

Midterm Examination
NS 3041 Comparative Economic Systems
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Instructions

The objective of this examination is to gauge the student's understanding of the material presented during this course, to include lecture materials and reading assignments. It is expected that students will complete the exam by the deadline noted in the instructions. It is furthermore expected that each student will complete the exam independently of other students and will not confer, discuss, or share materials or answers to the questions contained in this exam. The instructor reserves the right to conduct an oral examination of any student if it is believed that the above policy has been violated.

Read each question carefully before attempting to draft an answer to the question. When asked to perform a calculation, make sure to show all work to receive partial or full credit. Answers will be graded for (1) conceptual understanding; (2) completeness; (3) reasoning; and (4) presentation. The instructor prefers that completed exams be submitted by email and will acknowledge receipt of examination by email. Students wishing to leave a hardcopy exam for the instructor may do so at their own risk that the instructor will receive the exam by the examination deadline. The deadline for this examination is 1700 on 17 August 2001. Failure to submit the examination by the deadline will result in a 5 point deduction for each six hour period past the deadline.

Theory

1. A result of the Harrod-Domar model is that economic growth is a function of the national savings rate (S/Y) and the incremental capital-output ratio (ICOR).
 - a. In your own words, describe the ICOR and what is the potential impact of the ICOR on economic growth, that is, if the ICOR increases (decreases) what is the impact, all else being equal, on economic growth.
 - b. Assume that the ICOR for the Republic of Blablikistan is 2.5 and the government has a stated policy of achieving an annual growth rate of 5 percent. Using the Harrod-Domar model, solve for the national savings rate that is necessary to achieve the annual growth rate target.
 - c. In your own words, note which factors that may significantly influence economic growth but are not included in the Harrow-Domar model. What are the implications of the exclusion of these factors on the applicability of the Harrow-Domar model in the short-run and the long-run?
 - d. In your own words, explain why a country could not merely keep increasing its national savings rate, assuming all else remaining equal, and

thereby increase economic growth at the same rate that the national savings rate was increasing.

2. A result of the Solow growth model is that economic growth is a function of the growth rates of capital and labor and the shares of capital and labor in economic output.
 - a. Discuss the significant differences between the Harrod-Domar and Solow growth models. What are the potential policy implications of these differences?
 - b. What is meant by the term "steady state?" If an economy is not in the steady state, what forces act upon the economy to assist its transition back to the steady state?
 - c. What is meant by the term "exogenous technological progress?"
 - d. What is meant by the term "conditional convergence?" Using the assigned reading, discuss why countries may not be converging in terms of per capita income.
3. The two sector model of labor and output in developing countries suggests that agricultural wages are, in part, a function of the demand for industrial labor.
 - a. Explain why agricultural wages may remain near subsistence levels even though a segment of the labor force is employed in the industrial sector.
 - b. Explain the implications of having a labor force growth rate that is higher than the growth rate for industrial labor. Be sure to discuss the impact high labor force (population) growth rate relative to the demand for industrial labor on industrial and agricultural wages and agricultural production.

Readings and Policy

1. Using Chapters 1-3 of the 2001 World Development Report from the World Bank, answer the follow questions. The report is available at <http://www.worldbank.org/poverty/wdrpoverty/report/index.htm>.
 - a. What policies are suggested in Chapter 3 to reduce poverty?
 - b. What is the relationship between economic growth and poverty? Is this an unambiguous relationship? What factors appear to influence the relationship?

- c. What is the relationship between economic growth and inequality? Is this an unambiguous relationship? What factors appear to influence the relationship?
 - d. Discuss whether a tradeoff exists between growth, inequality, and poverty, that is, you can not simultaneously grow, reduce inequality, and reduce poverty. You may use other chapters of the 2001 World Development report and other readings to support your answer to this question.
2. Corruption is a topic that we have discussed in almost every class. Understanding the pervasiveness of corruption in some countries is important to understanding how economic decisions can be distorted by the need to pay bribes, commissions, and other forms of corrupt activity.
 - a. Using the policy note at <http://www.worldbank.org/wbi/governance/pdf/premnote07.pdf>, discuss the major challenges in defining and measuring corruption.
 - b. Using the policy note referenced in (a), how could one include corruption in a Solow model of economic growth? What relationship would you expect between corruption and economic growth, that is, as corruption increased, what would happen to economic growth?
 - c. Discuss whether corruption generates positive or negative externalities and whether corruption is, in part, driven by the phenomenon of asymmetric information.
 - d. What are the public policy implications of your discussion (c)? In other words, should there be a public response to the problem of corruption or is corruption a private activity that does not require a public response?
3. A result of the Harrod-Domar growth modeling approach is that economic growth is a function of the ICOR and the national savings rate.
 - a. Using the assigned readings, discuss why and how HIV/AIDS the national savings rate. What are the potential implications for HIV/AIDS for economic growth based upon the results of the Harrod-Domar model?
 - b. Would you expect the Harrow-Domar model to understate, correctly state, or overstate the potential influence of HIV/AIDS on economic growth? Why?
 - c. Discuss why and how HIV/AIDS might affect the ICOR and indicate why the ICOR would increase (or decrease) as the prevalence of HIV/AIDS increased in a country.

4. Using the readings assigned for class and the discussion in class, discuss whether HIV/AIDS generates positive or negative externalities and whether HIV/AIDS can be considered a public or private good for a society at large.
 - a. Discuss the concept of asymmetric information and how it relates to the problem of HIV/AIDS.
 - b. Why is education the preferred response to the problem of HIV/AIDS?
 - c. Discuss how does education affects one's perception of the potential impact of HIV/AIDS on the cost of acquiring HIV/AIDS?