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



**ECON 4311 – Spring 2023 Midterm**  
**Economy of Latin America**  
March 1, 2023

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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 “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.
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 have to compare standards of livings between Cuba and Venezuela 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.
5. 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.

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 a fundamental cause of growth:
- (a) Luck.
  - (b) Physical capital accumulation.
  - (c) Human capital accumulation.
  - (d) Technology.
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. 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.
11. 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.
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. 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%.
14. Which of the following is an example of externality?.
- (a) Smoking in the present of others with consent.
  - (b) Going out to bars with my friends after having tested positive for Covid–19.
  - (c) All of the above are correct.
  - (d) None 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 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. 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.
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 is a defining characteristic 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. Why do cartels like the Organization of the Petroleum Exporting Countries (OPEC) struggle to stabilize commodity prices?
- (a) They are unable to control the overall production of the commodity.
  - (b) They can easily adjust production in the short run.
  - (c) These organizations sell their products to other firms which ultimately set prices.
  - (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. Why did Latin American governments sometimes decided to create state-owned enterprises (SOEs) in the implementation of ISI?
- (a) Governments are more productive than private firms in producing manufactured goods.
  - (b) The country had a comparative advantage in some industry, but there were no incentives for private firms to invest in it.
  - (c) All of the above.
  - (d) None 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. 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

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

2. **What are the motives behind the Spanish–American wars of independence? List motives and give examples. Be concise and to the point.**



5. Define the concept of Import Substitution Industrialization (ISI), list three popular ISI economic policies, and give one practical example for each type of policy.

6. Puerto Rico's GDP per capita in 2020 was approximately 35,000 USD. At which average annual growth rate would Puerto Rico need to grow in order to quadruple ( $\times 4$ ) its standards of living in 50 years? (Show your derivations).