

**INTERNATIONAL POLITICAL ECONOMY AND DEVELOPMENT
COMPREHENSIVE EXAMINATION
NOVEMBER 2018**

IPED COMPREHENSIVE EXAMINATION INSTRUCTIONS

Answer **4** questions. Two **MUST** be Political Science questions (IA, IIA or IIIA) and two **MUST** be Economics questions (IB, IIB, or IIIB). Students should demonstrate an ability to integrate material from different courses and across disciplines in their answers. The answer to each question should only be up to a maximum of **5 typewritten pages** long. Deadline for submission of **both digital and hard copies of the exams is 5pm on Monday, November 12, 2018.** (Note: You **must** submit both digital and hard copies.). Hard copies must be turned in at the IPED Office Dealy E517 and digital copies must be emailed to Ms. Donna Odra (dodra@fordham.edu).

1. Read instructions to the exam and all questions carefully.
2. All essays must be typewritten, double-spaced, with 1" margins. Use 8 ½" by 11" bond paper.

Begin the answer to each of the questions you choose on a **new page**. On the first page of each answer, **CORRECTLY indicate the number of the question and section you are answering** (e.g. IIIA—Section 1), no need to re-type the question.

3. **HARD COPY:** Keep the original, and turn in **two (2)** sets of printed copies of your answers.
 - a. Staple your answers together so that there are two complete sets of essays.
 - b. Staple to the front of **each complete set** of essays a cover sheet with the following information:

Fordham ID number
Name
Address
Telephone number

DO NOT TYPE YOUR NAME ANYWHERE ELSE ON THE ESSAYS. This is done so that the exams may be graded "blindly", i.e., the readers will not know the identity of the student.

DO NOT staple a copy of the question sheet to your examination answers.

4. **DIGITAL COPY:**
 - a. Exam file format should be either .doc or .docx or .pdf. The contents of the digital copy must be exactly the same as the hard copy.
 - b. **File name** should be: Last Name, First Name Comp. (E.g. Smith, John Comp.docx)
 - c. **Do not type your name anywhere else on the essays of digital file except on the cover sheet.**
 - d. Email an MS Word or PDF copy of your exam to Ms. Odra (dodra@fordham.edu).
 - e. An email from Ms. Odra will be sent confirming receipt of the digital copy of your exam within 2 hours of receipt.
 - f. **Alternative:** Save your exam in a CD/DVD/external drive and submit that along with the hard copies of your exam. The contents will be checked in your presence to ascertain that the file may be accessed.
5. You must also complete and return one copy of the **IPED EXIT INFORMATION form**.
6. Return all materials by **5pm, Monday, November 12, 2018 to the IPED Office** (Dealy E517) and by email to dodra@fordham.edu. **NO LATE PAPERS WILL BE ACCEPTED (includes digital submission).**
7. Examination results should arrive by mail to your home address within four weeks.

IPED Comprehensive Exam Checklist:

1. Did you answer exactly two Political Science questions (IA, IIA or IIIA)?
2. Did you answer exactly two Economics questions (IB, IIB, or IIIB)?
3. Are your answers double-spaced with 1" margins?
4. Are the answers to each of the questions 4-5 pages long?
5. Did you begin the answer to each question on a new page?
6. Did you indicate the question number and section on the first page of your answer?
7. Do you have two (2) complete sets of **hard copies** of your essays to submit?
8. Do you have a cover sheet stapled onto each of the two sets of essays with the following information:
 - a. Fordham ID number,
 - b. Name,
 - c. Address,
 - d. Telephone number?
9. Did you check that your name can only be found on the cover sheet and nowhere else on your exam?
10. Is the file name of the digital copy of your exam in the following format:
"Last Name, First Name Comp"?
11. Are the contents of the hard and digital copies of your exam exactly the same?
12. Did you either email the digital copy of your exam to dodra@fordham.edu or have you made a CD/DVD/external drive copy of your exam to submit to the IPED Office in Dealy E517?
13. Did you complete the IPED Exit Information Form?

If you answered YES to all these questions, then you are ready to submit your exam.

DEADLINE: Monday, November 12, 2018, 5PM

HARD COPIES: Drop off at the IPED Office, Dealy Hall E517

DIGITAL COPY: Email to dodra@fordham.edu OR drop off CD/DVD/external drive copy at the IPED Office along with the hard copies.



PART I: POLITICAL AND ECONOMIC ANALYSIS

I.A. POLITICAL ANALYSIS

If you choose to answer I.A., **DO ONLY** Section 1 **OR** Section 2.

