Some Review Questions

1. Draw the Lorenz Curve for the following two income distributions:
   {10,20,30,40}
   {5, 25, 35, 35}

Just based on the Lorenz curve, is it possible to compare inequality for these two distributions? Why or why not?

2. Is the population principle satisfied for the following measures of income inequality?
   a) Variance of Incomes
   b) Distance from maximum income to median income
   c) Coefficient of Variation of income

3. Are the Relative Income Principle and the Pigou-Dalton Transfer Principle satisfied for the above?

4. Does the slope of the Lorenz curve increase or decrease as you move right? Why?

5. If we run a growth regression with Initial GDP per capita as one our explanatory variables, what does the Solow model say we should expect for the coefficient of Initial GDP per capita? What does the Harrod-Domar model say that we should expect?

6. What does the Solow growth model predict about <u>long-term</u> growth rates in countries? What does the Harrod-Domar model predict? What aspect of (or assumption in) the Solow model sets it apart from the Harrod-Domar model and allows us to get these different predictions? What is the intuition behind why this difference in assumptions changes the models' predictions?

7. What are possible responses of a country's citizens to rising income inequality? What factors determine which type of response is likely to be observed?

8. List a few important components of development and discuss why they are important in studying the economics of development. You may want to relate your discussion back to the definition of development given on the first day of class.