

Name _____

University ID _____



ECON 4311 – Fall 2023 Midterm
Economy of Latin America
October 23, 2023

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.
-

Good luck!

MCQ Answer Sheet

Name _____

University ID _____

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. The “encomiendas”:
 - (a) Were grants by the Crown of Castile to Portuguese colonizers.
 - (b) Created a highly unequal initial distribution of both wealth and income.
 - (c) Allowed the use of indigenous people for exploitation of the land.
 - (d) None of the above.

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. Suppose you want to make a welfare assessment of the economic policies that Argentina and Bolivia have currently in place in terms of the how well off the citizens of these countries will be in thirty years from now. Which economic variables would you use?
 - (a) GDP’s per capita measured in PPPs in 2020.
 - (b) GDP’s per capita measure in PPPs in 2020 and their respective growth rates.
 - (c) The natural logarithm of the difference between current GDP per capita’s measured in PPPs in 2020.
 - (d) None of the above.

5. Select the correct answer. Latifundias:
 - (a) Created a highly unequal distribution of wealth through the allocation of land.
 - (b) Allocated landholding to Spanish colonizers as a reward for their service to the Crown.
 - (c) Both (a) and (b) are correct.
 - (d) None of the above are correct.

6. Why do we say that the Solow model is useful to understand the proximate causes of growth but not the fundamental ones?
- (a) Because it can explain the mechanics of growth, but not why countries make different investment decisions in human and physical capital.
 - (b) The Solow model explains both the proximate and fundamental causes of growth.
 - (c) Because it does not provide a prominent role to innovation and technological change, which we know is the engine of growth.
 - (d) None of the above.

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 the part of output that cannot be explained through K and L .
 - (d) None of the above.
8. Select the correct answer. Which of the following is a proximate cause of growth:
- (a) Luck.
 - (b) Physical capital accumulation.
 - (c) Institutions.
 - (d) Geography.
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. Which colonial power imported the largest number of slaves?
- (a) Spain.
 - (b) Portugal.
 - (c) The United Kingdom.
 - (d) None of the above.
11. Select the correct answer. The Jesuit reductions:
- (a) Aimed at imposing European values and lifestyles upon the indigenous people of South America.
 - (b) Had a negative impact on the economic development of the indigenous people of South America.
 - (c) Involved instruction of indigenous people in reading, writing, and various crafts.
 - (d) Both (b) and (c) are correct.
12. Which of the following is false about Acemoglu et al. “The Colonial Origins of Comparative Development: An Empirical Investigation”?
- (a) The legacy of colonial institutions does not impact economic outcomes post-decolonization.
 - (b) Inclusive institutions were established in Canada.
 - (c) Inclusive institutions are associated with greater economic prosperity, while extractive institutions hinder growth.
 - (d) None of the above.
13. Which of the following Latin American countries was among the top 10 richest countries in the 1910s, but it is not in the top 50 of richest countries today?
- (a) Argentina.
 - (b) Brasil.
 - (c) Venezuela.
 - (d) Mexico.
14. Why are environmental policies hard to design?
- (a) It is not easy to measure the marginal costs and benefits of pollution.
 - (b) It is not clear how to weigh in future generations into welfare calculations.
 - (c) It is hard to design uniform environmental policies across the globe since different countries are in different stages of development.
 - (d) All of the above are correct.

15. Economists prefer market-based initiatives (MBIs) rather than command-and-control (CC) environmental policies. Why?
- (a) MBIs give incentives to direct technical change towards green energy (e.g., electric cars.)
 - (b) CC policies which impose a tax rate over pollution are a great source of tax revenue.
 - (c) MBIs set quotas on individuals and firms of the maximum allowable quantity of pollution and thus easily allow the government to reach its environmental targets.
 - (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. In terms of elasticities, how are primary commodities different from other goods?
- (a) They have lower supply elasticities.
 - (b) They have higher supply elasticities.
 - (c) They are subject to more frequent booms and busts.
 - (d) They are not different from other commodities.
18. 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.

19. Which of the following claims is incorrect? Commodity booms in primary commodities typically end due to:
- (a) Exhaustion of the resource.
 - (b) Changes in technology.
 - (c) Falling global demand.
 - (d) None of the above.
20. Why are Stabilization Funds more successful than cartels in stabilizing the economy?
- (a) Stabilization Funds target levels of economic activity while cartels target prices.
 - (b) Cartels do not necessarily control all the the market, so that free-riding by competitors can undo the intended effects of their policies.
 - (c) Stabilization funds target the whole economy whereas cartels typically focus on a specific commodity.
 - (d) All 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. Why did Latin American governments sometimes offered preferential tax treatment to multinational corporations in the implementation of ISI?
- (a) Because the know-how of these corporations is necessary to develop certain industries and the government wants to attract them.
 - (b) Because they want an increased degree of competition among foreign and domestic firms.
 - (c) All of the above.
 - (d) None of the above.
23. Why were Latin American countries reluctant to join the General Agreement on Tariffs and Trade (GATT)?
- (a) Because they did not trade with any participating countries.
 - (b) Because it went against the implementation of ISI.
 - (c) None of the above.
 - (d) All of the above.

24. Why does the problem of deforestation deserve especial attention in Latin America?
- (a) Forests generate positive externalities.
 - (b) Forests cover about 40% of Latin America's land.
 - (c) Forests play an important role in mitigating climate change.
 - (d) All of the above.
25. In our lectures, we said and proved that that increases in the capital-to-labor ratio are associated with:
- (a) Lower output per worker.
 - (b) Higher real wages.
 - (c) All of the above.
 - (d) None of the above.

Short Questions: 30 points

Name _____

University ID _____

1. State the Kaldor facts.

2. Explain the concept of externality, and give one example of each type of externality, stating clearly why your example involves an externality.

3. List three reasons why commodity booms succumb. Give an example of commodity bust, explain it with a graph, indicating the reason for the bust, highlighting the characteristics of primary commodities, and indicate clearly what each object in the graph is.

4. In our lectures, we have highlighted that, contrary to expectations, countries that are richer in natural resources display lower levels of economic development compared to otherwise-similar countries. This fact has puzzled economists for centuries. Give at least three reasons for why economists expect countries that are richer in natural resources to show better economic performance. Provide practical examples.

5. Why is GDP per capita a good measure to make cross-country income comparisons? Explain its caveats for making welfare comparisons.

6. GDP per capita in Bad Bunny's land was approximately \$35,000 in 2020. How many years would it take to triple ($\times 3$) Puerto Rico's standards of living if it were to grow at an average annual growth rate of 4%?
(1 point for correct answer; 4 points for derivations).