Section 1 - Comparative Political Analysis

Answer **ONE** (1) of the following:

1. A 2018 Freedom House report indicates that “Democracy is in crisis... For the 12th consecutive year, according to *Freedom in the World*, countries that suffered democratic setbacks outnumbered those that registered gains.” Place this recent trend in historical context and analyze the economic and political forces that explain what is happening today. How do comparative theories of democratization explain- or fail to explain- this recent backsliding in democracy across the world?

OR

2. Some recent scholarly and media reports indicate that “Western donors assume that all good things- elections and poverty relief- go together, but this ignores political realities.” Discuss the theorized relationship between democracy and development as well as the “political realities” referenced in the *Guardian* quote. In essence, what are democracy’s institutional strengths and weaknesses in addressing poverty? Are politicians punished for failures in providing for the poorest? Why or why not?

Section 2 - Analysis of International Politics

Select **ONE** (1) of the following prompts and provide a critical answer in 3-5 pages.

1. Are International institutions merely ineffective or can they actually facilitate interstate cooperation? Use IR theories (democratic peace, liberalism, collective security, multilateral diplomacy, band-wagoning, counter-balancing, etc.) and historical examples to explain your answer. (Provide 3-4 examples)
2. Define Realism. Explain the difference between offensive realism versus defensive realism. Do you agree or disagree that sovereign states are power maximizers? Use the hegemonic theory for your analysis. Provide three historical examples or current developments to support your arguments.
3. Does the spread of populism ultimately lead to global stability? Since the Trump presidency, the international community has witnessed the rise of global populism and how this political idea challenges the liberal international order. Provide three arguments explaining that global populism is winning or losing against the liberal international order. Below is a list of liberal international order principles. You can use these features **but not limited** to the list:
 - Against Human Rights Abuses
 - Supports the Role of International Organizations/Institutions

- Advocates the Spread of Democracy
- Proponent of Free-Trade/Free Markets
- Maintain traditional alliance system

I.B. ECONOMIC ANALYSIS

If you choose to answer I.B., **DO ONLY** Section 1 **OR** Section 2 **OR** Section 3.

Section 1 – Economic Analysis

Assume our company is the sole producer of an electronic sensor used in several applications including crash testing in the automobile industry and formula racing. We hold the patent for this electronic sensor and have been the sole producer for a number of years. This patent will expire on December 31, 2018. Our electronic sensor has no close substitutes but is used widely throughout the industry in many of the standardized crash tests required by industry and government safety experts as well as others interested in design and development. We believe that the demand for our good is price elastic.

- Establish the price charged and the quantity supplied by our company prior to year end 2018. Is the company earning economic profits? If so, explain why and establish the amount.
- What price and quantity would you expect to prevail after the patent expires, assuming no barriers to entry and constant returns to scale? Would your answer differ if there were financial barriers to entry? How?
- Establish consumer surplus before and after expiration of the patent.
- Would your answer to (b) and (c) change when this is a (1) a constant cost industry; (2) an increasing cost industry?
- Coming back to the present time, what changes in your answer to (a) if management finds that there are changes in the tests required by the government and safety industry.

Section 2 – Financial Analysis

- Assume that you buy a bond with maturity in 720 days (2 years approximately) with semi-annual (180 days) coupons of 5% per each 180 days and that you pay its par value of \$100,000. If you decide to sell your bond after 90 days, what should be the price of the bond? (Assume that there are no extra costs and no inflation and that the required discount rate (yield at maturity) in the market is 6% semi-annually (180 days). Estimate the clean, dirty and accrued interests.

2. Use the following data (Capital allocation):

	Risky portfolio	Risk free
E(r)	15%	6%
σ	20%	

- If you decide to invest 0.8 in the risky portfolio, what is the E(Rc) and the var(Rc)?
- Find the Sharpe ratio.
- Assuming A=4, find the optimal allocation in the risky portfolio and in the risk-free investment. Use the following formula:

$$y^* = \frac{E(r_p) - rf}{0.01A\sigma_p^2}$$

- Graph the approximate POS (portfolio opportunity set) and the CAL (Capital Allocation Line).

3. Use the following data:

	Debt (D)	Equity (E)
E(r)	6%	15%
σ	10%	20%
ρ	0.70	
rf	3%	

- If $\rho=-1$, find the perfect hedging portfolio weights.

