Exam 2

(I) E. Asia Weaknesses /Crisis
(1) (6 pts) According to Krugman and Obstfeld (“Developing Countries: Growth, Crisis and Reform”), the East Asian economies had several weaknesses in their economic structures. Briefly present their argument regarding “productivity”.
(2) (8 pts) Briefly explain the role of capital inflows and government policy regarding financial institutions in the East Asian crisis.

(II) Romer
(1) (4 pts) Briefly describe Taiwan’s policy towards the production and/or use of “ideas”.
(2) (4 pts) Briefly describe Mauritius’ policy towards the production and/or use of “ideas”.
(3) Model for Mauritius
   (i) (4 pts) State the main assumptions of the model used by Romer to analyze the case of Mauritius.
   (ii) (10 pts) Use a diagram to show that although workers are “exploited” by foreign entrepreneurs, they are better off than when the country did not have a garment industry.

(III) The Early 20th Century (Thorp)/ Historical Legacies (Franko)
(1) (8 pts) Briefly describe the “staple theory” perspective on Argentina’s performance presented by Thorp.
(2) (8 pts) Identify two of the problems associated with single commodity exports of a primary product according to Franko.

(IV) Argentina’s Economic Growth (Taylor)
(16 pts) Present Taylor’s explanation of Argentina’s decline in relative economic performance after 1913. Use diagrams whenever possible.

(V) Effective Rate of Protection
   Suppose that a computer sells in the world market for $1000 and that the parts out of which the computer is made sell for $500. Let's compare two countries: country A and country B.
   Country A places a 20 % tariff on imported computers and has no tariffs on imported parts.
   Country B imposes a 30 % tariff on both imported computers and imported computer parts.
   (1)(12 pts) Calculate the effective rate of protection for computers in both countries. Suppose you own a computer manufacturing firm and you can choose whether to open your plant in country A or country B. Where will you go? Justify.
   (2) (6 pts) Suppose further that computer parts are produced using only the effort of an entrepreneur. You are an entrepreneur that knows how to produce computer parts and you can choose either country A or country B to locate your firm. Where will you go? Justify.

(VI) Import Substitution Industrialization
(1) (6 pts) Briefly state the “Infant Industry” argument for protection.
(2) (8 pts) Briefly identify two of the negative effects from Import Substitution Industrialization.