

**INTERNATIONAL POLITICAL ECONOMY AND DEVELOPMENT
COMPREHENSIVE EXAMINATION
APRIL 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 Wednesday, April 11, 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, Wednesday, April 11, 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: Wednesday, April 11, 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. Can democracies effectively engage in poverty reduction and economic development? Can nondemocracies? Why or why not?

In your answer be sure to:

Define democracy and nondemocracy.

Present a clear, concise, and supported argument.

Acknowledge alternative arguments.

OR

2. Under what conditions are democracies most likely survive? Conversely, how do nondemocratic regimes maintain power? What are the biggest risks each regime type faces?

In your answer be sure to:

Define democracy and nondemocracy.

Present a clear, concise, and supported argument.

Acknowledge alternative arguments.

Section 2 - Analysis of International Politics

Select **ONE** (1) of the following prompts and provide a critical answer in 4-5 pages.

1. Why are we seeing a backlash against free trade, as illustrated by Brexit and Donald Trump? In your answer, outline the theoretical case for free trade and the political challenges it presents (via the Heckscher-Ohlin model). Then explain why the standard policy responses have not prevented the recent backlash against free trade.
2. Why do wars occur? What factor(s) can consistently explain the initiation of armed hostilities across space and time? In your answer, be sure to discuss at least two empirical examples that bear out your argument.
3. Jack Levy has written that the “democratic peace” is a “law-like regularity” in international politics. What theoretical reasons do we have to believe that democracies are less likely to wage war? Under what conditions do the theories predict this outcome? What does the empirical literature tell us about the extent to which and the true reasons why the “democratic peace” exists?

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

Please analyze the current US economic situation using the IS-LM model. Keep in mind that both US government spending and the monetary base were increased significantly in response to the financial crisis and subsequent recession, and the economic recovery is still underway. In your answer, break the analysis into two parts.

- A. Take the federal government's fiscal policy actions (government expenditures and taxes) and consider what effect they should have had on the economy. Indicate the expected effects on Consumption, Investment, and Net Exports.
- B. Then consider the monetary policy actions undertaken by the Federal Reserve and examine what effects these actions should have on Consumption, Investment, and Net Exports. In both cases, lay out your underlying assumptions. Has the Federal Reserve reached a point where it believes the economy is reaching a stage where some of the accommodative policies may be changed? What are the expectations of the Federal Reserve give that there is a new Chair, Jerome Powell, for the central bank?
- C. Then obtain the data for the following US economic indicators for January 2012 to the present: (the Federal Reserve Bank of St. Louis has these time series at FRED):

- Real GDP (quarterly)
- Growth in the real GDP
- Consumption Expenditures (quarterly)
- Federal Funds rate (monthly)
- Unemployment rate (monthly)
- Headline CPI (monthly)
- Core CPI (monthly)

Please graph this information. How do these measurements of GDP, GDP growth, Consumption Expenditures compare to the expected results of your analysis in parts A and B?

Has the headline (U3) unemployment rate responded in any significant way as of yet to the fiscal and monetary policy actions? What is the current U6 measure of unemployment? What is included in this measure compared to U3?

What have been the movements of the Headline CPI and Core CPI during the recession and recovery? Is there any cause for concern currently for inflation and inflation expectations?

Section 2 – Financial Analysis

Answer either two (2) questions. Choose between question 1 and question 2. Question 3 is required.

1. You have today (11/13/2017) an IOU for \$100,000 (someone owes you money). The issue date was 10/12/2017 and the IOU’s duration was set to 120 days. You need cash now and a bank offers you a discount rate of 4% annual (effective). How much money should you receive? What is the discount?

2. Use the following data (Capital allocation):

	Risky portfolio	Risk free
E(r)	12%	5%
σ	18%	

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

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

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

3. Use the following data:

	Debt (D)	Equity (E)
E(r)	8%	16%
σ	12%	22%
ρ	0.60	
rf	3%	

- a. If ρ=-1, find the perfect hedging portfolio weights.

For next questions use ρ=0.60

- b. Graph the approximate POS (portfolio opportunity set).
- c. 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

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

- d. 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:

MODEL 1: $Math4_i = \beta_0 + \beta_1 exppp_i + \beta_2 enroll_i + \beta_3 lunch_i + \epsilon_i$

- (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:

MODEL 2: $Math4_i = \beta_0 + \beta_1 lexppp_i + \beta_2 lenroll_i + \beta_3 lunch_i + \epsilon_i$

- (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. With trade wars looming, the future of the multilateral trading system looks more precarious than it has in decades. Looking beyond the day-to-day headlines, what are the deeper economic and political forces -- at the domestic and international levels -- that have brought us to this point? How do the theories from the field of International Political Economy help us to make sense of these recent developments?

OR

2. People speak about a backlash to globalization, but there are many different aspects of economic globalization -- trade, foreign direct investment, financial integration, and migration. In which of these areas do you think the political backlash has been most significant, and why? Which do you think is least politically contentious?

