



**TOPICS IN MICROECONOMICS OF DEVELOPMENT AND INDUSTRIAL POLICY**

**MCD9X02**

**UJ-IDEP MPhil Industrial Policy  
School of Economics  
University of Johannesburg**

**DATE: 13 November 2017**

**TIME: 3 hours**

**MARKS: 90**

**ASSESSOR: Dr Seán Muller**

**INSTRUCTIONS**

Answer *only three* (3) questions from the six (6) options provided. You should aim to spend approximately one hour on each question.

### **QUESTION 1 [30 marks]**

What lessons does the article by Blonigen (2016), entitled “Industrial Policy and Downstream Export Performance”, suggest for industrial policy makers? Explain the nature of the study and its findings, then discuss the policy implications.

### **QUESTION 2 [30 marks]**

One objective of industrial policy is the creation of more, or better, employment. Discuss the importance of firm characteristics – formal versus informal, small versus large – for industrial policy in this respect. What kinds of firms, if any, would you advise policy makers to target if their objective is to increase, or improve, employment opportunities? You may want to draw on the arguments and findings of Castel-Branco (2003) and Kerr (2015), among others.

### **QUESTION 3 [30 marks]**

With reference to the papers by Venables and Smith (1986) and Devarajan and Rodrik (1989), explain how the presence of imperfect competition and scale economies can affect the outcomes of trade liberalisation or trade protectionism. What evidence do these authors find, or provide, of such effects?

### **QUESTION 4 [30 marks]**

“Understanding the dynamics of labour markets is important for designing successful industrial policies”. Explain this statement with reference to one of the following issues:

- A. Labour intensity across sectors and activities
- B. Skilled emigration (brain drain or brain gain)
- C. Minimum wages.

**QUESTION 5 [30 marks]**

Explain the relevance of taxation for industrial policy in developing countries. What is the connection between the two primary roles of taxation (raising revenue and affecting the incentives of economic agents) and the two broad categories of industrial policy (horizontal and vertical)? Where possible, illustrate with specific examples.

**QUESTION 6 [30 marks]**

A common critique of industrial policy is that it facilitates rent-seeking behaviour, but Khan (2000, 2004) argues that this is too simplistic and that a more nuanced understanding of state failure and rent-seeking is required.

What advice would you give to policymakers in this regard?

In your answer, be sure to explain the standard critique, along with the concept of rent-seeking, and provide at least one illustrative example. Then explain the counterarguments by Khan and other relevant authors.

**[END]**