

[Multiple choice questions: 4 marks each]

*Read the following short passages and the statements that follow. Judging from the content of the passage, is each statement TRUE, FALSE or UNCERTAIN? Mark (a) for TRUE, (b) for FALSE and (c) for UNCERTAIN.*

Nearly all education systems have a single cutoff date for school eligibility. For example, a child may be allowed to enter kindergarten as long as he is five years old by September 1 of the relevant year. Cutoff dates are important because they cause some students to be older than others when they begin school. To put this in perspective, in an education system in which students must be five to start school, the oldest students are approximately 20 percent older than the youngest students at school entry. As such, one would expect an age-based performance differential during the early grades.

- (1) If relative maturity is important for education attainment, in Taiwan August-born children should perform better than September-born ones of the same school year.
- (2) If relative maturity is important for education attainment, among undergraduate students of National Taiwan University, autumn-born individuals should be disproportionately numerous.

There is an extensive theoretical literature that postulates a trade-off between child quantity and quality within a family. However, there is little causal evidence that speaks to this theory. Using a rich data set on the entire population of Norway over an extended period of time, we examine the effects of family size and birth order on the educational attainment of children. We find a negative correlation between family size and children's education, but when we include indicators for birth order or use twin births as an instrument, family size effects become negligible. In addition, higher birth order has a significant and large negative effect on children's education.

- (3) Findings of this paper imply that first-born children are better educated than their siblings.
- (4) One important policy implication of this paper is that reducing fertility may not boost education in developing countries.

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We find that for high-seniority male workers, mortality rates in the year after job displacement are 50%–100% higher than would otherwise have been expected. The effect on mortality hazards declines sharply over time, but even twenty years after displacement, we estimate a 10%–15% increase in annual death hazards. We show that these results are not due to selective displacement of less healthy workers or to unstable industries or firms offering less healthy work environments.

- (5) One way to verify the effect of job displacement found in this paper is to show that workers with larger losses in earnings tend to suffer greater increases in mortality.
- (6) If less healthy workers were more likely to experience job displacement, the effects of job displacement estimated in this study are understated.

Judge Richard Posner argues that, as a matter of historical fact, the common law has tended to embody standards that encourage economic efficiency. Posner presents this viewpoint as a positive (as opposed to normative) theory of the common law. That is, he argues that the positions of the courts can be predicted on the basis of the assumption that they are attempting to promote efficiency. Of course, he makes no attempt to argue that every court decision fits this mold, but he does make the case that the broad outlines of legal doctrine are consistent with this positive theory.

- (7) The role of common law in promoting economic efficiency is in contradiction with its role in promoting justice.
- (8) The Good Samaritan rule, which does not require a bystander to rescue a stranger in trouble even when the cost of rescue is low, does not accord with the spirit of efficiency promotion.

Discount coupons for supermarket shopping constitute a mechanism for offering a lower price to appropriate consumers. The shoppers who find it worth their while to clip these coupons are those with a relatively low value of time; by and large, these are the customers with a greater propensity for comparison shopping. The supermarket's ideal pricing policy is, "lower prices to those who would otherwise shop elsewhere." A practical approximation to this ideal is, "lower prices to those with enough free time to clip coupons."

- (9) The above excerpt depicts an example of price discrimination.
- (10) For the supermarket, the demand from customers with enough free time to clip coupons is considered as less elastic.

This paper investigates how Confucianism affects individual decision making in Taiwan and in China. We found that Chinese subjects in our experiments became less accepting of Confucian values, such that they became significantly more risk loving, less loss averse, and more impatient after being primed with Confucianism, whereas Taiwanese subjects became significantly less present-based and were inclined to be more trustworthy after being primed by Confucianism.

- (11) The paper finds that Chinese subjects became more patient after being primed with Confucianism
- (12) Taiwanese subjects were generally more risk loving than Chinese subjects.

This paper examines the impact of having a low birth weight child on maternal labour force participation. We use the instrumental variable technique, the sister fixed-effects model and the propensity score matching method to control for the endogeneity of child health. Using a unique national merged parent-child data set from Taiwan, the within-sister estimates indicate that having a low birth weight child reduces female employment during the first 3 years after the birth, by 1–2 percentage points. Furthermore, the adverse employment effect is found to be particularly strong for those mothers who have an illegitimate child with low birth weight.

- (13) The instrumental variable technique was used because, in this paper's model, child health is not exogenous.
- (14) If a low-birth-weight child is illegitimate, the negative effect on female unemployment will be even stronger.

After emerging market crises, value added falls more in manufacturing industries that normally exhibit higher inventory/cost ratios. Moreover, the difference in value added between manufacturing industries with different inventory/cost ratios persists years into the recovery. A shock to aggregate TFP cannot by itself match this pattern. In contrast, a persistent increase in the cost of foreign capital can. In the context of a calibrated multisector small open economy model, a shock to the cost of foreign capital consistent with the cross-industry data leads, 3–5 years after the onset of the crisis, to an average reduction of output relative to a trend of 5.4 percent.

- (15) After an emerging market crisis in a multisector small open economy, the cost of foreign capital will increase for several years.
- (16) A shock to aggregate TFP can by itself explain the relatively small fall in value added in manufacturing industries that have high inventory/cost ratios.

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Rationality leads people to imitate those with similar tastes but different information. But people who imitate common sources develop correlated beliefs, and rationality demands that later social learners take this correlation into account. This implies severe limits to rational imitation. We show that (i) in most natural observation structures besides the canonical single-file case, full rationality dictates that people must “anti-imitate” some of those they observe; and (ii) in every observation structure full rationality dictates that people imitate, on net, at most one person and are imitated by, on net, at most one person, over any set of interconnected players. We also show that in a very broad class of settings, any learning rule in which people regularly do imitate more than one person without anti-imitating others will lead to a positive probability of people converging to confident and wrong long-run beliefs.

(17) A fully rational person will “anti-imitate” at least one other person.

(18) Correlated beliefs are a problem, which anti-imitation can lessen.

We investigate the existence and importance of family welfare cultures, where the receipt of a welfare program by one generation causes increased participation in the next generation. Our context is Norway’s disability insurance (DI) system. We find strong evidence for a causal link across generations: when a parent is allowed DI at the appeal stage, their adult child’s participation over the next five years increases by 6 percentage points. This effect grows over time, rising to 12 percentage points after 10 years. Although these findings are specific to our setting, they highlight that welfare reforms can have long-lasting effects on program participation, since any original effect on the current generation could be reinforced by changing the participation behaviour of their children as well.

(19) This paper shows the Norwegian disability system is not biased.

(20) Children of Norwegians receiving disability insurance are more likely to get disability payments themselves because they are better informed about the system.

**[Short answer questions: 10 marks each]**

*Using no more than 50 words respond to each of the following two questions. [Note: penalty applies to exceeding the number of words]*

(21) Explain why real GDP per capita might not always be a good measure of the general level of economic welfare in an economy.

(22) Summarize the trend of crude oil prices in the international market, and analyze its impacts.