

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up 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) (15 points) Your book says that markets function well if firms try to maximize profits. Explain why they are not as efficient if firms do not maximize profits. Given our two-sector model, do agriculture markets in developing countries function well? Explain your logic.

2) (25 points) The table to the right is percentage of income which goes to each decile. Draw the Lorenz Curve and explain how you got it, including all calculations. Given your graph, what is your estimate of this country's Gini Coefficient? Explain your logic.

Decile	% of income
1 st	5%
2 nd	10%
3 rd	20%
4 th	25%
5 th	?

3) (20 points) Draw two Lorenz Curves on the same graph, which have the same Gini Coefficient. State how you feel they have the same Gini Coefficient. Which line has a richer middle class? Explain your logic.

4) (10 points) Why is the *poverty gap* a better way of determining how bad the poverty level is in a country than the percentage of people below the poverty line? Explain your logic.

5) (15 points) Why is too large of a Gini Coefficient bad for economic growth? Explain your logic. Why is too small of a Gini Coefficient bad for economic growth? Explain your logic.

6) (15 points) Draw the Kuznets Curve. Explain why it takes that shape. Does Figure 2.3 fit that description? Explain your logic. <https://wir2022.wid.world/chapter-2/>