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Migration

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Comprehensive Review due Jul 31, 2024 07:30 CST

Completed

Question 1.1

1/1 point (graded)

International migration flows in normal years represent ___ % of the world population. (Don't include percentage sign in your answer)

3

✓ Answer: 3

3

Explanation

Migration flows in normal years represent only about 3% of the world's population.

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Question 1.2

7.0/7.0 points (graded)

The simple economic model of

labor

✓ Answer: labor supply and demand

is not

✓ Answer: is not complex enough to correctly predict migration effects. The model

predicts that the arrival of migrants

decreases

✓ Answer: decreases the wages of natives,

determined at the

intersection

✓ Answer: intersection of the labor supply and demand curves.

Empirical evidence has shown that this effect is

at most very small

✓ Answer: at most very small . In

class, we gave

5

✓ Answer: 5 reasons for why greater labor supply through migrants

does not automatically decrease wages of natives. Furthermore, empirical evidence also shows that if

people are allowed to move, they are often very

reluctant

✓ Answer: reluctant to move.

Explanation

In class, we discussed a lot of empirical evidence that shows that the simple logic of the model does not hold in practice. Natives’ wages are not going to decrease drastically in response to liberalizing migration.

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Question 1.3

1/1 point (graded)

What is the type of the study performed by economists researching the effect of migration on Icelanders whose houses were destroyed by a volcano eruption? How does this type of study allow identifying causal effects?

Natural Experiment. A random shock “naturally” creates two comparable experimental groups, one that is affected by a treatment. The causal effect can be calculated by comparing the two groups after the experiment.

Controlled Experiment. The researchers build two comparable experimental groups and assign a treatment to one of them. The causal effect can be calculated by comparing the two groups after the experiment.

✓

Explanation

The volcano eruption induced a random set of people to migrate, while another random set stayed. The difference in the life outcomes between the two is the causal effect of migration.

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Trade

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Question 2.1

1/1 point (graded)

Spain and Sweden can both produce two goods, vegetables and cheese. If you only know the information given by each answer, in which of the following cases can you be sure that Spain has a comparative advantage (Ricardo) for producing vegetables over Sweden?

☐ Spain is better at producing vegetables than Sweden.

☐ Spain is better at producing vegetables than at producing cheese.

☐ Sweden is better at producing vegetables than Spain.

☐ Sweden is better at producing vegetables than at producing cheese.

☐ Spain and Sweden are both better at producing vegetables than at producing cheese.

☒ Spain is better at producing vegetables than at producing cheese while Sweden is better at producing cheese than at producing vegetables.

☒ Spain and Sweden are both better at producing vegetables than at producing cheese, but Spain is relatively better at producing vegetables vs. cheese, compared to Sweden.



Explanation

The first four answers do not include enough information.

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Question 2.2

1/1 point (graded)

Stolper and Samuelson added to Ricardian theory by allowing for different factors of production (capital and labor). This allows their theory to shed light on distributional issues, that is, how gains and pains from trade accrue to holders of capital versus labor. What does the Stolper-Samuelson Theorem predict on the effect of trade between rich and poor countries?

☒ Both rich and poor countries benefit from trade, but the benefits accrue to different populations within the two countries.

☐ Rich and poor countries specialize in capital intensive production.

☒ Rich countries specialize in capital intensive production, poor countries specialize in labor intensive production.

☒ In rich countries wages fall, in poor countries wages increase.

☐ In rich countries wages increase, in poor countries wages fall.

☐ In rich countries the returns to capital fall, in poor countries the returns to capital increase.

☒ In rich countries the returns to capital increase, in poor countries the returns to capital fall.

☐ In rich countries the gains from trade accrue to the labor force, in poor countries the gains from trade accrue to capital owners.

☒ In rich countries the gains from trade accrue to capital owners, in poor countries the gains from trade accrue to the labor force.



Explanation

Because rich countries have relatively more capital, and poor countries relatively more labor, rich countries usually have a comparative advantage in capital-intensive production and poor countries have a comparative advantage in labor-intensive production. The Stolper-Samuelson Theorem predicts the effect of trade in rich and poor countries based on this observation.

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Question 2.3

1/1 point (graded)

What is the main result of economists' empirical evaluation on the gains and pains of trade in practice?

☐ Trade is good for everyone.

☒ The economy is sticky. We thus have to worry about the effects of trade within countries, especially the effect on the poor.

☐ Trade is bad for everyone.



Explanation

As shown by economics scholars such as Petia Topalova, in practice, trade and capital are slow to move. Even if trade helps countries to gain on average, it produces losers that need to be compensated.

