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University ID \_\_\_\_\_



**ECON 4311 – Fall 2022 Midterm**  
**Economy of Latin America**  
October 24, 2022

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**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 25 multiple choice questions (each worth 2.8 points) and 6 free-response questions, (each worth 5 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
- 21.  A  B  C  D
- 22.  A  B  C  D
- 23.  A  B  C  D
- 24.  A  B  C  D
- 25.  A  B  C  D

## Multiple Choice Questions (MCQ): 70 points

1. Select the correct answer. In terms of GDP per capita, where does Latin America stand today in the world income distribution?
  - (a) Low-income country.
  - (b) Somewhere in between low- and medium-income countries.
  - (c) Medium-income country.
  - (d) Somewhere in between medium- and high-income countries.
2. Select the correct answer. The Human Development Index (HDI), which is constructed to compare welfare across countries, is a weighted average of:
  - (a) GDP per capita, life expectancy at birth, and education.
  - (b) GDP per capita, criminality, and education.
  - (c) GDP per capita, criminality, and life expectancy.
  - (d) None of the above.
3. Select the correct answer. The mita system:
  - (a) Consisted of grants by the Crown of Castile to Spanish colonizers that allowed to use indigenous people for exploitation of the land.
  - (b) Can be thought of as an institutional system which taxed a certain group of the indigenous population.
  - (c) Consisted in sending commodities back to Spain.
  - (d) None of the above.
4. Select the correct answer. Latifundias:
  - (a) Created a highly-unequal distribution of wealth through the allocation of land.
  - (b) Allocated landholdings to Spanish colonizers as a reward for their service to the Crown.
  - (c) Both (a) and (b) are correct.
  - (d) None of the above.
5. Suppose you want to make welfare assessments among the citizens of Chile and Uruguay at a specific point in time. Which measure would you use?
  - (a) Growth rate of real GDP per capita in PPPs and international dollars.
  - (b) GDP per capita measured in PPPs and international dollars.
  - (c) Nominal GDP per capita measured in national currency and then converted to some common currency using exchange rates.
  - (d) None of the above.

6. What is the main insight behind a growth accounting exercise that is based on the Solow model?
- (a) By using data on output and factors (labor and capital), we can understand the contribution of different factors (TFP, capital- and labor- accumulation) to the growth process.
  - (b) A country's average annual growth rate is necessarily explained by causes we cannot understand.
  - (c) The capital-output ratio is constant over time, so differences in growth across countries can only come from TFP.
  - (d) Developed countries grow because of factor accumulation whereas underdeveloped countries grow because of TFP.

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  $\alpha$  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. Select the correct answer. Which of the following is not a fundamental cause of growth:
- (a) Luck.
  - (b) Physical capital accumulation.
  - (c) Culture.
  - (d) Institutions.
9. Select the correct answer. Institutions are:
- (a) Endogenous.
  - (b) Set the rules of the game.
  - (c) Examples of institutions in colonial Latin America could be the mita system, the encomiendas, and the repartidas.
  - (d) All of the above.

10. Why is the Solow model not entirely satisfactory to understand Latin America's growth experience?
- (a) It only emphasizes proximate causes of growth.
  - (b) It only emphasizes fundamental causes of growth.
  - (c) All of the above.
  - (d) Both (a) and (b) 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. What is the main hypothesis of Acemoglu et al. in "The Colonial Origins of Comparative Development: An Empirical Investigation" ?
- (a) Early institutions → Current institutions → Current economic performance.
  - (b) Settlements → Early institutions → Current institutions → Current economic performance.
  - (c) Settler mortality → Settlements → Early institutions → Current institutions → Current economic performance.
  - (d) None of the above.
13. Select the correct answer.
- (a) A market failure is a situation in which the allocation of goods and services by a free market is not socially optimal.
  - (b) In the presence of negative externalities, the market tends to produce too little of a given good or service.
  - (c) In the presence of positive externalities, the market tends to produce too much of a given good or service.
  - (d) Both (b) and (c) are correct.
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. What is the main practical problem in the design of environmental policies?
- (a) It is hard to know what is the social marginal cost versus its marginal benefit.
  - (b) It is too complicated to enforce environmental policies such as carbon taxes.
  - (c) The social costs of pollution are already included in market prices and so environmental policy is counterproductive.
  - (d) None of the above.
16. Select the correct answer. The 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. 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.
18. What is the main difference between institutions like the OPEC and the Chilean Copper Stabilization Fund (CCSF)?
- (a) There is no difference, both of them are set to meet the same goal.
  - (b) The OPEC aims to dampen the effects of oil prices in the macroeconomic stability of the countries to which it exports.
  - (c) In trying to limit the effects of boom-and-busts in primary commodities, the CCSF does not target prices while the OPEC does.
  - (d) None of the above.

19. What is one of the defining characteristics of primary commodities?
- (a) High price elasticities.
  - (b) Subject to natural disasters.
  - (c) Once consumed the stock of these resources, they cannot be produced again.
  - (d) Low price elasticities.
20. What is the main insight of structuralist economics?
- (a) Bad economic policies are at the root of the structural problems of a region.
  - (b) By fostering exports and diminishing imports, an economy can attain higher levels of economic development.
  - (c) The structure of an economy can have important effects on economic outcomes.
  - (d) None of the above.
21. 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.
22. What is a common policy to attract multi-national corporations (MNCs) into domestic territory?
- (a) Impose high tariffs.
  - (b) Impose quotas.
  - (c) Offer special tax treatments.
  - (d) All of the above.
23. In terms of trade and economic development, why was ISI a bad policy for Latin America?
- (a) It diverted resources from industries with absolute advantage.
  - (b) It shifted resources to comparative-disadvantaged industries.
  - (c) None of the above.
  - (d) All of the above.

24. Which formula correctly expresses the terms of trade of a given country?
- (a)  $100 \times (\text{Export prices} / \text{Import prices})$ .
  - (b)  $100 \times (\text{Export} + \text{Import prices} / \text{Consumer Price Index})$ .
  - (c)  $100 \times (\text{Export prices})$ .
  - (d) None of the above.
25. The Stolper–Samuelson Theorem states that, under some conditions,
- (a) Comparative advantage shifts from one industry to another.
  - (b) It is never optimal for a country to engage in international trade.
  - (c) A fall in the relative price of one good leads to a rise in the real return of the factor which is most intensively used.
  - (d) A rise in the relative price of one good leads to a rise in the real return of the factor which is most intensively used.



## Short Questions: 30 points

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1. In one sentence, how would define the region of Latin America. (Bonus points if you can name its main geographic regions, or list 10 countries in the region).

2. In the colonial period, African slaves played a large role in production in Latin America. Explain: (i) why African slaves were brought into the region; and (ii) the concept of “triangular slave trade”.

3. State the Kaldor Facts.

4. Explain why deforestation is a problem that deserves special attention in Latin America, and list one example of command-and-control (CAC) policies and another example of a market/based initiative (MBI) to reduce deforestation. Make sure to state which example is CAC and MBI.
5. According to the Heckscher–Ohlin model, what causes differences across countries in the opportunity costs of producing goods? Give an example.
6. Argentina’s GDP per capita in 2020 was approximately 8,500 USD. At which average annual growth rate would Argentina need to grow in order to triple its standards of living in 30 years? (Show your derivations).