

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) Suppose that you are junior and you are considering whether or not to come back for another year. If you go on the job market now, you will earn \$40,000. If you go to school, the cost of the education is \$30,000; however, you will earn \$50,000 a year after graduation. You are currently 21 and you plan to work until the retirement age of 67. Setup the calculation which will determine the internal rate of return you will get for attending another year. Do NOT solve it. Briefly explain how you put which numbers in which place and how you would use it to decide whether or not to return.
- 2) (15 points) How is the social return different from the private return? Explain the two ways it is different.
- 3) (20 points) One of the problems with doing the social returns to education is the identification problem. What is that? Would that mean that the actual returns are greater or less than those calculated? Explain your logic.
- 4) (10 points) Why is the social return greater for primary education than tertiary education? State the two reasons and briefly explain how that affects the return.
- 5) (15 points) One of the big problems with primary education is the cost to the student. What are some of these costs? What can the government do to reduce one of them? Explain how that would work.
- 6) (20 points) On Page 305, there is a table for calculating the life expectancy. Explain how they got the numbers in the row 5-10. Obviously, Column 1 is given. For each of the other columns, show the calculation which gives that number.