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ECON 4311 – Fall 2021 Midterm
Economy of Latin America
October 20, 2021

Examiner: Luis Perez, email: perez766@umn.edu

Allowed utensils: Pen, paper, eraser, and calculator.

General Instructions:

- You have 1 hour and 15 minutes (from 17:00 to 18:15) to complete the exam.
 - The exam consists of 20 multiple choice questions (each worth 3.5 points) and 5 free-response questions, (each worth 6 points).
 - There is only one (1!) valid answer per multiple choice question (MCQ), and no points will be subtracted for wrong answers.
 - Answer all MCQ questions in the sheet provided below.
 - If you make a mistake in answering a MCQ and want to change the answer, do cross the 4 options (A, B, C, D) and clearly write on the right of box D the letter of your final answer.
 - Be short and to the point in the free-response questions. Correct answers do not require more than 4–5 lines of text.
 - Make sure to submit all pages of your examination.
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Good luck!

MCQ Answer Sheet

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How to answer:

A B C D

Questions:

1. A B C D
2. A B C D
3. A B C D
4. A B C D
5. A B C D
6. A B C D
7. A B C D
8. A B C D
9. A B C D
10. A B C D
11. A B C D
12. A B C D
13. A B C D
14. A B C D
15. A B C D
16. A B C D
17. A B C D
18. A B C D
19. A B C D
20. A B C D

Multiple Choice Questions (MCQ): 70 points

1. Select the correct answer. The “encomiendas”:
 - (a) Were grants by the Crown of Castile to Spanish colonizers.
 - (b) Allowed the use of indigenous people for exploitation of the land
 - (c) Allowed colonizers to keep the proceeds from the indigenous people’s work in exchange of protection and evangelization of these people.
 - (d) All of the above.

2. Select the correct answer. The “latifundia” implemented in the colonization period:
 - (a) Created a highly unequal initial distribution of wealth, but not income.
 - (b) Created a highly unequal initial distribution of both wealth and income.
 - (c) Created a highly unequal initial distribution of income, but not wealth.
 - (d) None of the above.

3. Select the correct answer. The Jesuit reductions:
 - (a) Aimed at imposing European values and lifestyles upon the indigenous people of South America.
 - (b) Were settlements that aimed to convert indigenous people to Christianity.
 - (c) Involved instruction of indigenous people in reading, writing, and various crafts.
 - (d) Both (b) and (c) are correct.

4. Select the correct answer. The War of the Pacific that occurred between 1879–1883 was a conflict:
 - (a) Between Chile and the Bolivian-Peruvian alliance that ended up with Chile winning over 1 province in Bolivia and 2 in Peru.
 - (b) Between Paraguay and Triple Alliance over boundary disputes.
 - (c) That was the deadliest and bloodiest inter-state war in Latin America history.
 - (d) None of the above.

5. Suppose you have to compare standards of livings between Argentina and Brazil in 2020. Which measure would you use?
 - (a) GDP per capita measured in national currency at constant prices.
 - (b) GDP measured in national currency at constant prices.
 - (c) GDP per capita measured in 2020 PPPs and international dollars.
 - (d) None of the above.

6. Which of the following is *not* a Kaldor fact?
- (a) Growth of labor productivity is constant over time.
 - (b) Growth of capital per worker is constant over time.
 - (c) The capital-output ratio is constant over time.
 - (d) Factor income shares are decreasing over time.

7. Consider the production function

$$Y_t = A_t K_t^\alpha L_t^{1-\alpha},$$

where Y is GDP, K is the stock of physical capital, L is total hours of work, and α is the factor income share accruing to capital. How do economists like to think of the term A_t ?

- (a) Exogenous technological progress.
 - (b) Exogenous institutional quality.
 - (c) TFP, a residual term accounting for all difference in output that cannot be explained through K and L and that reflects technological progress, institutional quality and other factors.
 - (d) None of the above.
8. Which of the following is a proximate cause of economic growth?
- (a) Physical capital.
 - (b) Human capital.
 - (c) Technological progress.
 - (d) All of the above.
9. Which of the following is *not* a fundamental cause of growth?
- (a) Luck.
 - (b) Intangible capital.
 - (c) Culture.
 - (d) Institutions.
10. Select the correct answer.
- (a) Institutions are exogenous.
 - (b) Institutions shape economic incentives and set constraints on individual behavior.
 - (c) Institutions determine the degree to which property rights are enforced and the rule of law applied.
 - (d) Both (b) and (c) are correct.

