10.1 Import-Substituting Industrialization

1) The infant industry argument was an important theoretical basis for
   A) neo-colonialist theory of international exploitation.
   B) import-substituting industrialization.
   C) historiography of the industrial revolution in Western Europe.
   D) East-Asian miracle.
   E) None of the above.
Answer: B

Question Status: Previous Edition

2) Sophisticated theoretical arguments supporting import-substitution policies include
   A) terms of trade effects.
   B) scale economy arguments.
   C) learning curve considerations.
   D) the problem of appropriability.
   E) None of the above.
Answer: D

Question Status: Previous Edition

3) Which of the following could explain why the terms of trade of developing countries might deteriorate over time?
   A) Developing country exports consist mainly of manufactured goods.
   B) Developing country exports consist mainly of primary products.
   C) Commodity export prices are determined in highly competitive markets.
   D) Commodity export prices are solely determined by developing countries.
   E) None of the above.
Answer: C

Question Status: Previous Edition

4) Which trade strategy have developing countries used to restrict imports of manufactured goods so that the 
   domestic market is preserved for home producers?
   A) international commodity agreement
   B) export promotion
   C) multilateral contract
   D) import substitution
   E) None of the above.
Answer: D

Question Status: Previous Edition

5) The infant industry argument is that
   A) comparative advantage is irrelevant to economic growth.
   B) developing countries have a comparative advantage in agricultural goods.
   C) developing countries have a comparative advantage in manufacturing.
   D) developing countries have a potential comparative advantage in manufacturing.
   E) None of the above.
Answer: D

Question Status: Previous Edition
6) The infant industry argument calls for active government involvement
   A) only if the government forecasts are accurate.
   B) only if some market failure can be identified.
   C) only if the industry is not one already dominated by industrial countries.
   D) only if the industry has a high value added.
   E) None of the above.
Answer: B

Question Status: Previous Edition

7) The imperfect capital market justification for infant industry promotion
   A) assumes that new industries will tend to have low profits.
   B) assumes that infant industries will soon mature.
   C) assumes that infant industries will be in products of comparative advantage.
   D) assumes that banks can allocate resources efficiently.
   E) None of the above.
Answer: A

Question Status: Previous Edition

8) The United States, as it began its long and successful growth in the early 19th Century, consciously promoted
domestic production through such activities as tariffs, Clay’s American System, and many direct subsidies to
railroads, canal companies, farmers (free land) etc. Today we view this blatant example of large scale
and extensive import–substitution industrialization as having been very successful. Comment on this.
Answer: This is an interesting point and emphasizes that economic models tend to be a –historical. That is, they
lack the historic perspective; and thus may be misleading as guides to long run issues, such as
economic growth. This also suggests that trade policy per se is almost certainly not sufficient to
explain why some countries grow and others do not.

Question Status: Previous Edition

9) Refer to above figure. If OmL1 workers are employed in manufacturing then what is the marginal
   productivity of labor in manufacturing?
   Answer: OmWm.

Question Status: Previous Edition

10) Refer to above figure. If OmL1 workers are employed in manufacturing then what is the marginal
    productivity of labor in agriculture?
    Answer: OfWf.

Question Status: Previous Edition
11) Refer to above figure. If manufacturing labor were to increase to OmL2, how much value would the economy as a whole gain?
Answer: The triangle ABC.
Question Status: Previous Edition

12) Refer to above figure. Why would workers not shift from agriculture to manufacturing in the initial situation where wages are higher in the latter?
Answer: Imperfections in the labor market.
Question Status: Previous Edition

13) Refer to above figure. If the economy were in the initial position (where OmL1 workers were in manufacturing, what trade policy might gain ABC of economic welfare?
Answer: Import–substitution giving protection to manufacturing.
Question Status: Previous Edition

10.2 Results of Favoring Manufacturing: Problems of Import–Substituting Industrialization

1) General equilibrium considerations lead to the realization that import–substituting policies have an effect of
A) discouraging exports.
B) encouraging exports.
C) encouraging an efficient use of a country’s resources.
D) generating large tariff revenues for the government.
E) None of the above.
Answer: A
Question Status: Previous Edition

2) A reason why it is difficult for developing countries to maintain a cartel is that
A) the elasticity of demand for a cartel’s output decreases over time.
B) producers in the cartel have an economic incentive to cheat.
C) economic profits discourage other producers from entering the industry.
D) producers in the cartel have the motivation to lower prices but not to raise prices.
E) None of the above.
Answer: B
Question Status: Previous Edition

3) Import substitution policies make use of
A) tariffs that discourage goods from entering a country.
B) quotas applied to goods that are shipped abroad.
C) production subsidies granted to industries with comparative advantage.
D) tax breaks granted to industries with comparative advantage.
E) None of the above.
Answer: A
Question Status: Previous Edition