For next questions use $\rho=0.70$

- Graph the approximate POS (portfolio opportunity set).
- Find the minimum variance portfolio, identify this in the previous graph. Use the following formula:

$$w_D = \frac{\sigma_E^2 - COV(r_D, r_E)}{\sigma_D^2 + \sigma_E^2 - 2COV(r_D, r_E)}$$

Recall that

$$COV(r_D, r_E) = \rho \sigma_{r_D} \sigma_{r_E}$$

- Using the risk-free rate, find the optimal weights for the risky portfolio. Create a new graph where you show the CAL and the POS. Use the following formula:

$$w_D = \frac{(E(r_D) - rf)\sigma_E^2 - (E(r_E) - rf)COV(r_D, r_E)}{(E(r_E) - rf)\sigma_D^2 + (E(r_D) - rf)\sigma_E^2 - [(E(r_D) - rf) + (E(r_E) - rf)]COV(r_D, r_E)}$$

- e. Find $E(r_p)$ and σ_p^2 .
- f. Assuming $A=4$, find the optimal allocation in the risky portfolio and in the risk-free investment. Use the following formula:

$$y^* = \frac{E(r_p) - rf}{0.01A\sigma_p^2}$$

- g. Determine the final weights for D and E based on y^* .

Section 3 – Applied Econometrics

Download the data file MEAP00.xls from the [Comprehensive Exam Section](#) on the IPED website. The data file has 1692 observations with 9 variables defined as follows:

1. dcode district code
2. bcode building code
3. math4 % students satisfactory, 4th grade math
4. read4 % students satisfactory, 4th grade reading
5. lunch % students eligible for free or reduced lunch
6. enroll school enrollment
7. exppp expenditures per pupil: expend/enroll
8. lenroll log(enroll)
9. lexppp log(exppp)

Answer the following questions using the data file MEAP00.xls in SAS.

- 1) Use OLS to estimate the following equation:

$$\text{MODEL 1: } \text{Math4}_i = \beta_0 + \beta_1 \text{exppp}_i + \beta_2 \text{enroll}_i + \beta_3 \text{lunch}_i + \varepsilon_i$$

- a) Interpret the intercept and slope coefficients.
- b) Interpret the R-square.
- c) Is each of the explanatory variables statistically significantly different from zero at the 5% significance level?
- d) Is there a one-to-one relationship between lunch and Math4?

2) Use OLS to estimate the following modified equation:

$$\text{MODEL 2: } \text{Math4}_i = \beta_0 + \beta_1 \text{lexppp}_i + \beta_2 \text{lenroll}_i + \beta_3 \text{lunch}_i + \varepsilon_i$$

- a) Interpret the slope coefficients lexppp and lenroll.
- b) Is Model 2 better than model 1?

3) Add quadratics of all explanatory variables in Model 2 to Model 2, and test them (the quadratic terms only) for joint significance using the 5% significance level.

- a) Would you leave these additional terms in the model?
- b) Does this result in multicollinearity?

4) Test for heteroskedasticity in Model 2 and discuss your results.

5) Add read4 to Model 2. Is read4 an important predictor of math4 in model 2? Does omitting this covariate bias the estimated coefficient of lunch in model 2?

PART II: THE GLOBAL ECONOMY

II.A. POLITICS OF GLOBAL ECONOMIC RELATIONS

Answer **ONE (1)** of the following questions:

1. While nearly all states are affected by globalization, global economic forces are often refracted through particular domestic political institutions (eg. regime types, electoral rules, legislative bodies, etc.). Discuss how differences in domestic political systems and institutions can lead to different political outcomes in areas such as trade, FDI, or exchange rates.

OR

2. The international institutions that govern economic relations among countries are sometimes multilateral in their organization (e.g. the World Trade Organization), sometimes regional (as in preferential trade agreements), and sometimes bilateral (such as Bilateral Investment Treaties). Which of these approaches provide developing countries with the most bargaining power and best promote their interests? What, if anything, can developing countries do to shape the way international economic relations are governed?

II.B. INTERNATIONAL ECONOMIC POLICY

If you choose to answer II.B., **DO ONLY** section 1 **OR** section 2.

Section 1 – International Economic Policy

Economic Nationalism and International Trade:

- 1) Using the duopoly model developed in class show that it is possible for Mr. Trump to increase the net welfare of all Americans by subsidizing the overseas activity of an American firm competing against a German firm in an emerging market.
- 2) Explain the various reasons why mainstream economists, while accepting this analysis, still oppose such subsidies.
- 3) (optional, but must be answered for a high pass) Strategic Trade Theory can be seen as justifying a form of nationalistic corporate welfare.
 - a) Besides economic reasons, are there political reasons why a superpower should refrain from such activities?
 - b) Given the various economic and political pros and cons, should the United State pursue a nationalist economic policy in today's world?

