

Name \_\_\_\_\_

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



**ECON 4311 – Spring 2022 Midterm**  
**Economy of Latin America**  
March 2, 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. The “repartida” consisted in:
  - (a) Sending just commodities from Latin America to Spain and Portugal.
  - (b) Sending commodities, animals, and agricultural produce to both Spain and Portugal.
  - (c) Sending commodities, animals, and agricultural produce to Spain.
  - (d) None of the above.
  
2. Select the correct answer. “Haciendas”:
  - (a) Were originally latifundias that eventually became haciendas.
  - (b) Were nearly self-sufficient feudal states.
  - (c) Had implications for long-term growth, mainly through education and infrastructure.
  - (d) All of the above.
  
3. Select the correct answer. The Golden Age:
  - (a) Featured stability in Latin America, but not in the world.
  - (b) Featured stability both in Latin America and the world.
  - (c) During this period, Latin America developed stronger property rights, rule of law, and attracted investments from some of the world’s most powerful nations.
  - (d) Both (b) and (c) are correct.
  
4. Select the correct answer. The War of the Triple Alliance that occurred between 1864–1870 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) That involved Paraguay.
  - (c) That was the deadliest and bloodiest inter-state war in Latin America history.
  - (d) Both (b) and (c) are correct.
  
5. Suppose you want to compare growth trajectories between Argentina and Brazil over the past 100 years. Which measure would you use?
  - (a) GDP per capita measured in PPPs and international dollars.
  - (b) Natural logarithms of GDP per capita.
  - (c) All of the above.
  - (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 not constant over time.
  - (c) The capital-output ratio is constant over time.
  - (d) There is substantial variation in growth rates among the world's fastest-growing countries.

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. Economists think of the proximate causes of growth as:
- (a) The fundamental reason why some countries are richer than others.
  - (b) Factors that explain the mechanics of growth but that do not account for the fundamental drivers of growth.
  - (c) Physical capital, culture, and technology.
  - (d) Both (a) and (c) are correct.
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. Select the correct answer. Increases in the capital-per-worker ratio lead to:
- (a) Higher output per worker.
  - (b) Higher real wages.
  - (c) All of the above.
  - (d) None of the above.

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. Select the correct answer. In this course, we use sustainable growth:
- (a) As a term that conveys the existing trade-offs between environmental issues and economic growth.
  - (b) To refer to a lower growth rate than what would be possible without environmental concerns.
  - (c) All of the above.
  - (d) None of the above.
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) 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.
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*? 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.
19. It is believe that, other things equal, endowments of natural resource should help economic development. Why?
- (a) Commodity abundance generates a major source of tax revenue.
  - (b) Easy transition to services.
  - (c) All of the above.
  - (d) None of the above.
20. 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.

21. Select the correct answer about Import Substitution Industrialization (ISI).
- (a) Set of economic policies aimed at developing domestic industries to substitute away from imports.
  - (b) Aims to alter the industrial structure an economy.
  - (c) All of the above.
  - (d) None of the above.
22. 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.
23. Select the correct answer. Adam Smith challenged the view that countries could increase welfare with mercantilism. To challenge this view, he used the concept of:
- (a) Absolute advantage.
  - (b) Comparative advantage
  - (c) Both (a) and (b) are correct.
  - (d) None of the above.
24. What is the connection between ISI and Trade in Latin America?
- (a) ISI pushed for autarky trade policies.
  - (b) Resources were diverted from industries with comparative advantage to disadvantaged industries.
  - (c) Resources were diverted from industries with absolute advantage to disadvantaged industries.
  - (d) All of the above.
25. Which of the following 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.





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

5. Explain the concept of comparative advantage and construct an example with 2 countries and 2 goods to illustrate the main point.

6. Argentina's GDP per capita in 2020 was approximately 8,500 USD. How long will it take Argentina to quadruple its standards of living if it were to grow at an average annual growth rate of 1%? (Show your derivations).