

**ECO 407**  
**COMPETING VIEWS IN MACROECONOMIC**  
**THEORY AND POLICY**

**Term Test**

**May 27, 2019**

**U of T E-MAIL:** \_\_\_\_\_@MAIL.UTORONTO.CA

**SURNAME**  
**(LAST NAME):**

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**GIVEN NAME**  
**(FIRST NAME):**

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**UTORID**  
**(e.g., LIHAO118):**

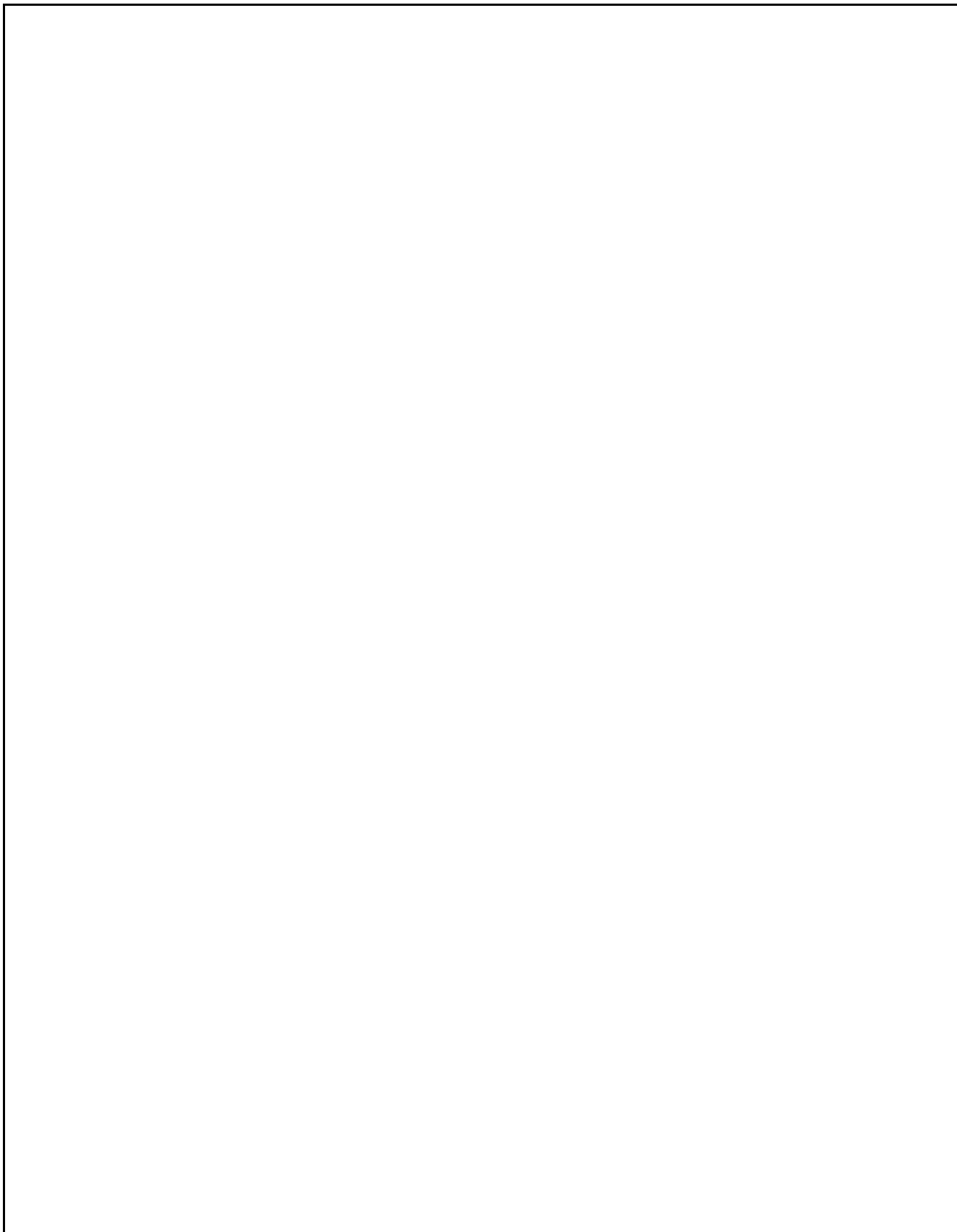
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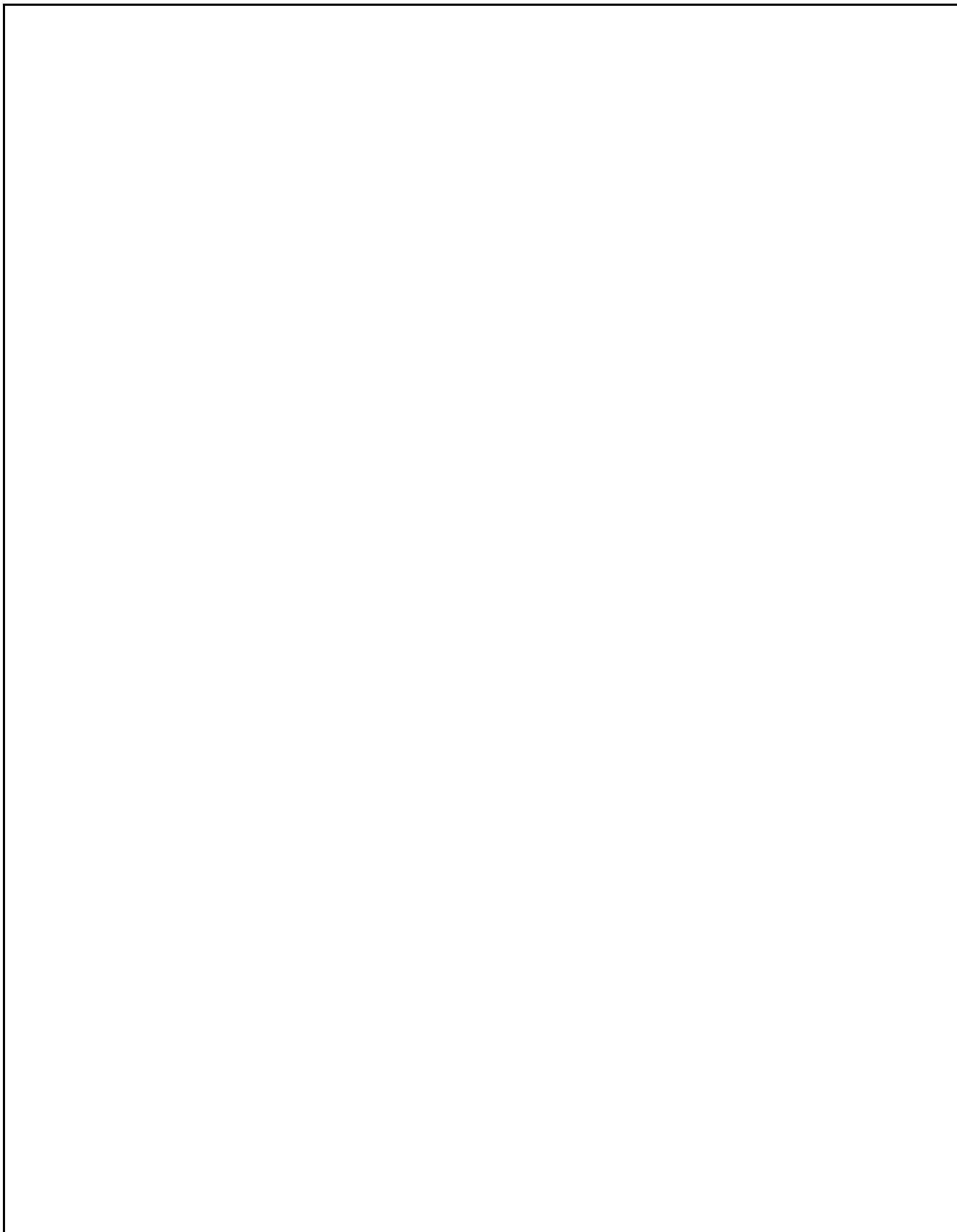
**INSTRUCTIONS:**

