

Name \_\_\_\_\_

University ID \_\_\_\_\_



**ECON 4311 – Fall 2022 Final**  
**Economy of Latin America**  
December 19, 2022

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**Examiner:** Luis Perez, email: perez766@umn.edu

**Allowed utensils:** Pen, paper, eraser, and non-graphic calculator.

**General Instructions:**

- You have 1 hour and 15 minutes (from 17:00 to 18:15) to complete the exam.
  - Do NOT remove the staple from your examination sheets.
  - The exam consists of 25 multiple choice questions (each worth 2.8 points) and 8 free-response questions, (each worth 3.75 points).
  - There is only one (1!) valid answer per multiple choice question (MCQ), and no points will be subtracted for wrong answers.
  - Answer all MCQ questions in the sheet provided below.
  - If you make a mistake in answering a MCQ and want to change the answer, do cross the 4 options (A, B, C, D) and clearly write on the right of box D the letter of your final answer.
  - Be short and to the point in the free-response questions.
  - Make sure to submit all pages of your examination.
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Good luck!

# MCQ Answer Sheet

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How to answer:

☐ A ☐ B ☒ C ☐ D

Questions:

1. ☐ A ☐ B ☐ C ☐ D
2. ☐ A ☐ B ☐ C ☐ D
3. ☐ A ☐ B ☐ C ☐ D
4. ☐ A ☐ B ☐ C ☐ D
5. ☐ A ☐ B ☐ C ☐ D
6. ☐ A ☐ B ☐ C ☐ D
7. ☐ A ☐ B ☐ C ☐ D
8. ☐ A ☐ B ☐ C ☐ D
9. ☐ A ☐ B ☐ C ☐ D
10. ☐ A ☐ B ☐ C ☐ D
11. ☐ A ☐ B ☐ C ☐ D
12. ☐ A ☐ B ☐ C ☐ D
13. ☐ A ☐ B ☐ C ☐ D
14. ☐ A ☐ B ☐ C ☐ D
15. ☐ A ☐ B ☐ C ☐ D
16. ☐ A ☐ B ☐ C ☐ D
17. ☐ A ☐ B ☐ C ☐ D
18. ☐ A ☐ B ☐ C ☐ D
19. ☐ A ☐ B ☐ C ☐ D
20. ☐ A ☐ B ☐ C ☐ D
21. ☐ A ☐ B ☐ C ☐ D
22. ☐ A ☐ B ☐ C ☐ D
23. ☐ A ☐ B ☐ C ☐ D
24. ☐ A ☐ B ☐ C ☐ D
25. ☐ A ☐ B ☐ C ☐ D

## Multiple Choice Questions (MCQ): 70 points

1. Select the *incorrect* answer.
  - (a) Intra-region transportation costs in Latin America are as high as transportation costs with the rest of the world.
  - (b) Transportation costs are act theoretically as if they were a tariff.
  - (c) With normal goods, if incomes rises but quotas do not, increases in demand are to the benefit of consumers and government and against domestic producers.
  - (d) Latin American trade policy was protectionist during ISI because of both a well-established tradition for high levels of tariffs and quotas, and because of the view of structuralism.
2. Select the *correct* answer about most-favored-nation (MFN) status.
  - (a) MFN status is a principle of non-discrimination that eliminates tariffs so that foreign producers can compete in equal conditions with domestic producers.
  - (b) MFN status is a principle of non-discrimination that eliminates quotas so that foreign producers can compete in equal conditions with domestic producers.
  - (c) MFN status is a principle of non-discrimination that ensures that the nation with MFN status gets as high of a quota as that placed on any contracting party involved in trade with the country granting MFN.
  - (d) MFN status is a principle of non-discrimination that ensures that the nation with MFN status gets as low of a tariff as that charged to any contracting party trading with the country which grants MFN.
3. Trade agreements between countries typically stipulate that tariffs will be eliminated on “substantially all” products within a “reasonable period of time”. What is meant by “substantially all”?
  - (a) All but energy products.
  - (b) All but agricultural goods.
  - (c) Both (a) and (b) are correct.
  - (d) None of the above are correct
4. The entry “balance on investment income” is reflected in national accounts in:
  - (a) The financial account.
  - (b) The current account.
  - (c) The FDI account.
  - (d) None of the above.