II.B. INTERNATIONAL ECONOMIC POLICY

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

Section 1 – International Economic Policy

Trade Sanctions: Consider a small country that exports petroleum products and imports food.

- a. What factors would allow other countries to impose an effective trade embargo on this country?
- b. Indicate graphically what immediately happens to production, consumption, and utility in the face of an effective trade embargo and then show graphically how the country will eventually adjust to a trade embargo (i.e., how will production, consumption, and utility change over time in the face of a continuing and effective trade embargo).
- c. (optional but must be answered for a high pass) What are some of the political and ethical questions raised by effective trade embargoes?

Section 2 – International Monetary Policy

Use the aggregate supply and aggregate demand (AS-AD) framework in combination with the Mundell-Fleming (MF) framework. Capital is perfectly mobile and the economy is at internal and external balance initially, and assume that the price level is flexible.

- a. How will a decrease in demand for the country's exports affect the SOE in the short and in the long run in case of a flexible exchange rate? Illustrate with a linked IS-LM-BP and AD-AS diagram and explain the adjustment mechanism(s) briefly.
- b. How will a decrease in demand for the country's exports affect the SOE in the short and in the long run in case of a fixed exchange rate? Illustrate with a linked IS-LM-BP and AD-AS diagram and explain the adjustment mechanism(s) briefly.
- c. You are the economic policy adviser to the government of a small open economy (SOE) that values output stability. Suppose the SOE faces volatile demand for its main export good and capital is perfectly mobile.
 - i. Which of the two types of currency regime (fixed or flexible) would you recommend to the policymakers of the SOE given your answers in parts (a) and (b)? And why? Explain briefly.
 - ii. What policy could be used to avoid the costly automatic adjustment process (SR to LR adjustment in AS-AD) under a fixed exchange rate regime.
- d. Assume now that both the exchange rate and the price level are fixed (a fixed price level implies a horizontal AD curve). Capital is mobile, but no longer perfectly so. Furthermore, assume that international portfolio investors and domestic residents lose confidence in the government of the SOE and decide to move their capital out of the country.
 - i. How will this "capital flight" affect the SOE in the short run (only)? Illustrate with "linked" IS-LM-BP and AD-AS diagrams and explain the adjustment mechanism briefly.
 - ii. Suppose the SOE runs out of foreign reserves during this "capital flight" episode and before the economy has completely adjusted to the short run equilibrium from (i). Illustrate again with "linked" IS-LM-BP and AD-AS diagrams and explain how real income evolves in this case from its initial position until it has settled at its new short run equilibrium level.

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

Migration Policy

- a. Using a standard neoclassical one sector model, prove graphically that migration is good for the host country even if all the income of the migrants are remitted to their country of origin.
- b. Describe Collier's model of migration by identifying the model's three building blocks, listing the two key equations of the model, the migration function and the diaspora schedule, and then graphing both of these functions on the same graph for the case when there is an equilibrium and the case when there is not an equilibrium.
- c. Use this model when it does not have a natural equilibrium to describe the four phases of Collier's political economy of panic.
- d. What migration policies does Collier support? How do these policies affect the migration function and the diaspora schedule so the model will have a natural equilibrium?
- e. (optional but must be answered for a high pass) How does Collier's model of migration answer the concerns of the current Trump Administration regarding migration?

Section 2 – Crisis, Adjustment, and Poverty

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

Rising U.S. interest rates and falling commodity prices have put commodity exporters like Brazil, Nigeria, Chile and Argentina in a difficult situation. The fact that some of these countries have “graduated” means that they may not have to go the IMF and that have some defenses against adversity, including fiscal and monetary policy (though for most a recession seems inevitable). (a) What do [Jeffery Frankel et al 2013](#) and Rogoff and Reinhart, 2010 term [graduation](#)? Brazil, Mexico and Chile are graduates but Argentina has lagged behind both in terms of fiscal and exchange rate policy. Using the traded-nontraded goods model show what happens when capital inflows end or become capital outflows? Why is this adjustment easier for countries that have a flexible exchange rate? One risk of devaluation is inflation, why is this less likely to be problem now? (b) Argentina recently joined the ranks of flexible exchange rate countries (following the December election of President Macri as in Macro see Figure 2 below). Why are the sharp appreciations highlighted by the arrows so important in Figure 1 and Figure 2? Flexible exchange rates allow monetary policy, but in Mexico, Chile, Russia and Argentina exchange rate depreciation also creates fiscal space, why? (c) Countries with fixed exchange rate or who use other currencies

(Greece or Ecuador) must adjust via internal devaluation. Why is this so difficult and costly? (d) Chile use a [commodity stabilization fund](#), when the price of copper is low, it exports capital to its sovereign wealth fund. When the price of copper is high, it draws down this same fund via capital inflows. Show how this stabilizes its real exchange rate using the TNT and the market for dollars' diagram. Does this stabilization or fiscal rule require a flexible exchange rate? Why or why doesn't it? (e) Mexico is one of the few emerging market countries to be achieve redemption (freedom from original sin). In light of Figure 3, why is this very important for Mexico right now?



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