

First Midterm

- Answer Key posted on Learn@UW. See the 'past exams' section.
- If you did poorly, don't fret: If you do better on Midterm 2 and the Final, this exam will only count for 10% of your grade.
 - I'm available during office hours (9-10:30a Mondays, SSCI 7481) or by appt to go over your exam with you if you have questions.
- Regrade policy: Return exam to me or Eudey with written request for a regrade before the end of October.

Goals for this session

- Rule of 70
- Identify factors which have led to income inequality
- Determinants of Economic Growth - Set the stage for future chapters studying growth models and government policy. (Capital Deepening, Technological Progress, Development of Human Capital)
- Causes of Technological Progress (Creative Destruction, Induced Innovation)

Problems

1. In the 1980s and 1990s stock market returns averaged around 18%. In 1980 you win the lottery and get \$10,000,000.
 - (a) Approximately how many times would your money double between 1980 and 2000?
 - (b) How much are those stocks approximately worth in 2000?
 - (c) Nearly 70% of Americans have less than \$1000 in savings!!! Relate this fact to your answer in (a)/(b) to discuss wealth and income inequality. In Piketty's words, why are we seeing income inequality grow?
2. What is a Lorenz curve? What does it show? How has this curve changed over the years as income inequality increased?
3. Bill Gates on income inequality: "Some level of income inequality is built into capitalism" (i.e. incentivize innovation and education) "The question is, what level of inequality is acceptable? And when does inequality start doing more harm than good?"
4. Foreign investment in developing countries
 - (a) Why might the idea of 'Economic Convergence' induce people to invest their money in emerging economies?

- (b) A large Fortune 500 corporation wants to make direct investments in a developing country since low-skill labor is cheap there. What are the pros and cons of this investment from the perspective of the developing country?
5. Why has industrialization/globalization helped rich countries more than poor countries?
 6. Come up with 3 recent examples of creative destruction (consider silicon valley)
 - (a) Can you think of any innovations which may have had a net negative on society?
 - (b) Should the government do anything to alleviate the pains of creative destruction?
 7. Between 2011 and 2013, upon the introduction of generic versions of oral medications whose patents expired, decreased prices by 90%! e.g. a \$50/pill medicine would drop to \$5 per pill. Do you think it is fair for companies to use their property rights (patents) to charge exorbitant prices for potentially life saving medicines?
 8. Explain the solow growth residual. How does Eudey say it is calculated?

TA Session Survey

- Survey closes this weekend - please take a second and go to aefis.wisc.edu and share your thoughts. You'll need to log in with your wise ID.