Name:

Date:

**Homework Assignment 2**

Latin American Economic Issues

EC 3325

Directions: Answer all of the following questions. Show work when possible. Answer essay questions in complete sentences. You may choose to work in a group of no more than 3 total members. You must upload your assignment to Blackboard by 11:59pm on 3/5. Upload your assignment, click on the “Homework Assignment” tab on our Blackboard class site, then Click on “Homework 2.” If you are working as a group, please upload only one copy with all your names on it. The assignment can either be typed in a word document or a scanned copy of written work. **Only three questions will be graded for correctness**. Assignments are open note and open book. You should not use information from outside this class on assignments.

1. In 2000, the country of Cobra Island has an initial level of capital set at 10 units. The population of Cobra Island is unknown, but we do know that it grows each year at some constant rate. The level of total income is 500 cobra dollars. Finally, the total production function of Cobra Island can be described as Y =10\*L1/2K1/2
2. What is the initial population of Cobra Island?
3. Let the wage of labor is 0.4, and the rental rate of capital is 0.6. The capital to labor ratio after two years (in 2002) is 50 while the amount of workers is 1000. The growth rate of capital is 6,970%. The growth rate of labor is 100%. Find the GDP of Cobra Island.
4. How much labor is there in Cobra Island one year after the initial year (or in 2001)?
5. The growth rate of income is 1,089%. Find the Solow Residual. Do not give the answer as a percentage.
6. Zackland, a developing country, can be described using the Harrod-Domar Model.
7. The ICOR of Zackland is 0.8. Assume that the economy is stable. In other words, population growth is such that there is never any unemployment or underutilized capital. Also, consumers save 20% of their income, and the depreciation rate of capital is 0.1. Finally, K = 100. Find the change in K.
8. What is the growth rate, g, and the population growth rate, n, in this situation?
9. Why do we consider some types of economic indicators to be non-binary? What are two examples of non-binary measures we have seen in class?
10. Why are there so many businesses in the informal sector in Latin America?
11. Freedonia is a country with 80% of the economy devoted to producing wheat, corn, and coffee. The government of Freedonia wants to increase the amount of computer manufacturing in the country. Explain three policies that could yield to an increase in computer manufacturing. Be sure to fully explain why each policy would increase that sector.
12. What was the argument for LA countries to engage in ISI?
13. Why did ISI not work well in LA?