5. Select the correct answer. The Bretton Woods' system:
- (a) It was a system of international payments that linked foreign currencies to the USD, and the USD to gold.
  - (b) It was a system of international payments that allowed currencies to fluctuate within 1% of the fixed exchange rate.
  - (c) It is a dollar-pegged exchange-rate regime
  - (d) All of the above.
6. Suppose that Argentina—which will unfortunately play the Qatar world cup 2022 final—has a flexible exchange rate which currently trades at 10P/\$. To celebrate such an accomplishment, each Argentinian decides to buy a huge television from the US market, which requires acquiring USD. How does this affect to the flexible exchange rate?
- (a) The Argentinian peso–USD exchange rate increases.
  - (b) The Argentinian peso–USD exchange rate decreases.
  - (c) Nothing happens.
  - (d) None of the above.
7. Which of the following best describes the concept of domestic currency appreciation.
- (a) It takes more foreign currency to acquire 1 unit of domestic currency.
  - (b) It takes more domestic currency to acquire 1 unit of foreign currency.
  - (c) It takes less domestic currency to acquire 1 unit of foreign currency.
  - (d) None of the above.
8. Select the correct answer. La Década Perdida (The Lost Decade):
- (a) Has its roots in the large amounts of money that Latin American countries borrowed in the 1960s and the 1970s to promote ISI.
  - (b) Is a sovereign debt crisis that resulted in a decade of missed growth.
  - (c) Required the intervention of foreign governments such as the US government to be resolved.
  - (d) All of the above.
9. One of the triggers of the sovereign debt crises that Latin America experienced in the 1980s is the Volcker “shock”. What is this?
- (a) A shock by which the prices of primary commodity sharply declined.
  - (b) A sharp increase in real interest rates in the US economy that affected international financial markets.
  - (c) A sharp decline in real interest rates in the US economy that affected international financial markets.
  - (d) A shock by which the prices of primary commodity increased.

10. Select the correct answer. In response to the Lost Decade, the US government devised:
- (a) The Brady plan, which emphasized debt-forgiveness for highly-indebted developing countries.
  - (b) The Baker plan, which offered new loans to highly-indebted developing countries conditional on structural reforms.
  - (c) All of the above.
  - (d) None of the above.
11. Why should we (1) expect higher FDI investments in Latin America than in high-income economies, and (2) why has there been scarce FDI investment?
- (a) (1)  $MPK(\text{Latin America}) > MPK(\text{high-income economies})$ , and (2) due to corruption and high criminal activity.
  - (b) (1)  $MPK(\text{Latin America}) < MPK(\text{high-income economies})$ , and (2) due to corruption and high criminal activity.
  - (c) (1)  $MPK(\text{Latin America}) > MPK(\text{high-income economies})$ , and (2) due to political instability and ISI policies.
  - (d) None of the above.
12. How has capital flow historically into the Latin America region?
- (a) Mostly in the form of debt.
  - (b) Mostly in the form of FDI.
  - (c) Mostly in the form of portfolio capital.
  - (d) None of the above.
13. Which of the following is true about portfolio capital.
- (a) Large inflows and outflows of portfolio capital can be stabilizing.
  - (b) It can be essential for economic development as it facilitates the allocation of capital to credit-constrained agents with potential of making investments with positive net rates of return.
  - (c) Uncontrolled capital flows are best for attracting investments and mitigating exchange-rate shocks.
  - (d) All of the above.

14. An interesting fact about the Latin America region is that from 1990 to 2014, remittances as a share of the world total:
- (a) Have grown, almost doubling.
  - (b) Have shrank, almost halving.
  - (c) Have remained roughly constant.
  - (d) None of the above.
15. Which of the following conclusions from “*The North American Free Trade Agreement*” by Villareal and Ferguson (2017) is correct:
- (a) NAFTA benefitted the Mexican economy as it made possible economic convergence with US.
  - (b) NAFTA had a modest effect on the US economy.
  - (c) NAFTA has not gone through any major modifications since it was established.
  - (d) None of the above is correct.
16. “*Lessons from the Monetary and Fiscal History of Latin America*” by Esquivel, Kehoe and Nicolini (2020) teaches us that:
- (a) The inability of unwillingness of government to limit their spending to their own ability to raise taxes was at the root macroeconomic instability in the region.
  - (b) There are countries in Latin America that still have not learned that lack of fiscal discipline leads to bad economic outcomes.
  - (c) Large amounts of debt in denominated foreign currencies can make countries vulnerable.
  - (d) All of the above.
17. The banking multiplier is the multiple by which:
- (a) A change in the money supply translates into a change in the monetary base.
  - (b) A change in the reserves requirement translates into a change in the money supply.
  - (c) A change in the reserves requirement translates into a change in the monetary base.
  - (d) A change in the monetary base translates into a change in the money supply.
18. Debt monetization consists in:
- (a) Selling more bonds or raise further taxes to finance public spending.
  - (b) Borrowing more money from international markets to finance public spending.
  - (c) Borrowing more money from the central bank to finance public spending.
  - (d) None of the above.