- The total time for this test is **90 minutes**. Manage your time properly!
- No aids allowed.
- ***Write your name and identifying information above but keep this test paper closed until the start of the test is announced.***
- You must critically comment on each of the **five** statements provided below. Each question is worth **20 points**. The **total** point-value of the test is **100 points**.
- This test includes **12 pages**.
- Write your critical comments clearly and concisely in the space provided immediately after each question. ***Your entire comment must fit in the designated space.*** No extra space/pages are possible and you cannot use blank space for other questions.
- ***It is best to write in PENCIL and use an ERASER as needed.*** This way you can make sure to fit your final answer in the appropriate space.
- ***Please write legibly.*** If I can't read your handwriting, I can't award you any marks!

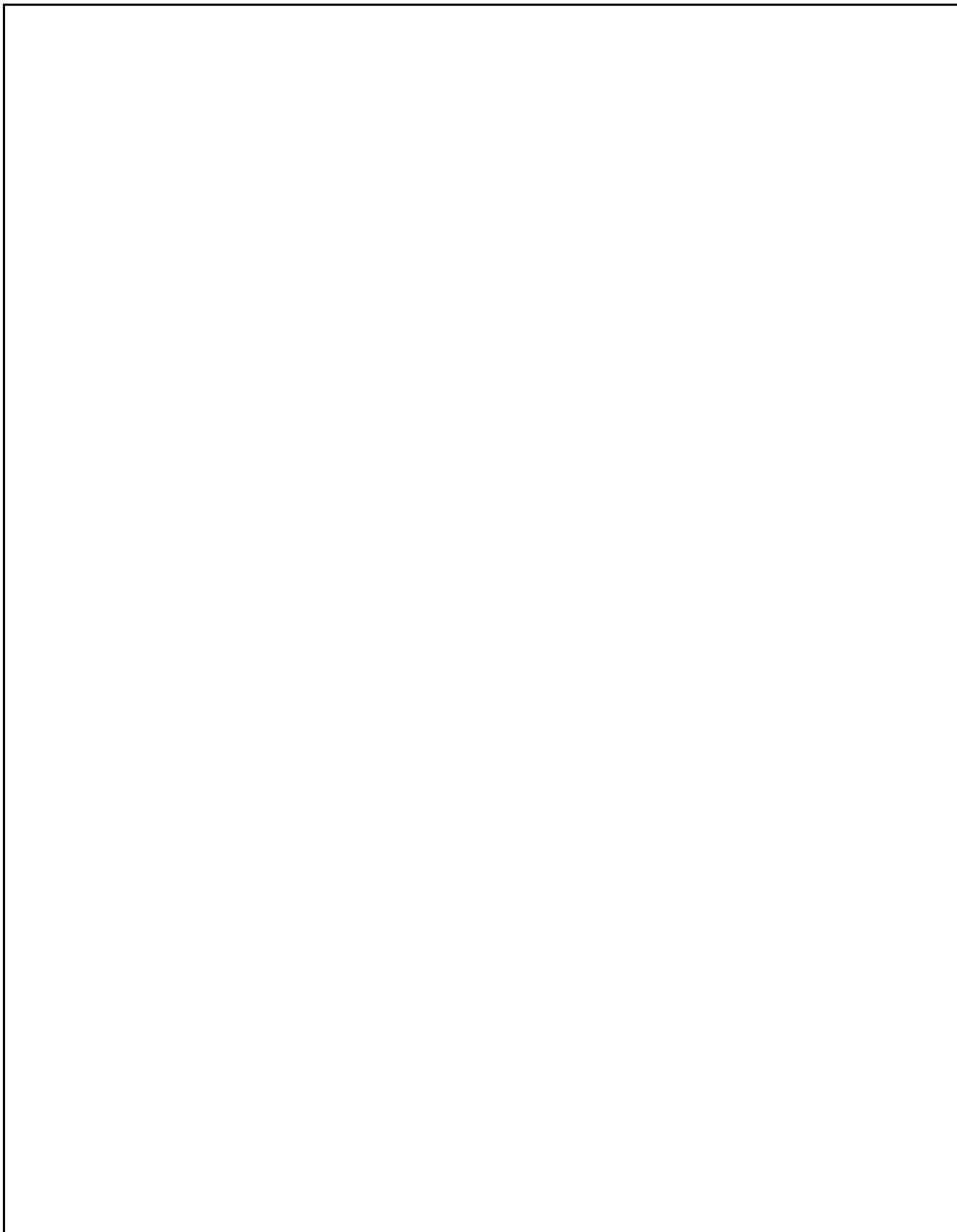
1. It is generally accepted that markets work poorly in developing countries. However, while heterodox economists make a case for the implementation of industrial policy to address market failures, orthodox economists argue that industrial policy is an invitation to corruption and rent-seeking behaviour.



