

**INTERNATIONAL POLITICAL ECONOMY AND DEVELOPMENT  
COMPREHENSIVE EXAMINATION  
APRIL 2019**

**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 10, 2019.** (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](mailto: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](mailto: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 10, 2019 to the IPED Office** (Dealy E517) and by email to [dodra@fordham.edu](mailto: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](mailto: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 10, 2019, 5PM**

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

**DIGITAL COPY:** Email to [dodra@fordham.edu](mailto: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**

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, 2019. 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.

- a. Establish the price charged and the quantity supplied by our company prior to year end 2019. Is the company earning economic profits? If so, explain why and establish the amount.
- b. 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?
- c. Establish consumer surplus before and after expiration of the patent.
- d. Would your answer to (b) and (c) change when this is a (1) a constant cost industry; (2) an increasing cost industry?
- e. 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**

**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%
$\sigma$	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%
$\sigma$	12%	22%
$\rho$	0.60	
rf	3%	

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

**For next questions use  $\rho=0.60$**

- 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  $\sigma_p^2$ .

- f. Assuming  $A=4$ , find the optimal allocation in the risky portfolio and in the risk-free investment. Use the following formula:

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

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

### Section 3 – Applied Econometrics

Download the data file nbasal\_IPED2019.xls from the [Comprehensive Exam Section](#) of the IPED website. The data contains demographic and position information for a sample of 269 players who play professional basketball in the National Basketball Association (NBA). Here are the names and labels of the variables in the dataset:

ID	player ID
Marr	=1 if married
Wage	annual salary, thousands \$
Exper	years as a professional player
Age	age in years
Coll	years playing at college
Games	average games per season
Minutes	minutes per season
Guard	=1 if guard
Forward	=1 if forward
Center	=1 if center
Points	points per game
Rebounds	rebounds per game
Assists	assists per game
Draft	draft number
Allstar	made all-star team
Avgmin	minutes per game
Lwage	natural log of wage

1. Using SAS, graphically display the wage data. Which way are the players' wages skewed? Towards infinity or towards zero?
2. If two variables are highly correlated with each other, this may lead to a problem caused by multicollinearity if you include multiple highly correlated variables as explanatory variables in the same regression. Using SAS, investigate the bivariate correlations between all variables in the NBA dataset.

Are there any variables that are highly correlated with experience? What would be the issue of including both of these measures in a regression with wages as the dependent variable?

3. Graphically investigate whether players who are more experienced earn more (this means plot a scatter plot with a best fit line of this relationship).
4. Now, run the ordinary least squares regression model, which investigates how experience affects a player's wages (this produces the same best fit line as in your graphic in the previous question). In this simple model, what is the average wage increase associated with an increase in experience by one year? In this simple model, do you think that the estimate of the effect of experience on wages is likely too big or too small? Which Gauss-Markov assumption is being violated, and why?
5. Propose a "better" model to explain player's wages than the simple linear regression in Q4 (one way to do this is to write a model that resolves the Gauss-Markov assumption that was violated in the simple linear regression in Q4). Write down the new model and argue why the new model is better? Does the old model or your new model have a higher  $R^2$ ? Is this important, what does this mean?
6. There are three positions played in basketball (guard, forward, and center). Controlling for experience, games played per season, points per game, rebounds per game, and assists per game, is there evidence that one of these three positions makes more than the other positions? If so, how much more? (Please include your regression output.) Interpret the meaning of the coefficients on points per game, rebounds per game, and assists per game. What would the expected salary be for a guard who had 6 years experience, averaged 60 games per season, scored 15 points per game, 4 rebounds per game, and 6 assists per game?
7. You overhear a classmate saying that because some NBA players get paid so much, the dependent variable should be in logs? Does your classmate's idea have merit? Why or why not? Now rerun the same regression as in Q6, using the natural log of wages as the dependent variable. Interpret the meaning of the coefficients on points per game, rebounds per game, and assists per game.

## 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 Theory

- a. Under what situations is trade mutually beneficial between countries? Explain with geometrical and/or algebraic proofs.
- b. Under what situations is trade not mutually beneficial between countries? Explain with geometrical and/or algebraic proofs.
- c. Can trade be mutually beneficial to all within a country? Explain with geometrical and/or algebraic proofs.
- d. (optional but must be answered for a high pass) Relate to current US trade negotiations by the Trump Administration.



## 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 immobile 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 immobile.
  - 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 perfectly mobile now. 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

##### Labor Policy

- a. Using the Lewis Model prove geometrically and/or algebraically that capital formation is an essential policy for sustainable economic expansion and diversification.
- b. Using the Harris-Todaro Model criticize Lewis' argument. Be sure to prove all points geometrically and/or algebraically.
- c. (optional but must be answered for a high pass) Which side is correct?

#### 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 low, 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?



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



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