Section 2 – International Monetary Policy

Adjustment Mechanisms.

Suppose we are in a small, open economy (SOE) where capital is perfectly immobile.

- a) Assume that the exchange rate is perfectly flexible and that the SOE suffers simultaneously from a balance of payments deficit and from unemployment (i.e., there is slack in the economy). Describe the automatic adjustment mechanism(s) at work that can eliminate(s) a balance of payments deficit and (at least some of the) unemployment.
- b) How would your answer in part a) differ if the small country's exchange rate is fixed instead and you would like to achieve the same goals (eliminating the balance of payments deficit and lowering unemployment)?
- c) Assume that we are back in the flexible exchange rate case, but this time the economy is at full employment (already). Describe the automatic adjustment mechanism(s) at work that can eliminate a balance of payments deficit in this case.
- d) Describe the disadvantages of the automatic adjustment mechanisms under fixed exchange rates (that can explain why policymakers may prefer active policy intervention to the automatic adjustment mechanism).

PART III: INTERNATIONAL DEVELOPMENT

III.A. POLITICAL ECONOMY OF DEVELOPMENT

Political economists have offered a range of explanations of economic and human development. These explanations can be grouped into two types: political and economic. Which type of account best explains why some countries are developed but not others?

III.B. ECONOMIC DEVELOPMENT POLICY

*If you choose to answer III.B., **DO ONLY** Section 1 **OR** Section 2.*

Section 1 - Economic Development Policy

Employment Policy:

- 1) Using a graphical/algebraic presentation contrast Lewis' argument in favor of capital formation versus Harris-Todaro's argument in favor of rural development.
- 2) Does the empirical literature favor urban or rural development?
- 3) (optional, but must be answered for a high pass) Which policy is likely to decrease income inequality? Please also identify any costs that society must carry in order to reduce inequality. What conditions justify the pursuit of a policy of reducing income inequality?

Section 2 – Crisis, Adjustment, and Poverty

Section in italics optional, links to relevant readings are in the text and listed below.

Q1 Coping with sudden stops and climate shocks: a) Why are women headed households particularly resilient to climate shocks, especially in Brazil, Mexico and Peru? How do INESAD/IFPRI economists define resilience, how do they determine which sort of households are resilient? Why are remittances one of the best defenses against climate change? Relate this concept of resilience to Lopez-Calva and Ortiz-Juarez's, 2011 definition of the middle class. B) In June 2008 President Michele Bachelet had record low approval ratings as she resisted spending Chile's copper price windfall. Just a year later in mid-2009 she had the highest approval rating of any modern Chilean President, what was her secret? (see [Figures 1 and 2 of Frankel, 2011](#)) What role did Chile's Economic and Social [Stabilization fund](#) play in this approval swing? When was this fund established? Why was changing the fund's name from the CSF to the ESSF a good idea? C) When [Lykke Andersen et al 2016](#) argue households headed by women are more resilient to climate shocks, what does she and her coauthors mean? Discuss the evidence they provide for Brazil, Mexico and Peru ([Tables 7-9 for example](#)) why are households headed by women more resilient than those headed by men? Are these urban or rural households? Why are remittances so important during social and natural disasters (Haiti & Venezuela for example). D) The IMF WEO Chapter 3 Figure 3.13 compares the various "policy buffers" nations can use to protect themselves from climate shocks, including foreign aid, remittances, etc. What turns out to be the "policy buffer" against climate shocks (hint: very few countries in the

Sahel have this policy buffer? E) Most emerging market economies suffer from “original sin” and “fear of floating” so the road to redemption involves creating fiscal and monetary space to cope with “sudden stops” in private capital flows, Chile and Bolivia both seem to the road to redemption, aka “graduation” (on “graduation” and redemption see [Frankel et al 2013](#) Rogoff and Reinhart, 2010 term [graduation](#)? F) *Extra credit: Use Figure 6.5 to show how Chile’s ESSF stabilizes its real exchange rate and facilitates “graduation” and/or use the nominal exchange rate figures 1 and 2 below to explain how Indonesia overcame their “fear of floating” while Argentina has not? Figures 1 and 2 are from last year’s comp question, we were a bit too optimistic (you have to be to invest in Ems, especially Argentina) What has to happen before investors will hold Argentine pesos as they do Colombian, Mexican and Chilean pesos? Hopefully with a little help from the IMF (their largest loan ever, \$57B) Argentina will overcome its fear of floating and join the rest of the happily flexible Southern cone (but I would not bet on it, Argentina has been on the verge of stability for at over 100 years...like Japan Argentina is in a category all its own as Kuznets is said to have said, there four types of countries...)*

References:

Andersen, L. E., Breisinger, C., Jemio, L. C., Mason-D’Croz, D., Ringler, C., Robertson, R. D., ... & Wiebelt, M. (2016). [Climate change impacts and household resilience](#): Prospects for 2050 in Brazil, Mexico, and Peru. Intl Food Policy Res Inst.