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Likes, Wants, and Needs

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Question 3.1

5.0/5.0 points (graded)

The goal of public policies

often

 ✓ Answer: often is to change people's actions. Our behavior is ultimately driven by our

preferences

 ✓ Answer: preferences in combination with the environment (such as prices and our budget) in which we turn them into actions. Empirical research has shown that preferences are mostly the product of

our social environment

 ✓

Answer: our social environment and

can

 ✓ Answer: can change. Changing preferences is thus an additional policy tool to shift people's

behavior

 ✓ Answer: behavior .

Explanation
The empirical evidence discussed in week 4 shows that - unlike Becker and Stigler assumed - our preferences are not unchangeably given by nature. It is thus worth studying preferences.

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Question 3.2

1.0/1.0 point (graded)

What of the following have we learned regarding social norms?

- ☒ Social norms affect our actions.
- ☐ Social norms only have bad effects (for instance, discrimination by caste in India or racism in the U.S.).
- ☒ As shown by Elinor Ostrom (the first female economist to win the Nobel Prize in Economics), social norms can have good effects on the community.
- ☒ When situations that can be described as a prisoners' dilemma are repeated, social norms can allow for cooperation.
- ☐ Social norms are the product of deep and stable preferences and thus can never be changed.
- ☒ Social norms can change.

✓

Explanation
Social norms are part of our social context and thus affect our preferences. They can have positive and negative effects, and they can change.

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Question 3.3

1.0/1.0 point (graded)

Say you are the president of Grumpystan. People in your country are acting racist because they say that they have never liked their compatriots with green eyes. They are also hostile towards immigrants because they say they do not want them here even though the immigrants are actually boosting the economy. Grumpystanians also really like their cars, even though the smog kills and your country has a great train network. You do not have any public money left to give people financial incentives to change their behavior. You also cannot use taxes because taxes on fuel are already high (part of the reason for your citizens' grumpiness) and you have not figured out yet how to implement taxes on being racist. You have taken this course and got the idea to change people's preferences in order to change their actions. What should you know?

- ☒ The social context shapes people's preferences.
- ☒ (Social) media form an important part of our social context.
- ☐ Because in traditional and social media we are often exposed to opinions different from ours, and because we are viewing the world completely rationally, it is easy to change our social context and our preferences.
- ☒ According to the contact hypothesis, policies that induce mixing can reduce racism.
- ☐ Empirical research has shown that contact indeed reduces racism, and that all types of contacts are equally efficient.
- ☒ People can listen.

✓

Explanation
Our media exposure is segregated and we hold motivated beliefs, it is thus hard to change the determinants of our preferences. However, it is possible: as shown by the doctors' study, people's preferences on race might not be very profound and can change. For the contact hypothesis, the type of contact matters.

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Economic Growth

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Completed

Question 4.1

1/1 point (graded)

Per capita Gross Domestic Product (GDP) plays an enormous role in the policy debate. Since GDP actually captures a society's well-being, the attention the indicator receives is justified.

☐ True

☒ False



Explanation

GDP does not actually capture a society's well-being.

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Question 4.2

0 points possible (ungraded)

What of the following is true regarding exogenous and endogenous growth theory?

☒ Until the mid-1980s economists like Solow concluded that it was very hard to identify what drives TFP growth and that economic growth beyond the accumulation of skills and capital was not a result of economic choices but "exogeneous".

☒ Politicians and economists alike found it hard to accept that there was no room for policies to drive growth beyond capital and labor accumulation. Robert Lucas argued that the fact that poor and rich countries do not converge means that Solow's theory must be wrong.

☒ Paul Romer argued for the power of ideas. According to Romer, ideas spread in the form of spill-overs and that people who are exposed to ideas become more productive.

☐ Greenstone, Hornbeck and Moretti (2010) investigated the existence of spill-overs. Their results show that the U.S. as a whole can accelerate growth by creating spill-overs through new industrial clusters.

☒ Aghion and Howitt agree with Romer that growth is endogenous, that is, the outcome of decisions by firms and the government.

☐ Aghion and Howitt also agree with Romer that innovation should not be seen as a potentially conflictual process, and should be incentivized as much as possible.



Explanation

Endogenous growth theory allows for policies to drive TFP growth (it is not purely exogenous as in Solow's growth theory). Romer and Aghion and Howitt agree that TFP growth is endogenous but disagree about the production of innovation.

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Question 4.3

0 points possible (ungraded)

What are the conclusions of empirical economic research on growth?

☐ Cross-country regressions led to great insights into the drivers of growth.

☐ Acemoglu, Johnson and Robinson (AJR)'s study clearly showed (via an instrumental variable strategy) that, in order to promote growth, countries should implement high quality institutions.

☒ We know some general rules on mistakes to avoid: civil wars, environmental disasters, Indian-style central planning, Stalinism and Maoism do not support growth.

