

ECONOMIC DEVELOPMENT 570: MIDTERM EXAM

Answer both of the following two questions

1) **(50 minutes)** How, if at all, might trade liberalization affect whether an economy escapes from a low-level trap? By trade liberalization, I mean going from prohibitive tariffs or quotas to a free trade policy; you may assume that transport costs are still present after liberalization. By “low-level trap” I mean an equilibrium in which all production is done in households or cottage shops using traditional technologies. In your answer, explain and contrast the predictions of:

- the Lewis/Jorgenson dual economy model
- the Murphy/Schleifer/Vishny big push model
- the Krugman/Matsuyama history versus expectations model
- the Krugman/Venables geography and industrialization model

2) **(50 minutes)** Provide short answers to each of the following:

- a) Briefly summarize the evidence on the extent of poverty and income inequality in 3rd world countries.
- b) What policies and country characteristics, if any, are systematically associated with rapid growth in per capita income? Which of these associations do you view as reflecting causal relationships? Briefly explain.
- c) What do we know empirically about the relative contributions of capital accumulation and productivity growth to growth in per capita income? In your answer, briefly describe how these contributions have been measured, and the limitations of these measurement techniques.

Answer one of the following two questions

3) **(50 minutes)** Growth models are sometimes categorized according to whether they exhibit constant returns to reproducible factors.

- a) Why should it matter whether a model exhibits this constant returns feature? Provide a rigorous explanation.
- b) Give an example of a growth model in which there are diminishing returns to reproducible factors, a growth model in which there are constant returns, and explain why you categorized each as you did.
- c) Does the constant returns assumption seem sensible? Defend your viewpoint.

- 4) **(50 minutes)** Kremer (“The O-Ring Theory of Economic Development”) and Becker, Murphy and Tamura (“Human Capital, Fertility and Economic Growth”) assume that investments in human capital generate positive spillovers.
- a) Explain how these spillovers are modeled in each paper.
 - b) For each paper, explain the economic implications of learning spillovers for the functioning of the economy and the role of policy.
 - c) Is there evidence that learning spillovers are empirically significant? Explain.