Frankel, Jeffrey A. A solution to fiscal procyclicality: The structural budget institutions pioneered by Chile. No. w16945. [National Bureau of Economic Research](#), 2011.

Lopez-Calva, Luis F., and Eduardo Ortiz-Juarez. "[A vulnerability approach to the](#) definition of the middle class." *The Journal of Economic Inequality* 12, no. 1 (2014): 23-47.

Frankel, Jeffrey A. & Vegh, Carlos A. & Vuletin, Guillermo, 2013. "[On graduation from fiscal procyclicality](#)," *Journal of Development Economics*, Elsevier, vol. 100(1), pages 32-47 (see also NBER Paper 17618 www.nber.org/papers/w17619 which is also here in [pdf](#)).

Figures 1 and 2 are from 2016. As you can see the Argentine peso as not stabilized, in fact this year it has gone from about 19 per dollar to about 37 per dollar last I checked.

<https://www.xe.com/currencycharts/?from=USD&to=ARS&view=5Y>

Compare this with the last 10 years for the Colombian peso

<https://www.xe.com/currencycharts/?from=USD&to=COP&view=10Y>

or the Chilean peso, <https://www.xe.com/currencycharts/?from=USD&to=CLP&view=10Y>

or the Mexican peso, <http://www.xe.com/currencycharts/?from=USD&to=MXN&view=10Y>



<http://www.xe.com/currencycharts/?from=USD&to=ARS&view=1Y>

Nontraded Goods

Figure 6.5 Using a sovereign wealth fund to stabilize government spending

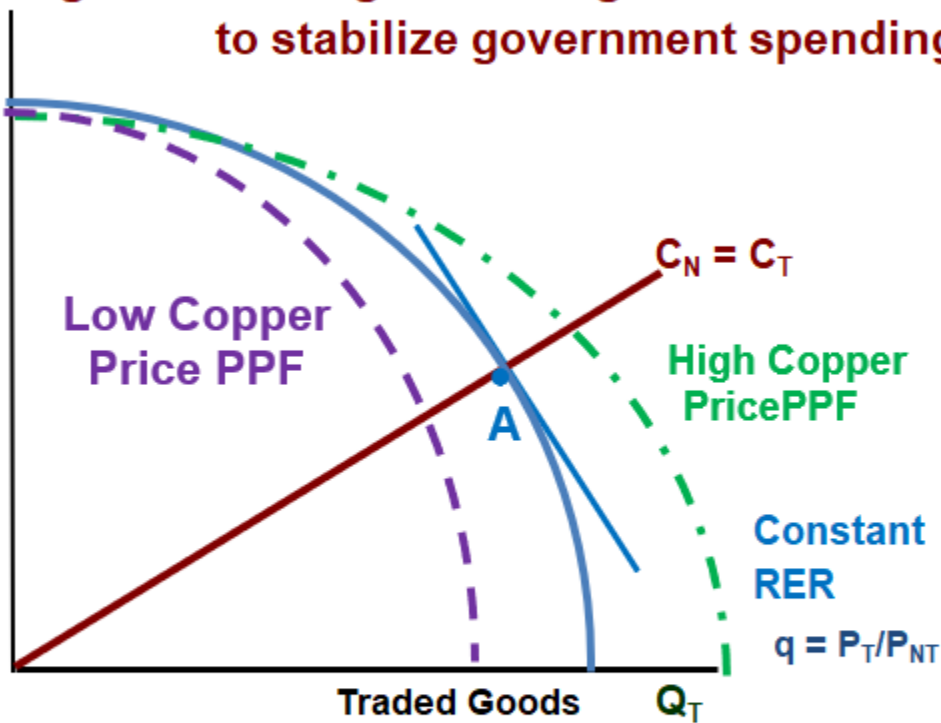


Figure 6.5: The purple PPF reflects low commodity prices (CP).
The green PPF is associated with high copper price
The blue PPF is associated with long term target price
Real exchange rate, RER or $q = P_T/P_{NT}$ where
 $P_T = ep^*$ and the RER or $q = P_T/P_{NT}$.