

Comparative Economics Field Exam  
August 21, 2009  
Department of Economics  
UC Berkeley

Answer all four questions. Each question is worth 25 points.

1. Give a sketch of the soft budget constraint model of Dewatripont and Maskin. What are the main features behind the results of the model? How do these features explain why we see soft budget constraints under socialism but also in advanced capitalist economies? Give some examples of how a change in the institutional context leads to hardening of budget constraints.
2. Economists have recently been looking at the link between culture and the quality of institutions. Is there a causal link between these two sets of variables? If so, how does it work and how can one establish it?
3. The literature of comparative economics emphasizes the important role of institutions in economic development. However, recent development experiences in China and Russia seem to challenge some conventional arguments concerning the role of institutions in this regard: (i) political reform must precede economic reform; (ii) rule of law is necessary for economic prosperity; and (iii) financial market development is essential for economic development. (1) What are the empirical findings from China and Russia in connection to these arguments? (2) What are your arguments to reconcile each of them? (3) What is empirical evidence to support your arguments?
4. In the comparative studies of developing and transition economies, two problems of insecurity of property rights and failure in credit market figured prominently. (1) What is empirical evidence found in transition economies showing that insecure property rights is a more serious problem than credit market failure? (2) What are the possible explanations for this phenomenon? (3) Do you think this is something special for transition economies or more general for developing countries? What is your theory and what is your evidence?