

**DEVELOPMENT ECONOMICS  
PH.D. QUALIFYING EXAMINATION**

**TIME:** 4 hours

**MAXIMUM POSSIBLE SCORE:** 240 Points

**I. (100 Pts. = 6 2/3 points per TFU question) TRUE, FALSE, or UNCERTAIN.** In each case give a clear explanation of your answer. Your grade will depend heavily on your explanation.)

1. The equilibrium real exchange rate will appreciate if there is an anticipated permanent improvement in the country's international terms of trade.
2. An increase in transfers from abroad will result in a real exchange rate appreciation only if the marginal propensity to spend on nontradables exceeds unity.
3. Equilibrium unemployment will never take place if there are no costs of search.
4. The effect of openness on economic growth can only take place through the TFPN channel.
5. The effect of trade liberalization on short-term employment will depend on whether there is a minimum wage in the economy.
6. The benefit-cost ratio is not, in general, an adequate criterion, because one obtains different results depending on how current costs are treated.
7. When a highway project has benefits that increase with time, the proper time to construct that project is when its profile first yields a positive net present value.
8. The net present value of a project is maximized by choosing that scale at which the marginal (or incremental) internal rate of return is just equal to the opportunity cost of capital.
9. If there are no import tariffs, and no export taxes or subsidies, and no quantitative restrictions of any kind on imports and exports, the economic opportunity cost of foreign exchange will be equal to the market exchange rate.
10. If it is worthwhile to add an irrigation component (B) to an electricity project (A) then it is also worthwhile to add Project A, if Project B is considered as the initial base.
11. The social benefit that accrues when a project "absorbs" 100 workers who would otherwise be unemployed consists of the income that these workers obtain from the project.

12. If a project is located in a “protected sector” of the labor market, the social opportunity cost of labor will be higher than it would be if that project were located in the “unprotected” part of the same labor market.
13. A shrinking real money supply is evidence that monetary policy is too tight.
14. The monetary approach to the balance of payments predicts that a devaluation will lead to a current account deficit.
15. A current account deficit of over 10 percent of GDP is clearly unsustainable.

**II. (20 Pts.)** Given that the urban wage is roughly twice the rural wage in many poor countries, explain why the Harris-Todaro model provides an overestimate of the urban unemployment rates in such countries, and how this deficiency can be overcome.

**III. (25 Pts.)** It has now been seven years since the Asian crises erupted. Hundreds of articles have been written, thousands of opinions have been uttered. State at least two lessons (more if possible) that you think we have learned from the Asian crises and discuss their conceptual and practical (i.e., policy) implications.

**IV. (20 Pts.)** Suppose you are asked to evaluate two run-of-the-stream hydroelectric projects, located in different countries.

- a) In country A, the rest of the system consists of homogeneous thermal capacity, and there is a well-defined “demand peak” of 2000 hours per year.
- b) In country B, the system consists of heterogeneous thermal capacity, with marginal running costs of 2¢, 4¢, 6¢ and 8¢ per kwh for the different types of capacity.

Explain how you would evaluate the run-of-the-stream project in each of these two cases. Feel free to develop your answers in terms of numerical examples.

**V. (20 Pts.)** Critically assess the relative efficacy of the direct vs. indirect route of poverty alleviation.

**VI. (35 Pts.)** Describe how you would estimate the economic opportunity cost of foreign exchange in a country having a uniform tariff of 20%, together with a value added tax, also of 20%. Assume that, because of differences in coverage, the effective average rate of value added taxation is 20% for tradable goods and 5% for nontradable goods and services.

**VII. (20 Pts.)** Explain why empires have promoted globalization.