Ec 181: Seminar in Economic Development
Swarthmore College
Final Examination

Professor O’Connell 
Fall 201

Instructions. The exam consists of 4 essay questions. They are each worth 25 points. Please answer question 1, and choose 1 question each from sections 2 – 4. You may answer the questions in whatever order you prefer. There is no single good answer for these questions, but most good answers will combine appropriate analytical frameworks with evidence. Please number your answers, write legibly, and label any diagrams clearly.

Section 1  This question is required.
1. After two decades or more of trade liberalization, some developing countries seem to be moving in a protectionist direction. Consider, for example, the following excerpt from “Protectionism in Argentina”, which recently appeared in The Economist magazine:

“Argentine manufacturers have been booming ever since the 2001 crash. Over most of that period, a cheap peso has ensured their competitiveness. But since 2005 inflation has been in double digits. As the trade surplus has dwindled, Cristina Fernández, the president, has beefed up her industrial policy. According to Global Trade Alert, a database of restrictions on international commerce, Argentina now imposes more trade limitations deemed “harmful” than any country save Russia. […]

On the import side, Argentina cannot raise tariffs on its own because it belongs to the Mercosur customs union. So it is resorting to informal tools. Its main method is “non-automatic licensing”, a tactic recognised by the World Trade Organisation that lets countries delay imports for 60 days.

Argentina has made no pretence of honouring that time period. In January it expanded the list of products requiring licences from 400 to 600. It was a limit on phone imports that led Research in Motion to hire Brightstar to make BlackBerrys in Argentina (tax incentives then led the firm to Tierra del Fuego). Other affected goods include toys, pharmaceutical ingredients, tyres, fabrics, leather and farm machinery. On September 15th Argentina blocked imports of books, and over 1m piled up at the borders. Imports of Harley-Davidson motorcycles are frozen until 2012.

For firms that refuse to (or cannot) move production to Argentina, the government offers another option: deals to export goods worth at least as much as a company’s imports. In January customs officials stopped letting Nordenwagen import Porsches. Its cars languished in port for three months before the firm succumbed to a deal. Since its owners also possess Pulenta Estate, a vineyard, they agreed to launch a new line of mass-market wines for export, erasing the family’s trade deficit. They are also considering canning fruits. “It’s not the same margins as fine wines, but it takes time and investment. We’re trying to make it profitable,” says Eduardo Pulenta, the company’s export manager. “We’ll keep working to import cars. That’s what we know how to do.””

from “Protectionism in Argentina”, The Economist September 24, 2011
http://www.economist.com/node/21530136

Is this policy strategy likely to increase or decrease economic growth in Argentina over the next decade? Explain your answer.
Section 2. Choose one of the following 2 questions
2. When markets are complete and competitive and information is symmetric, the equilibrium is Pareto efficient. Any effort by the government to redistribute income is costly in terms of efficiency, because taxes create deadweight losses (and progressive taxes all the more so, because they discourage the effort of the most productive members of society). How useful a guide is this paradigm for developing-country leaders seeking to achieve growth with equity?

3. As a first-cut assumption, suppose that the emergence of HIV/AIDS disease reduces the growth rate of a poor country’s population, without changing its gender or age composition (in low-income countries, the demographic impact is much more even by gender than in the industrial countries).
   a. If the other (non-demographic) parameters of the neoclassical (Solow) growth model remain unchanged, what does that model growth predict in terms of the impact of HIV/AIDS on real GDP per capita over time?
   b. Within the Solow paradigm, what non-demographic parameters would you adjust, to more fully capture the impact of HIV/AIDS on real GDP per capita over time? How do these adjustments change your predictions? [If no adjustments are needed, explain why not.]
   c. Does an adequate theoretical account of the impact of HIV/AIDS on living standards require going outside of the neoclassical paradigm? If so, how?

Section 3. Choose one of the following 2 questions
4. Following a democratic transition, you are appointed Minister of Economic Justice in the new Myanmar. You are to launch an anti-poverty program – one that donors are willing to scale up to 1 percent of GDP over the course of 5 years, if there is evidence of success. You can choose between a workfare program like India’s, which guarantees every adult up to a certain amount of days of work per year at a fixed wage, and a conditional cash transfer program like Mexico’s Progresa (now called Oportunidades) or Brazil’s Bolsa Familia.
   a. From the viewpoint of achieving a sustainable reduction in poverty, which of the two programs would you choose? Explain why you prefer it to the other.
   b. Identify and explain 3 design features that you would insist upon, that are related to how the program will operate (rather than to how it will be evaluated).
   c. How would you evaluate the program?

5. The District Primary Education Program (DPEP) in India is one of the biggest World Bank-sponsored education projects ever (maybe the biggest). This project provided additional resources to school districts, to pay for teacher training, inputs, and better classrooms. Participating districts were selected based on having low female literacy rates. The first districts to receive the program were chosen for their potential to show quick positive results. For purposes of assessment, the government collected detailed (before- and after-program) data on students, teachers, and schools in the districts that received the program.

   In her *Understanding Poverty* chapter, Ann Case argues that the DPEP intervention was very poorly designed from the viewpoint of assessment. What exactly does she mean by this? Explain how you would assess the impact of the DPEP, given that you cannot re-run history (i.e., you are evaluating the program ex post, without the opportunity of re-designing how it was implemented).
Section 4  Choose one of the following two questions
6. The IMF’s mindset when it comes into a country in a balance of payments crisis is sometimes derisively characterized as “IMF: It’s Mainly Fiscal”. Is this criticism justified?

7. China has been accused by some countries of manipulating its currency (the renminbi) in order to keep it artificially weak.
   a. On its own, of course, foreign exchange intervention does not imply ‘manipulation’ – otherwise any country operating a managed exchange rate could be accused of manipulation. Given this, how would you determine empirically whether China was in fact operating a weak-currency strategy in the sense implied by the accusation? Be sure to distinguish nominal from real exchange rates.
   b. Why would China adopt such strategy?
   c. Why would other countries object?
   d. Is a weak-currency strategy sustainable – in other words, can it be maintained for an indefinitely long period?