

Your name: \_\_\_\_\_

**Economics 151**  
*Development Economics*  
2<sup>nd</sup> Exam Sample Questions

Instructions The exam consists of 40 short answer questions. For each multiple-choice question, circle the letter of the best option. For True/False questions and others with only two options, circle the best choice. .

1. According to the age earnings profile for India shown in **Figure 9-1**, a typical individual who enters the labor force only after completing middle school forgoes about \_\_\_ years of labor earnings compared to an illiterate person who never goes to school. At age 40, the middle school completer is expected to earn about \_\_\_ rupies per year more than a primary-school leaver (*note well the change in what is being compared*).
  - a. 10; 50
  - b. 7; 800
  - c. 9; 1,300
  - a. 3; 40
  
2. In 1995, the proportion of students in the relevant age range attending primary school was
  - a. still under 50% in most developing countries
  - b. between 60 and 80% in most developing countries
  - c. over 80% in virtually every developing country
  - d. over 90% except in countries with GDP per capita (PPP) of less than \$1000
  
3. What is the present value of a million dollars received 10 years from today if the relevant rate of interest is 8%?
  - a. \$463,193
  - b. \$2,158,925
  - c. \$92,593
  - d. \$144,000
  
4. Suppose that a project yields net earnings of ten million dollars 5 years from today and costs 1 million dollars to construct today. What is this project's net present value (i.e., present value of earnings minus present value of costs) if the relevant rate of interest is 7%?
  - a. - \$0.296 million
  - b. \$9.7 million
  - c. \$6.13 million
  - d. \$8.13 million





17. During the 1990s, foreign direct investment overtook commercial bank loans as a source of foreign private finance (“foreign saving”) flowing into developing countries.

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18. Total net official development assistance given by the U.S. to developing countries in 1997 was approximately \_\_\_% of U.S. GDP, and net official development assistance received from all sources by Mali and Tanzania was approximately \_\_\_% of those countries’ GNPs in that year.

- a. 3, 4
- b. 2,45
- c. 1.8,15
- d. 0.1,16

19. Which is the best definition of a public good as the term is used in economics?

- a. a positive externality generated by the production of some other good
- b. a term used in welfare economics as a synonym for public well-being
- c. a good produced by government
- d. a good having the properties of nonrivalry and nonexcludability

20. As a share of GNP, total tax revenue tends to

- a. increase with a country’s per capita income
- b. decrease with a country’s per capita income
- c. remain the same on average at different levels of per capita income
- d. first increase, then decrease as country per capita income rises

21. Most economists think that it is advisable that governments of developing countries spend a little more than they take in in the form of tax revenue, since the mild “inflation tax” thus imposed on the population is one of the best ways to raise a country’s savings rate.

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22. Figure 1 shows the demand curve for a certain good for which the supply curve is horizontal at the price  $a$ . Suppose that the government imposes a tax of  $ba$  (i.e., the distance from point  $b$  to point  $a$ ) per unit of the good. How much revenue will the government receive if the tax is successfully collected on every unit sold?

- a.  $abce$
- b.  $abcd$
- c.  $ced$
- d.  $cefg$

23. The excess burden of a tax of the kind just discussed is smallest when the demand for the good in question is more

elastic

inelastic

24. The nominal interest rate in a certain country is 9%. The rate of inflation is 8%. What is the real rate of interest?
- 1%
  - 1%
  - 0.93%
  - 0.84%

25. The desire to hold liquid (financial) assets is explained in the textbook by the equation

$$L/P = d + d_1Y + d_2g + d_3r$$

where L is the amount of assets, P is the price level (so L/P is the amount of assets in real terms), Y is income, g is the real return on nonfinancial assets like gold, r is the rate of return on liquid (financial) assets, and the d's are constants. It is expected that

- d<sub>1</sub>, d<sub>2</sub> and d<sub>3</sub> are all positive
  - d<sub>1</sub> and d<sub>2</sub> are positive, d<sub>3</sub> is negative
  - d<sub>1</sub> and d<sub>2</sub> are negative, d<sub>3</sub> is positive
  - d<sub>1</sub> and d<sub>3</sub> are positive, d<sub>2</sub> is negative
26. Nominal interest rate ceilings accompanied by rapid inflation hurt economic growth for all but one of the following reasons. Which is the exception?
- Low real interest rates discourage investment demand.
  - Banks ration credit to safe and well-connected firms rather than to projects with a higher rate of return.
  - Banks avoid taking risks because they can't charge a risk premium.
  - Banks lend less to small firms, even when the potential returns on such loans are high.

