

**ECG 540 - Economic Development  
Midterm I**

**Instructions:** Please answer TWO OF THE THREE questions in Part I, and ONE OF THE TWO QUESTIONS in Part II and Part III. You may find it useful to use mathematics or graphs in your answers; these are not necessary, however, as long as you can clearly communicate the relevant concepts from the assigned readings, handouts and classroom discussion.

**I. Dual Economy Models (Answer any TWO of the three parts of this question)**

- a. W.A. Lewis' dual economy model dominated the thinking of development economists in the 1950's and 1960's. Describe the key assumptions of the Lewis model and the mechanism by which economic growth was generated within his dual economy framework. What are some shortcomings of the model? **(20 points)**
  
- b. The Harris-Todaro (HT) model provides an explanation of urban unemployment in LDCs. Discuss the underlying assumptions of the HT model, and the way in which urban unemployment follows from them. Provide the intuition for the HT model's prediction that a government job creation program could actually give rise to increased unemployment. **(20 points)**
  
- c. Gary Fields uses a dual economy framework to assess the impact on income inequality of three patterns of economic growth – traditional sector enrichment, modern sector enrichment, and modern sector enlargement. Describe how each of these three phenomena affect income distribution and total income in Fields' analysis. **(20 points)**

**II. Economic Growth Models (Answer ONE of the following - a or b)**

- a. Summarize what the neoclassical model has to say about how an economy moves toward a steady-state value of capital per person. How might this cause the growth rates of different economies to converge – that is, poorer economies growing faster than richer economies? Does empirical work support either absolute or conditional convergence? **(30 points)**
  
- b. Compare and contrast the underlying assumptions of Neoclassical Growth Theory and the New Growth Theory. How do these two schools of thought differ as regards their predictions for long-run economic growth rates of rich and poor countries?

**III. Income inequality and income growth (Answer ONE of the following - a or b)**

- a. Simon Kuznets hypothesized that income inequality rises at the early stages of economic growth and then falls thereafter. Describe his underlying assumptions regarding income inequality and population dynamics within and between rural and urban sectors of the economy, and how, given these assumption, a U-shaped “Kuznets curve” occurs? Does the empirical evidence support or not support Kuznets' hypothesis? **(30 points)**
  
- b. Explain how it is that total income in an economy could increase and yet overall social welfare fall? If total income increases, will the Gini coefficient rise or fall? **(30 points)**