ECON 336 HW 2

Due: Monday, Sep 27

Short answer questions:

1) Briefly define the following terms:
    a. Capital output ratio
    b. Solow residual
    c. Market failure
    d. Dualism
    e. Net saving ratio
    f. Structural transformation

2) What are the main differences between the linear stages and international dependency models of development?
3) Describe one important criticism of Rostow's stages of economic growth theory.
4) Dependency theory characterizes countries as being either in the center or on the periphery. Explain these two concepts. If this theory is correct, what are the implications for development strategy?
5) Assume a closed economy, perfectly elastic labor supply, and linear technology. Suppose the incremental capital-output ratio (ICOR) is 3, the depreciation rate is 3%, and the gross savings rate is 10%. Use the Harrod-Domar growth equation to determine the rate of growth. What would the gross savings rate have to be to achieve 5% growth? Assuming a perfectly elastic labor supply, state one criticism of this model from an exogenous growth theory viewpoint and another criticism of this model from an endogenous growth theory viewpoint.
6) What are the key assumptions of the Lewis model that give rise to its conclusions? How would the theory's conclusions differ if these assumptions do not hold?
7) What would be effects of an increase in the saving rate on GDP and GDP growth in the Solow model? What about the Harrod-Domar growth model?
8) Briefly Explain what we can imply from this graph.