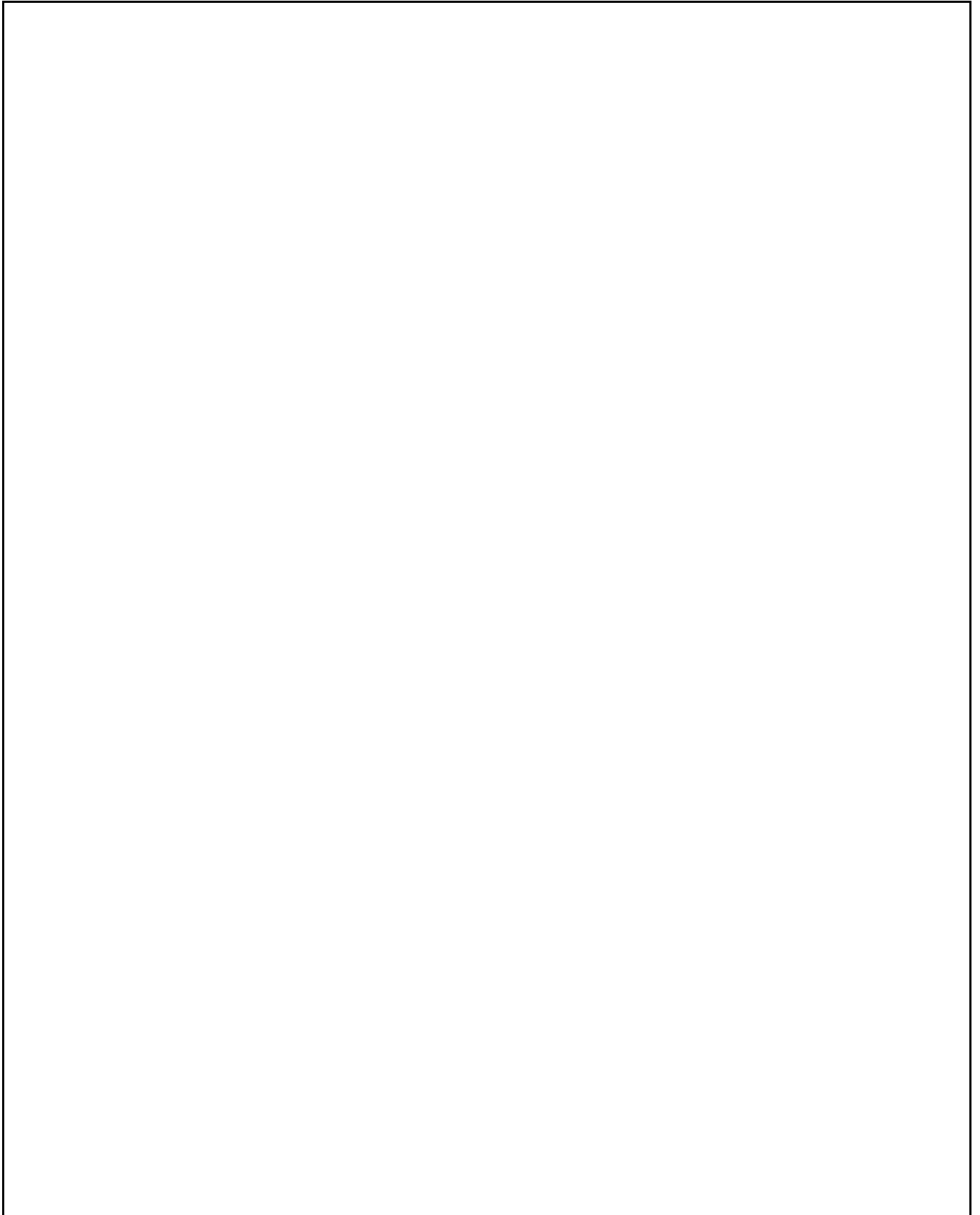
2. Some economists argue that investment is determined by savings. At the same time, they consider savings to be an increasing function of the rate of interest. Therefore, it must be concluded that an increase in the rate of interest will increase investment.