4) Brazil’s export record in 1999 illustrated the principle that
A) a large country will tend to have few exports.
B) a small country will tend to have a high export ratio.
C) protectionist policies tend to discourage exports.
D) export-promoting policies do not tend to work.
E) None of the above.
Answer: C
Question Status: Previous Edition
5) The disappointment with import–substitution policies is in part because
   A) the rapid and continuous growth record of South American countries.
   B) many countries pursuing this strategy experienced stagnation in their growth.
   C) this policy is inconsistent with sophisticated economic growth models.
   D) this policy tended to create world-class industrial competitors.
   E) None of the above.
Answer: B
Question Status: Previous Edition

6) It is argued that import substitution is a misguided trade policy if the intent is to promote long-term economic growth. Explain the reasons underlying this argument.
Answer: Import substitution promotes that economic activity in which the country is relatively inefficient. This lowers the real income at any given time and decreases the resources which can be used for investment purposes, hence lower growth rates. An additional answer is that import substitution by creating a protected domestic market fails to provide incentives to produce high, or world-class quality—which means this country, cannot market in foreign countries. With such a (perceived) limited market, endogenous economic growth will not be forthcoming. Finally, it may be that exposure to world competition has its own dynamic effect promoting economic growth.
Question Status: Previous Edition

10.3 Trade Liberalization Since 1985

1) The high correlation between rapid growth in exports and rapid economic growth observed in several East Asia countries in recent decades proves that
   A) export promoting trade policy leads to relatively rapid economic growth.
   B) a free-trade orientation of trade policy results in rapid economic growth.
   C) exports help growth, whereas imports impede growth.
   D) trade policy is perhaps the most important policy area for promotion of economic development.
   E) None of the above.
Answer: E
Question Status: Previous Edition

2) The relatively rapid economic growth experienced by Chile in the late 1980s
   A) supported the conventional Latin American reliance on import substitution.
   B) relied on the Harris–Todaro model to explain this growth.
   C) rejected the conventional Latin American reliance on import substitution.
   D) demonstrated the importance of market failure as a reason for import substitution.
   E) None of the above.
Answer: C
Question Status: Previous Edition

3) To help developing countries expand their industrial base, some industrial countries have reduced tariffs on designated manufactured imports from developing countries below the levels applied to imports from industrial countries. This policy is called
   A) export-led growth.
   B) generalized system of preferences.
   C) Most Favored Nation.
   D) reciprocal trade agreement.
   E) None of the above.
Answer: B
Question Status: Previous Edition
4) To help developing nations strengthen their international competitiveness, many industrial nations have granted tariff reductions to developing nations under the
   A) international commodity agreements program.
   B) multilateral contract program.
   C) generalized system of preferences program.
   D) export led growth program.
   E) None of the above.
Answer: C

5) Export-led growth tends to
   A) discourage competition in the global economy.
   B) exploit domestic comparative advantages.
   C) lead to unemployment among domestic workers.
   D) help firms benefit from diseconomies of large-scale production.
   E) None of the above.
Answer: B

6) An efficient economy would set the marginal product in the traditional sector
   A) lower than that in the modern non-traditional sector.
   B) higher than that in the modern sophisticated sector.
   C) equal to that in the modern sophisticated sector.
   D) lower in the relatively capital intensive sector.
   E) higher in the relatively capital intensive sector.
Answer: C

7) The experience of sub-Saharan Africa, as compared to that of "Other Asia" (not including the HPAEs) supports the argument that
   A) high rates of protection tend to harm economic growth.
   B) the poorer is the country the easier it is for it to "catch up" economically.
   C) low rates of protection tend to promote economic growth.
   D) Both A and C.
   E) None of the above.
Answer: E

8) The experience of Chile's foreign sector in the last two decades of the 20th Century supports the proposition that economic growth is supported by
   A) import substitution.
   B) industrialization policies.
   C) trade liberalization policies.
   D) Both A and B above.
   E) None of the above.
Answer: C
9) China’s recent experience supports the proposition that
   A) “economic miracles” are solely to be expected in small countries.
   B) central planning and socialism can promote sustained economic growth.
   C) a lessening of income disparities is a prerequisite for economic growth.
   D) growth in a large country cannot be affected by its foreign sector.
   E) None of the above.
   Answer: E
   Question Status: Previous Edition

10) The consensus today is that import-substitution protectionist industrial policy has not served the developing countries’ growth ambitions well. This fact proves that policies relying on export-driven growth are the "winning ticket" for these countries.
   Answer: Although there are many who draw precisely this lesson from the "East Asian Miracle" of the past half-century, such a conclusion does not necessarily follow logically. Although the four HPAEs succeeded in their economic as well as in their export sector growth, they differed among themselves considerably in the degree and manner with which they abjured protectionist policies. In any case, export-promotion policies may distort relative prices to the same extent as import protectionist policies, and hence may lead to the same waste and misallocation of national resources.
   Question Status: Previous Edition

