

## Sample Final Questions

The exam will be in two parts. Part I will ask multiple choice questions. Part II will ask longer questions, where responses will be either analytical or in prose.

Here are a few sample questions.

### Part I Sample Questions

1. Which of the following statements is *incorrect*
  - a. On average, countries that are more open to trade also have higher per-capita income
  - b. Poor countries tend to specialize in fewer exports
  - c. Free trade areas (like NAFTA) are exceptions to the “most favored nation” principle of the GATT/WTO
  - d. There is always at least one set of prices where trade makes a country worse off, compared to not trading at all

Answer: (d)

2. Comparing multinational affiliates to domestic manufacturers, the evidence suggests that multinational affiliates in a country pay
  - a. More than local domestic manufacturers, but the percentage wage premium is smaller the poorer the country
  - b. Less than local domestic manufacturers, but the percentage wage discount is smaller the poorer the country
  - c. More than local domestic manufacturers, and the percentage wage premium is larger the poorer the country
  - d. None of the above

Answer: (c)

3. Adesemi, the start-up in Tanzania, fails partly because
  - a. The local partners have little power in Tanzania and/or little stake in the business
  - b. It is unable to get the Tanzanian telecom company to share revenues
  - c. The World Bank is running a competing project
  - d. All of the above

Answer: (d)

## Part II Sample Questions

### 1. Wages and Labor Standards

a. We read about Daxu Cosmetics, a manufacturer of fake eyelashes in China. What happened to the workers in that example, and what does this story mean for “revealed preference” arguments for the fairness of wages and worker conditions in poor countries? (2 sentences; 4 points)

#### Sample Answer:

*The workers jump from a window to escape the factory and break their legs. “Revealed preference” arguments require workers to make free choices, but this example cautions against the assumption of free choices and thus against the conclusion that wages/work conditions are always fair in poor countries.*

### 2. Financial Crisis

a. It is 1996 and Chiang Rai World Ltd, a silk producer in Thailand, is a growing company with 90% of its sales to fashion houses in Europe. You are considering investing in Chiang Rai World through its first equity offering in 1996, but you are a little concerned about the overall state of the Thai economy. What kinds of effects would a financial crisis in Thailand likely have on this firm? Please be precise. (4 sentences; 4 points)

#### Sample Answer

*Possible effects include:*

- 1. GOOD: It is an exporter, so a currency devaluation would increase its margins.*
- 2. BAD: It will have trouble finding domestic financing. Especially if it owes money to local banks (i.e. it is leveraged / debt financed) it may face bankruptcy in a financial crisis even if the company is otherwise healthy.*
- 3. BAD: Non-market problems relating to the rule of law or corruption will likely get worse, which may bring problems, especially since Chiang Rai World is an exporter with attractive margins, which may make it a target.*