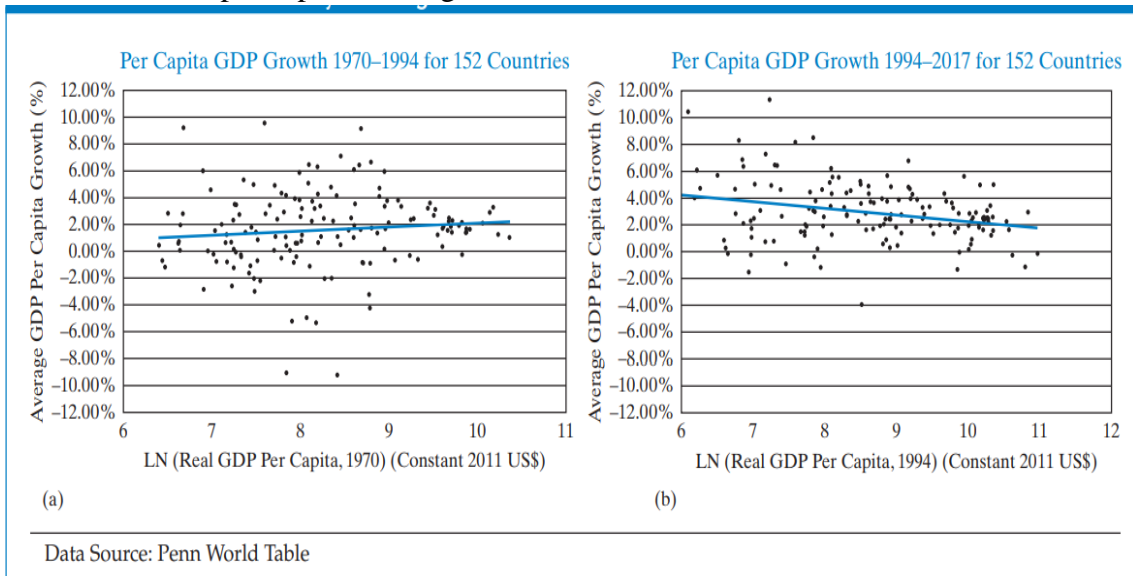


ECON 336 HW 1

Due: Wednesday, September 22

Short Answer Questions:

- 1) Define the following terms
 - a. Absolute poverty
 - b. Subsistence economy
 - c. Traditional economics
 - d. Brian drain
 - e. Convergence
 - f. Economic Institutions
 - g. Natural resource curse
- 2) Briefly explain the capability approach. In what regard, it is different from the utility approach?
- 3) Briefly compare the two plots below. Also, explain what implications these two plots have for income per capita convergence.



- 4) What is the relationship between economic development and happiness? (You need to refer to the concept of diminishing marginal utility in your answer.)
- 5) Briefly explain why GNI per capita is not a good measure of economic development.
- 6) What are the potential relationships among health, labor productivity, and income levels? Explain your answer.

Numerical Questions

- 7)
- Briefly explain why GNI per capita, PPP is better for comparing countries than the regular GNI per capita.
 - Assume that a basket of goods has been selected to calculate the PPP rate for Bolivia. The cost of this basket is 156 Bolivian Boliviano (the official currency of Bolivia). The same basket costs consumers \$60 to buy in United States. Calculate the PPP rate for Bolivia.
 - Bolivia's GNI per capita in 2019 was 17458 Bolivian Boliviano. Assuming that the official exchange was 6.9 (\$1= 6.9 Bolivian bolivianos), calculate both the GNI per capita PPP and regular GNI per capita. Briefly explain how your answer is related to part a.
- 8) The following table presents the human development indices for Kenya as well as maximum and minimum values in 2019.

| | Kenya | Maximum | Minimum |
|---------------------------------|-------|---------|---------|
| Means Adults Years of Schooling | 8.4 | 15 | 0 |
| Expected Years of schooling | 11.6 | 18 | 0 |
| Life expectancy rate at birth | 67 | 85 | 20 |
| GNI Per Capita | 4243 | 75000 | 100 |

- Calculate all dimension indices for all four categories (remember, you need to take logs of GNI values).
- Calculate the NHDI for Kenya in 2019.

Excel Questions

- 9) Download the excel file uploaded on Sakai, HW1. It is the GNI per capita data for selected countries and regions. You are supposed to categorize countries based on World Bank categorization for 2 different years.
- Based on the thresholds presented in the sheet named "Categories", categorize countries accordingly.
Help: You can make use of the following command, which is for year 2000, to categorize countries. You, then, need to adjust the command according to the year. Copy and paste the command into cell E2 and drag the lower corner of the cell to the bottom.

```
= IF(C2<755, "LIC", IF(C2<2995, "LMI", IF(C2>9256, "HIC", "UMC")))
```

- b. How many countries were low-income in 2000? What about 2019?
Help: You can make use of the COUNTIF command. For example, using =COUNTIF(A1:A3, "HIC") would evaluate the characters in cells A1 to A3 and count how many of them have "HIC" included.
- c. Given your findings above, what conclusion you can make about the trend of economic development in the world?
- d. Plot GNI per capita growth rate from 2000 to 2019 against GNI per capita in 2000 using Scatter chart. What pattern do you observe?

Analytical Questions

- 10) Read the article entitled "The trouble with GDP" uploaded on Sakai. Answer the following questions.
- a. What is the main criticism made by William Nordhaus against measuring standards of living?
 - b. What was the disagreement between Keynes and Kuznets about?
 - c. Name four things that are not counted in the measurement of GDP.
 - d. The article argues that the benefits of new inventions to consumers are not measured in GDP. What is the example provided by the article? Can you think of other examples?
 - e. The article talks about a few adjustments in measuring GDP. Name two of them.