

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 some extra time.

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

A) In the two-sector labor supply/demand model, we assumed that if there was a subsistence wage, it only applied to industry. Why does this make sense?

B) When we drew the two-sector labor supply/demand diagram, we said the APL was above the MPL. Why is this true? (Note, you do not need subscripts because it is true in both sectors. However, we do not draw the APL for industry.)

2) (12 points) The book lists six characteristics of rapidly growing economies. For EITHER *favorable environment for private enterprise* OR *openness to trade*, explain what that means and how that helps the economy to grow.

3) (14 points) Your book mentions five elements for a market to work well. For EITHER the element in Part A OR the element in Part B, explain what that means and why it is important.

A) Prices must be free to represent relative scarcity.

B) There must be competition in the markets.

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

A) Suppose that a country has an average life expectancy of 40, a GNI per capita of \$3000, expect 6 years of school, and a mean school years of 3. Setup the calculation for the HDI. Setup the three calculations. **DO NOT** solve them. Call the answers to the three components G, H, and E (for GDP, Health, and Education respectively). Tell me how you would calculate the HDI from G, H & E.

B) The review sheet talks about a replacement for GNI and GDP called NEW. What is NEW? How is it calculated? Why is it hard to get an accurate value for it?

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

A) Explain why $MSC = MSB$ is the socially optimal point. In the two-sector labor supply/demand diagram, is social optimality achieved? Explain your logic.

B) The Washington Consensus said that the government should liberalize FDI. What does that mean? How might it help? Jagdish Bhagwati disagrees with that. Explain his logic.

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

A) The MDG 1B says, "Achieve full and productive employment and decent work for all, including women and young people." Why is it important, especially the part about women? If you ran a government of a developing country, how would you go about trying to achieve that? Explain how your actions would have the desired effects.

B) The MDG 2A says, "Ensure that by 2015, children everywhere boys and girls alike, will be able to complete a full course of primary schooling. Why is it important, especially the part about girls? If you ran a government of a developing country, how would you go about trying to achieve that? Explain how your actions would have the desired effects.

7) (18 points) Answer EITHER Part A OR Part B.

A) When we discussed growth of an economy, we said that we need both *factor accumulation* and an *increase in total factor productivity*. How are they different? Why do we need both?

B) Draw the production function. Explain why it takes its shape.

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

A) The two-sector labor supply/demand diagram **with** a minimum wage. Illustrate the effects of a new improved technology in industry. Explain why the curve(s) moved as drawn. Illustrate the wage rate in both industry and agriculture before and after. What happens to the two wages? What happens to the amount of labor in each sector?

B) The two-sector labor supply/demand diagram **with** a minimum wage. Illustrate the effects of an increase in the minimum wage. Explain why the curve(s) moved as drawn. Illustrate the wage rate in both industry and agriculture before and after. What happens to the two wages? What happens to the amount of labor in each sector?

9) (24 points) Answer EITHER Part A OR Part B.

A) Suppose the quintiles of income distribution were given below. Draw the Lorenz Curve and estimate the Gini Coefficient. Show all calculations and briefly explain how you got the Gini Coefficient estimate.

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

B) Draw the Kuznets Curve. Explain why it takes that shape. The USA has a Gini Coefficient of .595 for market income and .423 after taxes and transfers. Which is the more important one? Explain your logic. The source of the Gini Coefficient data is an article from the Pew Research Center from last month.

<https://www.pewresearch.org/social-trends/2020/01/09/trends-in-income-and-wealth-inequality/>