☒ Focusing on smaller, more specific problems might be more useful: solving them might have a smaller effect on peoples' lives than the very big questions. However, they might be easier to answer and their resolution could deliver more concrete policy implications.

☐ A study investigating 32 tax cuts since the war indicates that the rich are more eager to make money when they are taxed less. As a result, growth goes up.

☒ In the United States, economic power gets more and more concentrated in a few firms per sector which has negative effects on innovation.



Explanation

Empirical research has not delivered a general recipe on growth. Investigating smaller, more precise problems as it is done, for instance, in development economics seems more informative for policy making.

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Climate Change

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Question 5.1

1/1 point (graded)

Which of the following correctly describes global inequalities in terms of carbon emissions and climate change?

✓

The 10% of world citizens that emit the most are responsible for around 50% of current global emissions and the 50% of world citizens that emit the least are responsible for around 10% of current global emissions.

✓

Most of the top 10% emitters are in the U.S. and Europe, while most of the bottom 50% emitters are in developing economies.

While the United States has emitted most CO2 historically, China is the largest emitter today. This means that inequality in total climate change responsibility between U.S. and Chinese consumers is shrinking today.

✓

A progressive carbon tax would ensure that those who contribute most to global emissions also contribute relatively more to paying for climate change adaptation.

The cost of climate change is equally distributed as every country will experience the same temperature increase.

✓

Explanation

To be fair when accounting for emissions we need to stop thinking about where the things that cause emissions are produced but where and by whom they are consumed. Today, consumption by the United States causes 40% of worldwide emissions, the European Union causes 19%, China 10%. Africa accounts for only 2%. The economic costs of climate change are also unequally distributed between poor and rich countries.

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Question 5.2

1/1 point (graded)

Which of the following policies to combat climate change appears in the public policy tool box when we apply our conclusions on the lecture on preferences and stop assuming that people always act perfectionally rational (in line with their stable preferences)?

Carbon taxes.

Premiums to conserve carbon.

•

Nudges.

✓

Explanation

Carbon taxes and premiums change the environment that people face when transforming their preferences into actions. Nudges change people's actions by changing their preferences in an unchanged environment.

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Question 5.3

1/1 point (graded)

Which of the following are fundamental prerequisites for a successful combat against climate change?

✓

Accepting the empirical evidence that the benefits of technology are often overestimated and stopping to believe that some miraculous technology is going to save us all.

✓

Clearly outlined redistribution to credibly guarantee the compensation of the losers.

✓

Trusted and effective governments.

✓

Explanation

All of these are indispensable requirements.

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Inequality

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Question 6.1

1.0/1.0 point (graded)

Why should we care about automation and inequality?



Automation could lead to large disruptions in the labor market.



Automation in the past has only produced winners, so there is no need to worry.



Automation could increase inequality.



Economic research has clearly shown that high inequality makes people work harder and is thus desirable from an efficiency point of view.



High inequality can lead to social disruptions.



From a fairness point of view many inequalities seem hard to justify.



Explanation

Economic research has not shown that high inequality makes people work harder. Automation has the potential to replace a large amount of jobs (remember the OECD study). If robots are employed instead of workers, the share of income produced in a country that goes to pay wages decreases, and the share that goes to capital owners increases, further exacerbating inequalities.

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Question 6.2

7/7 points (graded)

The “great reversal” happened around the year 1980. After fifty years of decline, the share of national income that goes to the richest 1 percent starts a relentless climb in the United States. In 1928, at the end of the Roaring Twenties, the richest 1 percent captured 24 percent of the income. In 1979, that number was much smaller. In 2017 that ratio was almost back where it was in 1929. The increase in income inequality was accompanied by a(n) increase in wealth inequality (income is what people earn every year; wealth is their accumulated fortune). The top 1 percent wealth share in the United States rose from 22 percent in 1980 to 39 percent in 2014. This means that the top 1% hold 39 times the wealth they would hold in an entirely equal society.

Explanation

In the U.K. the development is similar, but not in continental Europe.

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Question 6.3

1.0/1.0 point (graded)

What policy-relevant results have emerged from economics research on inequality in the U.S.?



The decline of unions has led to more inequality in the past.



The decrease of the nominal minimum wage has led to more inequality in the past.



Inequality is a political choice, not an inevitability.



High income taxes on top salaries can be used to prevent large wage inequalities from appearing in the first place.



Taxes and other policies such as salary caps are going to make people lazy.

Revenues from taxes on income and wealth can be used to redistribute and to implement effective social policies, and thereby decrease inequalities.



Explanation

Technological change is not the only reason for the increase of income inequality. Political choices have contributed to large increases in inequality. The nominal minimum wage has not decreased, but the real minimum wage has.

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Government

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Question 7.1

1/1 point (graded)

Should we care about trust in governments, and why?

