

TOPICS IN MICROECONOMICS OF DEVELOPMENT AND INDUSTRIAL POLICY

MCD9X02

UJ-IDEP MPhil Industrial Policy
Department of Economics and Econometrics
University of Johannesburg

DATE: 21 November 2016

TIME: 3 hours

MARKS: 90 marks

INSTRUCTIONS

Answer *only three* (3) questions from the five (5) options provided. You should aim to spend approximately one hour on each question.

QUESTION 1 [30 marks]

Do you think the taxation system is a useful mechanism for pursuing industrial policy objectives? Provide a detailed example to substantiate/illustrate your position.

QUESTION 2 [30 marks]

"The goal of industrial policy is very different from that of regulation and antitrust. Whereas the latter attempt to promote competition, the former is geared toward strengthening the market position of a firm or industry, particularly with respect to foreign firms." (Cabral, 2002: p.11)

Do you agree with the statement by Cabral? Justify your answer with reference to both industrial policy and competition policy.

QUESTION 3 [30 marks]

"Under the right set of government policies, industries can be nurtured into competitiveness even if these industries are *ex ante* undistinguished with respect to potential comparative advantage" (Rodrik, 1996: p.26)

"The role of the facilitating state is to encourage the emergence of firms, industries, and sectors that, once launched, will make effective use of the country's *current* comparative advantage." (Lin, 2009: p.486)

Explain the importance of comparative advantage for industrial policy **with an emphasis on microeconomic considerations.**

QUESTION 4 [30 marks]

Why is understanding the labour market important for industrial policy?

In your answer, be sure to explain any relevant concepts you use (e.g. definitions of unemployment, labour force participation, etc).

QUESTION 5 [30 marks]

Some critics have argued that industrial policy facilitates rent seeking. Explain how and why this might happen. (You may want to illustrate your explanation with at least one example). Is it inevitable that industrial policy will have this outcome, or are there ways in which it can be avoided?

[END]