

**Give brief and clear answers**

Econ 365  
Spring 2006

M. Muniagurria

**Exam 2 (Total Points : 100)**

**(I) Latin America: Thorp/Taylor**

- (1) (6 pts) What is the “staple” theory of development?
- (2) (12 pts) Give a complete and precise explanation of why (according to Taylor) Argentina’s growth performance deteriorated during the interwar years (1913-1930) and during the Import Substitution Industrialization period. You need to provide diagrams.

**(II) Latin America : ISI (Import Substitution Industrialization), ERP (Effective Rate of Protection), RER (real exchange rate)**

- (1) (6 pts) Briefly explain what is the “infant industry” argument for protection.
- (2) (6 pts) Briefly explain why during ISI some industries exhibited large negative ERP.
- (3) (16 pts) Consider the following hypothetical situation.  
Suppose that in the last five years the inflation rate has been the same in Uruguay and the US. Assume further that the nominal exchange rate between the Uruguayan peso and the dollar has been fixed.  
Explain what will happen to Uruguay’s real exchange rate if today that country decides to devalue its currency.

**(III) Latin America: Debt/Inflation**

- (1) (5 pts) What were the main causes of the debt crisis in the early 80's?
- (2) (12 pts) Consider the following hypothetical buy back of Peruvian debt (all amounts are in dollars).  
Before the buy back the total market value of the debt was 50 M. Peru uses a gift of 20 M to buy back its debt. After this operation the total market value of the Peruvian debt is 38 M. Both Peru and the foreign banks holding Peruvian debt benefitted from this gift. Calculate the benefit that the bankers obtained.
- (3) (5 pts) Define seigniorage
- (4) (5 pts) Why did we observe a relationship between government deficit and inflation in many Latin American countries in the 70's and 80's?

**(IV) Latin America: Opening /Reform/Poverty Inequality/Argentine Crisis**

- (1) (6 pts) What are some of the positive and negative effects of privatizations? (Mention at least one positive and one negative).
- (2) (5 pts) Did Latin America achieve significant poverty reduction since 1970?
- (3) (6 pts) Briefly describe two of the main causes of the Argentinian crisis of 2001.

**(V) Soviet Union/E. Europe**

- (1) (5 pts) Briefly describe two distortions of the socialist economies under central planning.
- (2) (5 pts) What were some of the possible causes of the low elasticity of substitution between labor and capital in the Soviet Union under socialism?