

Economic Growth Exam

November 1999

Permitted Materials: non-programmable calculator

English / foreign language dictionary

1 A4 sheet of paper with notes

Answer any FOUR (4) questions

QUESTION 1

“The failure of the world’s poorest economies to grow faster than the richer economies over the past twenty years, despite an environment of internationally mobile capital, constitutes a clear refutation of the crucial assumption of diminishing marginal productivity of capital in the Swan-Solow model of economic growth.”

“International capital mobility is hard to reconcile with ‘AK’ models of economic growth because the clear implication is that all investment and growth would be concentrated in the one country with the highest productivity parameter.’

DISCUSS both propositions.

QUESTION 2

“Knowledge-based models of endogenous economic growth are intuitively appealing, but are ultimately unconvincing in that they rely on knife-edge parameter conditions and that they lead to the counter-factual prediction that large economies should grow faster than small economies.”

DISCUSS

QUESTION 3

“Cross-country panel estimates of the rate of convergence are highly unreliable because of problems with data construction, with sample selection, with bias due to unobserved differences in technological endowments and with unobserved differences in rates of technical progress.”

EXPLAIN AND DISCUSS these criticisms.

QUESTION 4

“Economic growth causes the rate of population growth to fall which in turn stimulates economic growth”.

Discuss theory and evidence relating to this proposition.

QUESTION 5

“Most models of economic growth suggest that investment in physical capital is either the engine of growth or an important component of growth, yet empirical studies tend to suggest that variations in rates of investment explain only a small portion of the variation in international growth rates.”

Discuss theory and evidence relating to this proposition.

QUESTION 6

Discuss theory and evidence relating to the role of government provision of public goods in promoting economic growth.

QUESTION 7

Discuss theory and evidence relating to the role of Research and Development in promoting economic growth.