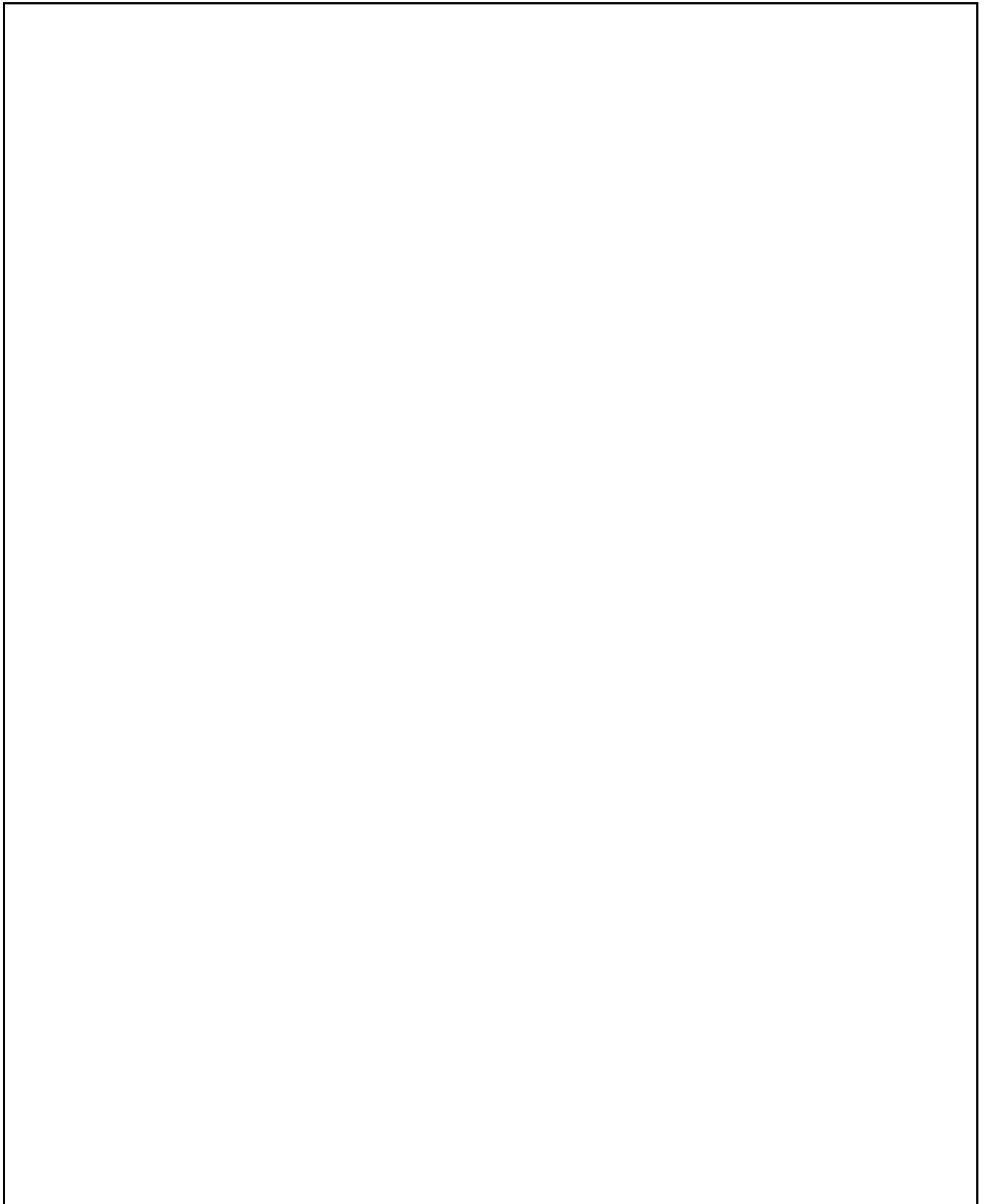
3. The Task Force on Competitiveness, Productivity and Economic Progress concluded that Ontario is settling into a troubling era of stagnant growth that could be alleviated if businesses stop sitting on 'dead money' and ramp up investments.



4. Fiscal austerity has emerged from the debate on the euro crisis as the main strategy to restore growth and employment. According to this view, reducing public debts reduces interest rates and injects confidence in the private sector, freeing the basic instincts to invest and consume.



5. All of today's developed countries have become rich through free-market policies, especially through free trade with the rest of the world. As David Ricardo demonstrated almost two centuries ago, specialization and trade based on the principle of comparative advantages makes all countries better off. Therefore, developing countries should fully embrace free-trade policies in order to close the income-gap with developed countries.



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