Additional Practice Problems for Midterm.

1. Set up the basic statistical model with time effects from the paper “Princes and Merchants.” Summarize the number of observations, just how the growth observations are constructed, and just how the prince coefficient and time effects are constructed. Why are these time effects important? What sign on the prince coefficient is predicted by the theory. Under what circumstances is that sign statistically significant?

2. Using table 2.3 from “Princes and Merchants,” interpret the impact of the Prince effect (controlling for time effects) on growth.

3. Summarize the statistical model from the Berkowitz and DeJong paper (2002) that tests for the impact of policy reform and entrepreneurship on growth. How are the three components of reform measured? How are growth and entrepreneurship measured?

4. What does Figure 1 (unconditional correlations) tell you about the impact of reform and entrepreneurship on growth? What are the limits of this correlation analysis? How do the results in Table 2 improve upon this correlation analysis?

5. Using the new enterprise regression in table 3, summarize the impact of policy and initial conditions on new enterprise formation (entrepreneurship). Provide some explanation for why education, reformist voting, initial income and large-scale privatization have substantial impact. (HINT: There are several explanations consistent with the data, and you only need to pick one of them).

6. Explain the following: “Tables 2 and 3 suggest that price liberalization has had a direct impact on growth with large privatization has only an indirect impact on growth because it has stimulated new enterprise formation.” Compute this indirect impact of large-scale privatization on growth.

7. Summarize arguments that privatization enhances growth and does not necessarily enhance growth in post-socialist economies. Do the same for price liberalization and entrepreneurship.

8. Explain the difference between control of a business versus ownership of a business. For control, use the example of employment policy. Is the separation of control and ownership necessarily inefficient? Would linking control and ownership necessarily force a business to become more efficient. In answering this question, do not reflect on the case of underdeveloped economies. Just generate examples that would make your point.