

Ec 320, Spring 2007

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FINAL EXAMINATION 2007

Answer all questions. On every answerbook you use, write your student ID # (not your name).

1. ($8 \times 2 = 16$ marks). Do you agree or disagree with the following statements? Explain briefly the reasoning underlying your answer.

(a) The income per acre on small family farms in many developing countries tends on average to be higher than on larger farms, by approximately 10–50%.

(b) A sharecropping contract is less efficient than a fixed rent contract because it generates weaker incentives for farmers to supply labor effort.

(c) If the sole purpose of levying taxes and tariffs on industrial products is to raise revenues for the government, then retail sales taxes are superior to import tariffs (that raise the same amount of revenues) from the standpoint of domestic consumers.

IGNORE (d) The principal reason for the spurt in population growth rates in the first stage of demographic transition is an increase in birth rates resulting from an increase in per capita income.

IGNORE (e) Crude death rates vary considerably between countries with per capita income ranging between \$250 and \$6,000 per annum.

(f) Industrial policies based on import substitution generate short-term losses for an economy, that may or may not be justified in the long run.

IGNORE (g) Since timber is a marketable commodity, problems of deforestation can be overcome by privatizing forests and relying on market incentives.

IGNORE (h) The share of ‘dirty goods’ in exports of OECD countries decreased substantially between 1960-90, while it increased for non-OECD countries: this provides evidence in favor of the ‘pollution haven’ hypothesis that trade between North and South worsens the environment.

IGNORE **2.** (4 + 2 + 6 = 12 **marks**) (a) Describe the key assumptions underlying the Malthusian theory of population, and explain the reasoning underlying its prediction that per capita income cannot grow in the long run.

(b) Explain in what way the Malthusian hypothesis concerning the effect of per capita income on fertility is contradicted by the evidence on demographic transition undergone by different countries since the 19th century.

(c) Provide as many explanations as you can for the fertility trends observed during the second stage of the demographic transition.

3. (6 + 6 = 12 **marks**) (a) Explain the argument underlying the Stolper-Samuelson Theorem concerning the effects of trade liberalization on wage inequality in developing countries.

(b) Is the empirical evidence available for Latin American countries over the past two decades consistent with the Stolper-Samuelson Theorem? Explain reasons why you think this is so.