

The Global Economy Final Question Bank

1. This question concerns the relationship between human capital, technical change, and growth.

- What is the demographic transition? Make sure you explain the whole process using the concepts of mortality rates and fertility rates.
- Explain carefully two mechanisms by which technological change affects human capital formation.
- Explain carefully two mechanisms by which human capital affects the rate of technological change.
- Would you say that the relationship between human capital and technological change is exogenous or endogenous?

2. Why is substitutability of capital assets important in considering sustainability? In your response, be sure to provide specific examples and to be clear about the relevant scale of the good/service of the capital asset under consideration.

3. Consider people's lives during the Malthusian period of human development.

- Which capital assets do you think were most important for them? Be specific using examples and not just categories of capital assets.
- How do you think the most important capital assets at that period compare/contrast to the most important ones today in advanced economies? Again, use specific examples.
- Which capital assets do you think are likely to be the most important in 100 years in the currently developing world? Why?

4. Using the microeconomic theory of fertility behavior, analyze how a well-enforced child labor ban might affect household fertility. In particular, draw an indifference curve and two budget lines /income constraints, one before and one after the policy change. Make sure to label all parts of the graph and clearly indicate what would happen to the budget line and the predicted fertility level after the child labor ban is introduced. Secondly, argue for what you think would happen to fertility if a poorly enforced child labor ban was proposed.

5. Consider the scenario where someone from a rich country, say the United States, adopts a child from a very poor country, who is in need of a home and family. Then answer the following questions. Support your answers with reasonable assumptions or real examples.

(a) Using your knowledge of inequality in living standards, human capital/demography, and sustainable development, explain what effect you think this adoption will have on the globe's total productive asset base when the child is an adult, i.e. on global sustainability.

(b) What about the effect of this adoption on local sustainable development in the place the child is from? Support your answer with examples.

6. Understanding causal relationships between complex political, social, and economic phenomena is critical for appreciating how the world works and so also fundamental to improving policies, programs, norms, institutions and the world in general. Together we have gone over dozens of examples of such relationships. This question asks you to synthesize that knowledge and apply it to new topics as well.

(a) Define and differentiate between exogenous and endogenous variables.

(b) Provide examples from class on three different pairs of variables, then explain whether one is exogenous or endogenous to the other, as well as why that is the case.

(c) Provide two examples of pairs of variables that we have *not* discussed in class, but that you have perhaps thought about on your own or in another class, and explain whether one is exogenous or endogenous to the other, as well as why that is the case.

7. Is the global economy working for or failing most of the world's population? Identify clearly at least five dimensions along which you are making this judgment. These factors could include specific data about the world, concerning or optimistic trends, or philosophical arguments about how to weight different outcomes.

8. Thinking carefully about your own life, critically assess the extent to which you believe you have added to, or subtracted from, the total value of all five capital assets you have. Please be precise about each of them, try to use data and reasoning to estimate the value of the changes in those you have caused, and explain how you arrive at your conclusion. Further, how do you see this changing 50 years from now?

9. Your answers to this question must be based directly and explicitly on course material in order to earn points.

(a) Give two arguments about why population growth is a bad thing for global economy.

(b) Give two arguments about why population growth is a good thing for global economy.

10. What is discounting and how does it relate to:

- (a) Intergenerational equity?
- (b) Sustainability?
- (c) Provide your personal, well-reasoned argument for a particular discount rate in relation to intra vs intergenerational equity.

11. Critically assess the following statement using course material: “Because trade can only make countries better off, it must be the case that completely free trade is the best policy choice.” Critically assess the following statement: “Society should be concerned about inequality per se and not only poverty”.

12. This question tests your ability to apply course concepts to the subject of water in California. Currently in California about 80% of our water is used by agriculture and 20% by urban areas, a situation that occurs due to a peculiar, non-market system for allocating water rights.

(a) Do people in cities or agricultural areas have a higher Marginal benefit (i.e. higher marginal willingness-to-pay) for water? Why? (Hint: carefully consider the value of different marginal uses). Today in California most water prices are about one-fifth of the marginal cost of extraction, i.e. water costs way less than it costs to supply.

(b) Use a graph to analyze the consequences of this pricing and use it to explain what happens to water consumption.

(c) How can this pricing happen? Does anybody actually have to pay that difference? If so, who are they?

13. Use the “logic of collective action” to analyze a particular policy (the specific policy will be a surprise).

14. Identify (i) three mechanisms by which geography can affect a society’s level of economic development and (ii) three mechanisms by which institutions can affect a society’s level of economic development. 15. Critically assess the aid industry. Should richer countries try to help poor countries? If so, how?

Please refer to specific evidence presented in class or in readings to determine your answers.