

Review For Midterm 2

Exam 2 covers from Chapter 4 (Solow Neoclassical Growth Model) up to and including Chapter 8.

Review For Midterm

There are 8 multiple choice questions (5 pts each), 1 mandatory long answer question (30 pts), and 2 long answer questions (30 points each), of which you choose one.

Chapter 4

- Knife-edge problem
- Diminishing returns to capital
- Capital deepening
- Capital widening

Chapter 5

- Big push
- Linkages
- Pareto efficiency and Pareto optimality
- Backward linkages
- Soviet Union model of growth
- NGOs (non-government organizations)

Chapter 5

- Washington Consensus
- 5 key elements required for market to function well
- Hard governments
- Soft governments.
- Four East Asian Tigers (S. Korea, Taiwan, Hong Kong, Singapore)

Chapter 6

- Size distribution
- Lorenz Curve
- Frequency distribution
- Gini coefficient
- Absolute poverty
- Head-count index

Chapter 6

- Poverty gap
- Destitution poverty line
- Poverty line
- Poverty line arguments
- Pro-poor growth policy
- Conditional cash transfers (CCTs)

Chapter 6

- Social safety nets
- International inequality
- Calculate international inequality using population as weights

Chapter 7

- Population-carrying capacity
- Population explosion
- Demographic transition
- Crude birth rate
- Crude death rate
- Natural increase

Chapter 7

- Total fertility rates
- Population momentum
- Population pessimists
- Population optimists
- Population revisionists (neutralists)
- Children as economic decision-implications

Chapter 7

- Market failures
- One child policy

Chapter 8

- Primary, secondary, tertiary education
- Gross enrollment rates
- Net enrollment rates
- Grade survival rates
- Age-earnings profiles
- Private return

Chapter 8

- Present value
- Discounted
- Internal rate of return
- Social return
- Externality
- Natural experiment
- Randomized controlled trials (RCTs)

Chapter 4

Solow (Neoclassical) Growth Model

- Production function: $y = F(1, k)$.
- Change in capital: $\delta k = sy - (n + d)k$

Chapter 4

Solow (Neoclassical) Growth Model

- Change in capital per worker depends on savings, pop growth, and depreciation of capital.
- Production function needs constant returns to scale and diminishing returns to capital.

Chapter 5

Firm Maximization and Efficiency of markets

- Monopoly profit maximization
- 2 and 3 firm market profit maximization

Chapter 5: Example

Let the product demand be described as $Q = 10 - P$.

- Find the equilibrium quantity when the one firm in the market has a constant marginal cost of 2.
- Find the equilibrium quantity when two firms in the market each have a constant marginal cost of 2.
- Find the equilibrium quantity when three firms in the market each have a constant marginal cost of 2.

Chapter 6

Poverty Gap

$$\blacksquare PG = \left[\frac{PL - MC}{PL} \right] H$$

Chapter 6

Gini coefficient

- $Gini = \frac{A}{A+B}$

Chapter 8

Rates of Return



$$PV_B = \sum_{t=1}^n B_t / (1 + i)^t$$

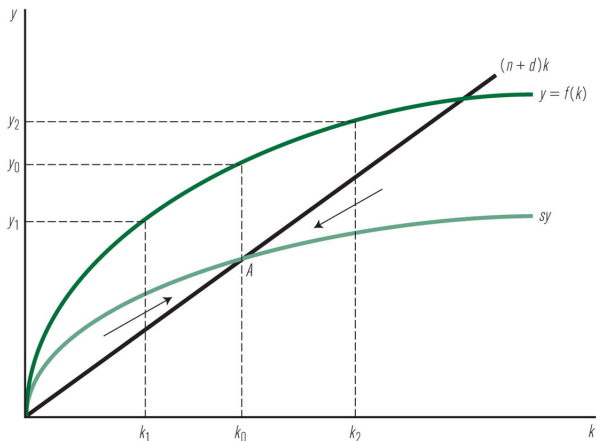


$$PV_C = \sum_{t=1}^n C_t / (1 + i)^t$$



$$0 = \sum_{t=1}^n (B_t - C_t) / (1 + r)^t$$

Chapter 4

**FIGURE 4-4** The Basic Solow Growth Model Diagram

In the basic Solow diagram, point A is the only place where the amount of new saving, sy , is exactly equal to the amount of new capital needed to compensate for growth in the workforce and

Chapter 6

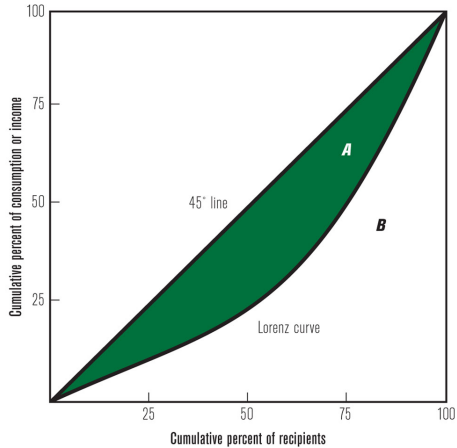


FIGURE 6-2 Lorenz Curve

Chapter 6