- ☐ Previously we have seen that the challenges discussed in this course are adequately addressed by the free market. We thus do not need a trusted government.
- ☒ We need policies to address the challenges discussed previously in this course and the government is the only institution that can implement such policies.
- ☒ Policies can be used to create win-win situations but this takes time.
- ☒ At first policies usually also create losers in some form.
- ☐ Governments have unlimited funds that they usually are able to disperse immediately.
- ☐ Governments immediately know all the effects of a policy and can react.
- ☒ Policies require commitment.
- ☒ Commitment directly depends on trust.
- ☒ Trust in government is not a given, it is actually low in many countries.



Explanation

Trust in government is essential for the implementation of policies. But it is often low. Understanding the reasons for low trust and how it can be improved is thus of utmost importance.

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Question 7.2

11.0/11.0 points (graded)

In the lecture we identified the reasons for low trust in governments and potential solutions. First, it is hard for democratic governments to guarantee long-term commitment to policies because

they can be voted out ✓ Answer: they can be voted out . One way to ease this problem (but only in few areas) is the creation of independent institutions ✓ Answer: independent institutions . The legitimacy of the government has also been affected by the ideology ✓ Answer: ideology that most things should be solved by the market. The actual list of things that only the government can provide is long. For instance, while Ronald Coase ✓ Answer: Coase provided a theorem on how the private market could regulate pollution ✓ Answer: regulate pollution in a theoretical world without transaction costs, it can in practice only be done by the government ✓ Answer: government . Lack of transparency ✓ Answer: transparency is another problem that can be solved by providing the right amount of information. Corruption , ✓ Answer: Corruption , red tape ✓

Answer: red tape and the perception of capture ✓ Answer: capture reduce trust in governments.

Explanation

The causes for low trust in government are many, and finding a way to restore faith in the government's possibilities is one of the great challenges of our time.

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Question 7.3

0.5/1 point (graded)

Which of the following are among the social costs of mistrust in government?

- ☒ Populism. ✓
- ☐ Too much capacity to redistribute.
- ☐ Too much involvement of the government.
- ☐ Equality.
- ☐ High attraction of talent for working for the government.
- ☒ Red tape. ✓

Explanation

A major cost is the decrease of the government's ability to implement policies. More generally, the government is insufficiently involved where it is needed. Low trust also threatens the ability to tax and therefore to fund social policies and to redistribute. The consequence is higher inequality. Other problems are over-complicated procedures in order to avoid the impression of corruption (leading to red tape), populism and the low attraction of talent for jobs at the government.

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Social Policy

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Question 8.1

1/1 point (graded)

Which question are we trying to answer when looking for the best social policies?

How can the government best raise taxes?

How can the government best reduce corruption?

How can the government best spend tax revenues in order to improve well-being?

How can the government best increase economic growth?

Explanation

We need social policy because our economic system produces losers that need to be compensated.

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Question 8.2

10.0/10.0 points (graded)

Universal

✓ Answer: Universal Basic Income and

targeted

✓ Answer: targeted transfers (for instance, Conditional Cash Transfers) are among the social policies we discussed in class. For the government to be able to implement these policies, citizens must be in favor of

redistribution

✓ Answer: redistribution However, in the U.S., the degree to which people agree that the government should reduce income differences and help the poor has been

decreasing

✓ Answer: decreasing over time. There are multiple reasons for why political support is low: large parts of the U.S. population believe that the state is

unable

✓ Answer: unable to help the poor. Americans also often believe in the American Dream, which

is an illusion

✓ Answer: is an illusion . Furthermore, while people estimate their labor response to welfare to be low for themselves, they think that others are going to

stop

✓ Answer: stop working. There is also the idea that people who actually are unable to work are the deserving poor, but everyone else is "

undeserving poor

✓ Answer: undeserving poor ". Finally,

whites

✓ Answer: whites in the US are more opposed to welfare than everyone else. This preference against redistribution exacerbates when

white

✓ Answer: white people think that welfare allows Black people to catch up.

Explanation

In order to find ways to improve political support, it is important to know these reasons for low support for redistribution.

Show answer

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Question 8.3

1/1 point (graded)

How should we redesign social support?

Make individuals responsible for job loss.

Protect regional economies.

Help people move.

Cut taxes.

Subsidize creation of meaningful jobs.

Protect dignity.

Explanation

Job loss is a feature of a capitalistic society and should not be held against those affected. Because people are so slow to move, we need to protect regional economies while at the same time reduce some of the difficulties faced by those who would like to move. The state should also subsidize private and public sector jobs that create social returns and at the same time provide meaning to the workers (child care, elderly care, health care). The main insight from the discussion in class on Bara Imambara, UBI, research showing that removing the label "food stamps" helps, and on Travailler et Apprendre Ensemble is that the protection of dignity must have the highest importance.

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