FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Economics
CAMPUS(ES)	APK
MODULE NAME	Applied Macroeconomic Issues
MODULE CODE	MND9X02
SEMESTER	Second
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Supplementary Summative Assessment Opportunity, December 2021

ASSESSMENT DATE	2 December 2021	**SESSION**	8h30-14h30
ASSESSOR(S)	Prof Kevin Nell		
MODERATOR(S)	Prof Ruthira Naraidoo (external); Dr Magda Wilson (internal)		
DURATION	NA	**TOTAL MARKS**	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	3

INFORMATION/INSTRUCTIONS:

- Make sure that you read <u>ALL the rules and regulations that govern the exam</u>.
- There are 4 questions. Answer ALL the questions.
- Type your answers in this document below each question.

SURNAME	
INITIALS	
STUDENT NUMBER	
CELL NUMBER	

Mark schedule

	Mark		Mark		Mark		Mark
Q1		**Q2**		**Q3**		**Q4**	
(a)(10)		**(a)(15)**		**(a)(10)**		**(a)(15)**	
(b)(15)		**(b)(10)**		**(b)(15)**		**(b)(10)**	

Total mark :

QUESTION 1 (Structural Change Growth Models)

Consider the following three articles:

- Rodrik, D. (2013). Unconditional Convergence in Manufacturing, *Quarterly Journal of Economics*, 128(1), 165-204.
- McMillan, M., D. Rodrik and I. Verduzco-Gallo (2014). Globalization, Structural Change, and Productivity Growth, with an Update on Africa, *World Development*, 63(C), 11-32.
- Rodrik, D. (2008). The Real Exchange Rate and Economic Growth, *Brookings Papers on Economic Activity*, 39(2), 365-439.

Answer the following questions:

(a) With specific reference to Rodrik (2013) and McMillan et al. (2014), provide a detailed explanation why the manufacturing sector is important for economy-wide growth and development. **(10 points)**

(b) With specific reference to Rodrik (2008) and McMillan et al. (2014), provide a detailed explanation why an undervalued real exchange rate may lead to growth-promoting structural change in developing countries. What policy measures can be implemented to keep the real exchange rate undervalued? **(15 points)**

QUESTION 2 (Geography & Institutions)

Consider the following models/explanations of underdevelopment in sub-Saharan Africa countries:

- Poverty trap (big push) model as propagated by Sachs et al. (2004).
- Balance-of-payments-constrained growth model.

Choose <u>one</u> model that you believe best describes the development performance in sub-Saharan Africa countries. Alternatively, argue that the two models complement each other <u>or</u> that none of them are relevant. Make sure that you include the following issues in your answer:

(a) A detailed explanation of the poverty trap model and balance-of-payments-constrained growth model. (**Important:** explain in words – do not copy and paste graphs and equations from lecture material). **(15 points)**

(b) The reasons why you believe your chosen model outperforms the other competitor model. Alternatively, why they complement each other <u>or</u> why none of them are relevant. Here you need to refer to <u>theoretical</u> reasons and <u>empirical</u> evidence. **(10 points)**

<u>QUESTION 3 (Deep determinants of Development)</u>

Consider the following paper by Rodrik, Subramanian and Trebbi (RST), as discussed in Chapter 10 of the course:

- **Rodrik, D., A. Subramanian and F. Trebbi** (2004). Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development", *Journal of Economic Growth*, 9(2), 131-165.

(a) Provide a summary overview of the RST paper. Clearly outline their main contribution to the literature. **(10 points)**.

(b) Discuss RST's critique of Easterly and Levine's (2003) main finding that *policies have no effect on development once institutions are controlled for in their regression analysis*. Do you agree with RST's critique in the context of your own country, or do you think institutional quality trumps everything else? Discuss. **(15 points)**

<u>QUESTION 4 (Growth Diagnostics)</u>

a) Provide an overview of Rodrik's (2006) three-step approach ("Growth Diagnostics") on how to *initiate* and *sustain* a growth transition. **(15 points)**

b) Apply Rodrik's (2006) approach in (a) to any African country of your choice. **(10 points)**