11. Select the correct answer. We define a failed state as:
- (a) States with GDP per capita below 5,000 USD.
 - (b) States where there is almost a complete lack of property rights or the rule of law.
 - (c) States with high crime rates and low economic activity.
 - (d) Both (a) and (b) are correct.
12. Many Latin American countries are known for the size of their informal sectors. What percentage of workers is estimated to work in the informal sector in Latin America?
- (a) 5%.
 - (b) 20%.
 - (c) 35%.
 - (d) 55%.
13. Over the period 1960–2017, which has been the main impediment to growth in Latin America?
- (a) Physical capital.
 - (b) TFP.
 - (c) The number of hours worked.
 - (d) Human capital.
14. Select the correct answer.
- (a) An externality is always a cost to a third party who did not agree to it.
 - (b) An externality can be either a cost or a benefit to a third party who did not agree to it.
 - (c) The deforestation of the Amazon forest in Brazil is an example of positive externality.
 - (d) Both (b) and (c) are correct.
15. Select the correct answer. Command-and-control environmental policies:
- (a) Set a maximum allowable level of pollution.
 - (b) Use market signals to influence producer behavior with regards to pollution.
 - (c) Do not control pollution levels directly.
 - (d) Give the highest incentives to reduce pollution.

16. Select the correct answer. The Environmental Kuznets Curve:
- (a) Postulates an inverted U-shaped relationship between GDP per capita and income inequality.
 - (b) Postulates an inverted U-shaped relationship between GDP per capita and measures of environmental degradation such as pollution.
 - (c) Postulates a U-shaped relationship between GDP per capita and measures of environmental degradation such as pollution.
 - (d) None of the above.
17. In one of the lectures, your classmates presented “The Colonial Origins of Comparative Development”. Which of the following points were pushed by this study?
- (a) Institutions are the fundamental cause of differences in income per capita across nations.
 - (b) The type of settlements that colonizers implemented depended on the specific circumstances (e.g., disease burdens) they faced upon moving.
 - (c) Institutions are persistent over time.
 - (d) All of the above.
18. Which of the following claims is *incorrect*?
- (a) Emergence of substitutes for primary commodities can shift downward the demand curve of primary commodities.
 - (b) The laws of supply and demand are not very useful to explain boom-and-bust cycles of primary commodities.
 - (c) Primary commodities typically have low price elasticities.
 - (d) Price volatility is generally measured by the date-to-date percentage difference in the price of a given commodity.
19. Select the correct answer.
- (a) In practice, countries that are rich in natural resources are better off than otherwise similar countries.
 - (b) The Dutch disease refers to a pandemic that occurred in the mid 20th century and that killed a substantial fraction of workers in the manufacturing sector of the Netherlands.
 - (c) The industrial structure of a country is determined by the percentage of output that is accounted for by each industry.
 - (d) The aim of the Chilean Copper Stabilization Fund was to stabilize the prices of copper, a major commodity export for the Chilean economy.

20. Select the correct answer. Why did ISI policies started to be implemented in Latin America in the mid 20th century?
- (a) It was believed that the decline of prices of primary commodities relative to manufactured goods was a long-run trend.
 - (b) The industrial structure of Latin America was oriented toward the export of primary commodities and the import of manufactured goods.
 - (c) All of the above.
 - (d) None of the above.

Short Questions: 30 points

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1. **Name 15 countries in Latin America.** (Bonus points if you classify countries by region).
2. **Explain the “mita system” implemented by the Spanish colonizers and its relation to economics.**
3. **Explain the concept of Import Substitution Industrialization (ISI) and name two economic policies that can be used to foster the development of domestic industries.**
4. **Why is GDP per capita a good measure to make cross-country income comparisons? Name some of its caveats for making welfare comparisons.**
5. **Mexico’s GDP per capita in 2020 was approximately 8,300 USD. How long will it take Mexico to double its standards of living if it were to grow at an average annual growth rate of 2%? (Show your calculations).**