

Sample Midterm 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. The purpose of the exam is to ensure that you understand the frameworks and facts that we consider, and that you understand the key issues and features in the readings.

Here are four example questions. The first three would appear in Part I and the last in Part II.

Part I questions

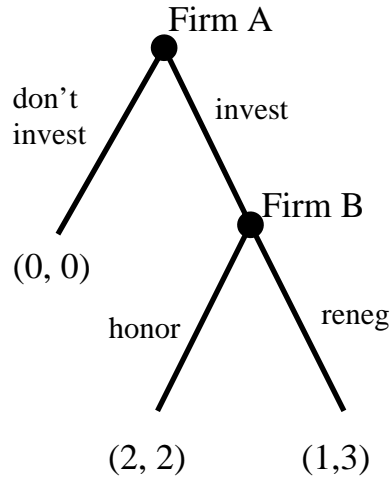
1. The argument for “Absolute Convergence” is driven by
 - a. technological progress
 - b. the discovery of natural resources
 - c. the diminishing returns to capital
 - d. trade policy

2. In comparison to U.S. firms, Mexico’s *grupos* have the following qualities:
 - a. High ownership concentration, significant financing through stock market
 - b. High ownership concentration, little financing through stock market
 - c. Low ownership concentration, significant financing through stock market
 - d. Low ownership concentration, little financing through stock market

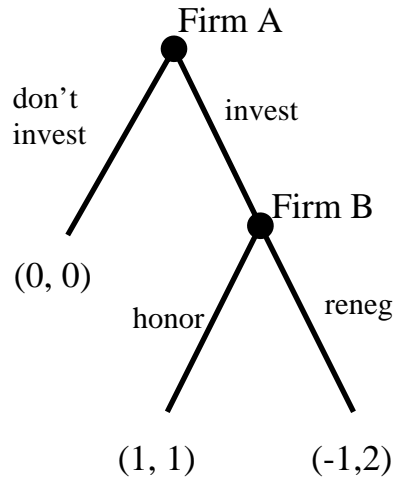
3. Mauro (1995) finds that increased corruption is associated with
 - a. Lower investment rates and lower growth rates
 - b. Lower investment rates but not lower growth rates
 - c. Higher investment rates and higher growth rates
 - d. Higher investment rates but lower growth rates

Part II question

1. Consider the following two projects. The payoffs are written (Payoff to Firm A, Payoff to Firm B).



Project #1



Project #2

- a. In which project(s) would Firm B choose to renegotiate the contract, should Firm A invest? (4 points)
- b. In which project(s) will Firm A invest in the first place? (4 points)
- c. List 3 distinct strategies that can help reduce the possibility of your counterparty attempting to renegotiate an agreement. (6 points)