about .5.

B) Too large of a Gini Coefficient is bad and too small of a Gini Coefficient is also bad. Explain why both of those statements are true.

11) (20 points) Answer EITHER Part A OR Part B.

A) Draw the Environmental Kuznets Curve. Explain why it looks as drawn. Use it to explain why many West Virginians do not want mountaintop removal prohibited even though it makes the landscape less attractive and often ends up polluting their drinking water.

B) Draw the MAC/MEC graph. Explain why both lines take their shape and why having less pollution than the intersection point is not optimal..

12) (24 points) Answer EITHER Part A OR Part B.

A) Draw the Two-Sector Model diagram for employing labor. Put a minimum wage on the graph. Illustrate the effects of an increase in the marginal productivity of labor in industry. Explain why the curve(s) moved as drawn. What happens to the amount of labor in industry, amount of labor in agriculture, the wages in industry, and the wages in agriculture? State how you see them on the graph.

B) Draw the Two-Sector Model diagram for employing labor. Use it to explain why the shadow price of labor in industry is less than the wage rate in industry. Include the logic why the industry and agriculture pay their workers in their respective manners. Assume there is NO minimum wage.

13) (30 points) Answer EITHER Part A OR Part B.

A) Suppose a factory takes two years to build at a cost of \$1000/year including \$400 of labor. The factory will make profits of \$300 per year for 4 years including \$200 of labor. At the end of the four years, the factory can be sold for \$1200. Set up the calculation for the private return. State how you got each number. Without doing the calculation explain how you use the equation to determine the private rate of return. If the shadow price of labor is 25% less than the actual cost, setup the calculation which would be used to find the rate of return to society. State why you put each number where you put it.

B) Suppose that a secondary education takes four years. It costs the students \$500/year to go to school. They could be earning \$5000/year if they go to work straight out of primary school. If they go to school for the four years, they can make \$6000/year. Suppose their current age is 14 and regardless of whether they go to secondary school, they will work until age 70. Setup the calculation for their private return. State why you put each number where you put it. Without doing the calculation explain how you use the equation to determine the private rate of return. Suppose it cost the government \$400/year to run the school and the positive externalities amount to \$200/year for the country. Setup the calculation for the return to society. Briefly state why you put the numbers where you put them.