19. Which of the following is true about the Brazilian stabilization plans of the 1980-90s?
- (a) Most were unsuccessful in controlling inflation for sufficiently long times.
  - (b) Not all plans had effects of inflation rates.
  - (c) The key features of the successful Plano real were price freezing and holding of deposits exceeding 50,000 Cruzados Novos for 18 months.
  - (d) All of the above.
20. Select the correct answer.
- (a) Dollarization always means substituting domestic currency by USD.
  - (b) Dollarization, as well as a currency union, places restrictions on monetary policy.
  - (c) An example of dollarization is the Eurozone, by which many countries in the European Union adopted a common currency.
  - (d) None of the above.
21. Which of the following is true about full dollarization.
- (a) It is associated with price stabilization.
  - (b) It reduces macroeconomic uncertainty in dollarized countries.
  - (c) It is associated with increased investment (both domestic and foreign) and decreased borrowing costs in dollarized countries.
  - (d) All of the above.
22. According to “*Dollarization in Argentina*” by Velde and Veracierto (2005):
- (a) Argentina seriously considered dollarization due to its history of bad monetary policy.
  - (b) Argentina would have an easier time dollarizing than most other countries.
  - (c) Both (a) and (b) are correct.
  - (d) All of the above.
23. Select the correct answer.
- (a) Latin America is the world’s region with the most evenly distributed income.
  - (b) Latin America had the highest levels of absolute poverty in the world in 1990.
  - (c) Absolute poverty in Latin America has increased substantially since the 1990s.
  - (d) All of the above.

24. Select the correct answer about relative poverty.
- (a) It is an ideal measure to make cross-country comparison when it comes to poverty.
  - (b) It can result in outcomes such as two countries with the same distribution of income have different levels of relative poverty.
  - (c) All countries provide clear definitions of relative poverty.
  - (d) None of the above.
25. According to “Income Dynamics and Inequality: The Case of Mexico”, which of the following is correct?
- (a) Initial informality rates have a higher effect on initial unemployment than in long-term labor outcomes.
  - (b) The Great Financial Crisis increased income dispersion, as lower income percentile workers were more negatively affected.
  - (c) The informal sector does not provide a safety net to smooth over economic shocks.
  - (d) None of the above.



## Short Questions: 30 points

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1. Use diagram(s) to compare a situation of autarky with one of free-trade, and explain the effects of opening up to trade on equilibrium prices and quantities for a country who is disadvantaged in the production of that good, as well as the associated welfare gains and losses. *Clearly indicate what each object in the graph is, and explain the nature of welfare losses/gains.*

2. If the velocity at which money travels grows at 1% per year, inflation is 8%, and real GDP growth is 2%, at what rate does money supply grow? *Show every step of your calculations.*

3. Explain the different types of exchange-rate regimes, and illustrate *graphically* the main differences between them in the face of fluctuations in economic conditions. Give one example for each type of exchange-rate regime. *You need to indicate what each object in the graph is, and discuss policy actions in words.*
4. Explain what an exchange control is, discuss the different types, and list one *current* example for each each type.
5. Explain why wages are generally increasing in educational attainment.

6. Explain what the Gini coefficient is, how to measure it, which values can it take, how to interpret it, and list two or more economic variables to which the Gini coefficient is often applied.
7. Explain the different forms of debt financing in international capital markets, and give one example for each type.
8. List 4 policy recommendations to reduce poverty and/or inequality in Latin America. *Be precise and to the point.*