ECONOMIC INTEGRATION IN THE AMERICAS ECON 4421 EXAMINATION

PART I. Answer **one** of two questions.

1. Consider a world economy in which there are two countries and two produced goods. The two factors of production are high-skill labor, h, and low-skill labor, ℓ .

a) Suppose that the production functions are equal across countries,

$$y_1^i = \min[h_1 / 3, \ell_1]$$

 $y_2^i = \min[h_2, \ell_2 / 3];$

that the representative consumers' utility functions are equal,

$$u(c_1^i, c_2^i) = \log c_1^i + \log c_2^i;$$

but that endowments are different, $\overline{h}^1 = 40$, $\overline{\ell}^1 = 32$ and $\overline{h}^2 = 32$, $\overline{\ell}^2 = 40$. Define an autarky equilibrium. Define a free trade equilibrium.

b) Suppose that the two countries are initially closed to trade, but are considering opening. Tell a story about the debate over free trade in each country. Make sure to explain carefully who you would expect to gain and who you would expect to lose from free trade in each country.

c) Explain what you see to be the limitations of using models like that in part a to analyze gains and losses associated with changes in trade policy.

	Agr.	Mfg.	Ser.	Con.	Inv.	Exp.	Total
Agriculture	3	4	1	9	1	6	24
Manufacturing	6	6	6	10	7	4	39
Services	2	3	4	19	2	0	30
Imports	4	5	1				10
Tariff Revenue	1	1	0				2
Labor Compensation	4	15	11				30
Returns to Capital	4	5	7				16
Total	24	39	30	38	10	10	

2. Consider an economy with the following input-output matrix:

Here, Agr. = Agriculture, Mfg. = Manufacturing, Ser. = Services, Con. = Consumption, Inv. = Investment, and Exp. = Exports. All transactions are measures in 100 million 2000 pesos.

a) What are the national income and product accounts for this economy?

b) Explain how you could use this, and possibly other data, to calibrate an applied general equilibrium model. To make your discussion concrete, calibrate a representative domestic consumer and a production technology for the domestic manufacturing sector.

c) Briefly explain how you would use the model discussed in part b to evaluate the impact of a change in trade policy.

d) Briefly discuss the strengths and weaknesses of the sort of analysis discussed in parts b and c.

PART II. Answer **one** of three questions.

1. In late 1994 and early 1995 the Mexican economy experienced a severe financial crisis. Explain what this crisis was and how it came about in terms of Mexican economics and politics from 1987 to 1995.

2. After World War II, most of the countries in Latin American chose to follow an importsubstitution development strategy. Following the debt crisis of the early 1980s, most of these countries have turned to more market oriented policies (often termed "neoliberal"). Explain what each set of policies were and discuss the reasons behind the shift in policies. After a brief general discussion, you may want to focus on the experience of a single country or a small group of countries.

3. Currently, Argentina is experiencing an economic crisis touched off by the failure the Convertibility Plan. Explain what this crisis was and how it came about in terms of Argentinian economics and politics from 1989 to present.