

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 160 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 past three decades in the USA, the economic growth has not been pro-poor. What can the Obama Administration do to change that? Explain how that policy change would help the poor. (Pretend that the USA is a developing country.)

B) Obviously, the *population optimists'* theories do not apply to most places in the world. However, they do make valid points. Explain their theory and explain when it might be true.

2) (16 points) Answer EITHER Part A OR Part B.

A) Suppose that you are finishing your sophomore year at Bethany College. If you took a job now, you could earn \$20,000/year for the rest of your life. If you stay at Bethany, it will cost you \$15,000/year. After graduation, you could earn \$25,000/year. Suppose you expect to work for 42 years if you start now and 40 years if you start after graduation. You want to earn a 5% return. Set up the calculation which will determine if you will be making the necessary return. Do not do the calculation. Explain how you put numbers in the equation.

B) What is the economic justification for governments subsidizing education or supplying it free? Which level of education does the government get the greatest social return from? Explain your logic.

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

A) What are *economies of scale*? Why are they a reason for government intervention? What should a government do about them?

B) What is *rent seeking*? Why is it a problem? What can the government do about it?

4) (18 points) Answer EITHER Part A OR Part B.

A) The *Washington Consensus* says that governments should do tax reform. They list five things which should be done for such a reform. What are two of them and why should the government do them?

B) The *Washington Consensus* says that governments should do trade liberalization. They list three things which should be done for such a reform. What are two of them and why should the government do them?

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

A) The book lists five determinants of the fertility rate. List TWO of them. Explain the economic reason why those factors affect the fertility rate.

B) If you were Prime Minister Singh of India, what would you do to reduce the population growth rate? State TWO policies and explain how they would reduce the population's growth rate.

6) (20 points) Answer EITHER Part A OR Part B.

A) Draw two Lorenz Curves which yield the same Gini Coefficient. In which country would you rather be poor in? Explain your logic. Implicitly, you are making some assumptions. What is one of those assumptions and why is that assumption important to your logic?

B) Use the following data to draw the Lorenz Curve and estimate the Gini Coefficient. Explain how you did both.

Bracket	1 <sup>st</sup> quintile	2 <sup>nd</sup> quintile	3 <sup>rd</sup> quintile	4 <sup>th</sup> quintile	top decile
% of income	5%	10%	15%	20%	30%