10.4 Export-Oriented Industrialization: The East Asian Miracle

1) Historically those few developing countries which have succeeded in significantly raising their per-capita income levels
   A) did not accomplish this with import-substituting industrialization.
   B) did accomplish this with import-substituting industrialization.
   C) tended to provide heavy protection to domestic industrial sectors.
   D) favored industrial to agricultural or service sectors.
   E) None of the above.
   Answer: A
   Question Status: Previous Edition

2) Statistical evidence suggests that
   A) free trade policies promote economic growth more effectively than do import substitution policies.
   B) import substituting policies tend to promote effective exploitation of scale economies.
   C) import substitution tends to lead to relatively low effective rates of protection.
   D) import substitution is to this day the preferred growth strategy promoted by the World Bank.
   E) None of the above.
   Answer: A
   Question Status: Previous Edition

3) The growth successes of the high performance Asian economies
   A) supports the belief that economic development requires import substitution policies.
   B) rejects the belief that export-oriented industrialization is likely to promote economic development.
   C) rejects the belief that economic development requires import substitution policies.
   D) suggests that free trade policies are required for successful economic development.
   E) None of the above.
   Answer: C
   Question Status: Previous Edition
4) Which industrialization policy used by developing countries places emphasis on the comparative advantage principle as a guide to resource allocation?
   A) export promotion
   B) import substitution
   C) international commodity agreements
   D) Infant Industry promotion
   E) None of the above.
   Answer: A

5) Taiwan and South Korea are examples of developing nations that have recently pursued these industrialization policies
   A) import substitution.
   B) export promotion.
   C) commercial dumping.
   D) multilateral contract.
   E) None of the above.
   Answer: B

6) All the following nations except _______ have recently utilized export-led growth policies.
   A) Hong Kong
   B) South Korea
   C) Argentina
   D) Singapore
   E) None of the above.
   Answer: C

7) The development of countries like South Korea has been supported by all of the following except
   A) high domestic interest rates.
   B) high domestic saving rates.
   C) large endowments of human capital.
   D) high levels of labor productivity.
   E) None of the above.
   Answer: A

8) In 2003, the per-capita income in China was roughly _______ of that in the U.S.
   A) one hundredth
   B) one eighth
   C) one half
   D) the same as
   E) None of the above.
   Answer: B
9) The "East Asian Miracle" is
   A) the ability of so many people to live in such small areas.
   B) the fact that so many Influenza varieties originate from this region.
   C) the fact that poor dualistic economies managed to escape the vicious circle of poverty.
   D) the ability to maintain large positive trade balances with the U.S.
   E) None of the above.
Answer: C
Question Status: Previous Edition

10) The HPAE (High Performance Asian Economies) countries
   A) have all consistently supported free trade policies.
   B) have all consistently maintained import-substitution policies.
   C) have all consistently maintained non-biased efficient free capital markets.
   D) have all maintained openness to international trade.
   E) None of the above.
Answer: D
Question Status: Previous Edition

11) The remarkable success of the HPAEs proves that
   A) trade policy is the key to successful economic growth.
   B) trade policy is irrelevant to successful economic growth.
   C) high educational standards is the key to successful economic growth.
   D) dual economies must suffer economic stagnation.
   E) None of the above.
Answer: E
Question Status: Previous Edition

12) The HPAE "economic miracle" illustrates a clear case in which
   A) exports and growth were positively related.
   B) exports were promoted by successful economic growth.
   C) economic growth was determined by successful export promotion.
   D) trade policy dominated other considerations in promoting economic growth.
   E) None of the above.
Answer: A
Question Status: Previous Edition

13) The "East Asian Miracle" of the "Four Tigers" in the 1960s was replicated by
   A) developing countries around the world.
   B) other East Asian countries.
   C) Sub Sahara African countries.
   D) Industrialized countries.
   E) None of the above.
Answer: B
Question Status: Previous Edition
14) Classical and Neoclassical trade theory makes the case that free trade can bring a country to an optimum and economically efficient use of its resources; and hence is an optimal trade-policy, if the objective is maximizing long term economic growth. There are those who argue that the experience of the Asian Miracle countries, such as Taiwan, South Korea and Singapore verify this argument in the real world. Explain. There are others who argue that the experience of these countries cannot be used to verify or support the argument above. Explain.

Answer: Both arguments may indeed be made. These countries did in fact tend to promote exports in a consistent set of policies. However, they tended to do this via conscious National industrial-policy (e.g., South Korea using "the Japanese system"), and hence (with the possible exception of Hong Kong) do not provide a good test-tube for the long run effects of a free-trade stance.

Question Status: Previous Edition