

Prof. Tybout

FINAL EXAM: ECONOMICS 570
Economic Development

May 3, 2001

This exam is divided into two parts. You must answer three of the four questions in part **I** and both questions in part **II**. Questions will be weighted in proportion to their allotted times. Keep in mind that concise answers will earn the highest marks.

Please put your ID number at the top of each page you turn in and do not write your name anywhere. Also, number each page using the format: "1 of 6," "2 of 6," etc.

PART I: ANSWER ANY THREE OF THE FOLLOWING FOUR QUESTIONS

1. **(20 minutes)** In his learning-by-doing model, suppose Lucas (1988) had assumed that firms learn from their own experience *but* they can keep their knowledge private. How would the implications of his model have changed? Be as explicit as possible.
2. **(20 minutes)** In Grossman and Helpman's (1991) model, suppose that blueprints could be produced according to a constant returns technology (using only skilled labor) rather than an increasing returns technology. Would this change the model's implications in a significant way? Explain.
3. **(20 minutes)** Suppose that international capital flows are prohibited, and two otherwise identical countries differ in their rate of time preference. Specifically people discount the future more heavily in country 1 than in country 2 ($\rho_1 > \rho_2$). Under the assumptions of the Grossman and Helpman (1991) model, will country 2 grow faster? Defend your answer with a precise explanation of the linkages (if any) between the discount rate and the growth rate. Would your answer have differed if you were performing the analysis using Young's (1991) model?
4. **(20 minutes)** The economic minister of Examistan wants to know whether trade liberalization will increase his country's growth rate.
 - a) To advise him on this matter, what key features of his economy would you like to know about? That is, in theory, what kinds of economies should grow more rapidly when their trade policy is liberalized? Be as specific as possible, and explain why these things matter.
 - b) Critically evaluate the empirical evidence on the link between trade policy and growth for him.

PART II: ANSWER BOTH OF THE FOLLOWING QUESTIONS

5. **(25 minutes)** Critically evaluate the following assertion: "In developing countries, trade liberalization forces domestic firms to price competitively and move toward minimum efficient scale."
6. **(25 minutes)** State the case for active government intervention to slow down the rate of population growth and describe a policy or set of policies that you would recommend to achieve this end. Explain why you chose the policies you did, drawing on empirical evidence.