

## Quiz 4 - Answers

### Question 1

Private property rights foster economic development by

- A. providing incentives to start a business.**
- B. redistributing income to those less fortunate.
- C. replacing the law.
- D. A and C only
- E. B and C only
- F. A and B only
- G. A, B and C

**This question goes into the working of the institution hypothesis**

### Question 2

Which of these hypotheses of development are supported by the example of North and South Korea?

- A. The culture hypothesis
- B. The geography hypothesis
- C. The institution hypothesis**
- D. All of the above

**This question aims at discussing these hypotheses of development and why geography and culture do not apply to the difference between North and South Korea.**

### Question 3

Some people argue that foreign aid would not be effective even if it were increased in size. What theory most supports their opinions?

- A. The geography hypothesis
- B. The institution hypothesis**
- C. The culture hypothesis

**Handout 6, slide 14. More foreign aid may be ineffective or even worsening the development of poor countries for the following reasons: first, more foreign aid may simply get taken away by the ruler through extractive system; second, more foreign aid may help preserve the extractive system and stabilize the ruler of the extractive regime, and reduce the ruler's incentive to reform the extractive system.**

#### Question 4

The BLS officially classifies a person as being employed

- A. if that person holds a paid job or may not be working but has looked for work in the previous week.
- B. if that person holds either a part-time or full-time paid job.**
- C. only if that person has worked full time over the previous week.
- D. when a person has worked at the same job for one year continuously.

#### **Handout 7, slides 6**

#### Question 5

Potential workers are classified as being unemployed when

- A. they do not have a paid job and are currently not available for work.
- B. they do not have a paid job, have looked for work in the previous 4 months, and are available for work.
- C. they do not have a paid job, have looked for work in the previous 4 weeks, and are available for work.**
- D. they want a full-time job and instead have a part-time job or are not working at all.

#### **Handout 7, slides 6**

#### Question 6

In April 2012, the Bazanian Daily, a leading newspaper in the country of Bazania, carried a report titled "20,000 jobs added in the last quarter; unemployment rate shoots up from 5 percent to 6.7 percent."

How could the unemployment rate in Bazania increase even when new jobs were created?

- A. Government jobs are not counted in the official unemployment rate. So, if the 20,000 new jobs were government jobs, then they will not have any impact on the overall unemployment rate.
- B. Only government jobs are counted in the official unemployment rate. So, if the 20,000 new jobs were not government jobs, then they will not have any impact on the overall unemployment rate.
- C. Since the unemployment rate equals the number of unemployed multiplied by the labor force, when 20,000 new jobs are added, it causes the labor force to increase, which increases the unemployment rate.
- D. The new jobs may have made discouraged workers optimistic enough to start applying for jobs, thus re-entering the labor force and being counted as unemployed, which causes the overall unemployment rate to increase.**

**This is about how labour force participation and employment move, and it is the specular example of what is discussed in handout 7, pages 14-16.**

### Question 7

Labour demand is downward sloping because

- A. the substitution effect outweighs the income effect
- B. of diminishing marginal product of capital
- C. the income effect outweighs the substitution effect
- D. of diminishing marginal product of labour**

### **Handout 7, slides 25**

### Question 8

Labour supply is upward sloping because

- A. the substitution effect outweighs the income effect**
- B. of diminishing marginal product of capital
- C. the income effect outweighs the substitution effect
- D. of diminishing marginal product of labour

### **Handout 7, slides 27**

### Question 9

What do you think happens as men increase their share of effort in household production?

- A. Women's labour supply shifts outwards**
- B. Women's labour supply shifts inwards
- C. Women's labour demand shifts outwards
- D. Women's labour demand shifts inwards

**This question aims to think through the insights of Handout 7, slide 28: women's reservation wage will decrease as they become relatively less essential of an input in household production. Notice that there is also some effect on elasticity, but here it will not be considered.**