

Econ 102: The World Economy
Answers Mid Term Examination
Spring 2009

Part I: Multiple choice questions:

- 1) C
- 2) D
- 3) C
- 4) A
- 5) A
- 6) D
- 7) C
- 8) D
- 9) A
- 10) C
- 11) C
- 12) C
- 13) B
- 14) C
- 15) D
- 16) D
- 17) A
- 18) D
- 19) D
- 20) B
- 21) B
- 22) A

Part II Green

2.1 (i) Sectors/industries considered as crucial to control or to influence the rest of the economy. These sectors have traditionally included mine, steel, heavy industries, railroads, transportation, banking. Today they include energy, telecommunication and finance. These industries are generally subject to regulations and in some countries to state control.

2.1 (ii) The banking sectors in most countries, energy in BC, etc...

2.1 (iii) The Commanding heights have evolved with time. Whereas heavy industries were typical commanding heights in early 20th century, banking and finance are today commanding heights at least in industrialized countries.

2.2 (i) Property rights are a bundle of rights associated with ownership of a good/resources. Property rights include the right to use a resource and to exclude other from its use, to gain from or to control its use by others, and to dispose of it. Property rights are defined by the state.

2.2 (ii) Property rights promote the incentive to trade because they provide a guarantee and they diminish uncertainty linked to transactions. No large markets can function without well defined and state enforced property rights. It is through property rights (land

registry for instance) that loans can be guaranteed and long-term investments can be made.

2.3 (i) The dependency theory is a theory of economic development that emerged during the 1960s. It suggests that economic relations between rich and poor countries especially through trade and investment links have the inherent effect of enriching wealthy countries and further impoverishing poor countries. Proponents of the theory advocate delinking national economies from the flow of global trade and investments.

2.3 (ii) Promotion of domestic industries (subsidies for instance) to produce goods rather than export raw material, limiting imports through barriers to trade to promote local production, nationalization of some firms/industries, limiting foreign investments.

2.4 (i) Shock therapy is a policy of rapid economic reform. Its main objectives include liberalization or abolition of government control over economic activities (such as production and prices), deep cuts in government spending and stabilization of money supply, privatization of firms and opening up the economy to international trade and investments.

2.4 (ii) A number of countries could be mentioned such as Chile (1975), Poland, New Zealand, Soviet Union, other Eastern European countries, Bolivia.