



Diplomprüfung

**Klausuren für Volkswirte, Betriebswirte, Handelslehrer
und Wirtschaftsinformatiker, BA, MA, Nebenfach VWL-
Studierende**

Datum: 19.10.2009

Prüfungsfach: Kreditpunkte-Klausur

„The Economics and Politics of International Financial Organizations“

Themensteller: Prof. Dr. Axel Dreher

Kandidat:

Name:

Vorname:

Matrikel-Nr.:

Fachrichtung:

Semesterzahl:

Raum:

Remarks:

- Please leave 5cm on each edge of every page and number each page.
- Please write your name or matriculation-number on each page.
- When you start a new question, please use a separate sheet.
- A non-commented language dictionary can be used.

Exam Economics and Politics of International Financial Organizations

Teil	Thema	Punkte
I	<i>Short questions</i>	15
II	<i>Regression</i>	15
III	<i>Essays</i>	60
Σ		90

1	2	3	4	5	Σ

Note:

Remarks:

The exam is divided into three parts.

Please answer **all the questions in Part 1**. Select **one of the questions in Part 2** and answer **all the questions in Part 3**. The assigned points correspond to the estimated time needed to answer the question.

In total, one could receive a maximum of 90 points. The exam lasts 90 minutes. Please be aware of the time limit. Answers can be in English or German.

Good luck!

Part 1: Please answer all the questions of Part 1. The estimated time needed corresponds to the maximum attainable points. All together, you should use about 15 minutes for this part.

1) (5 points)

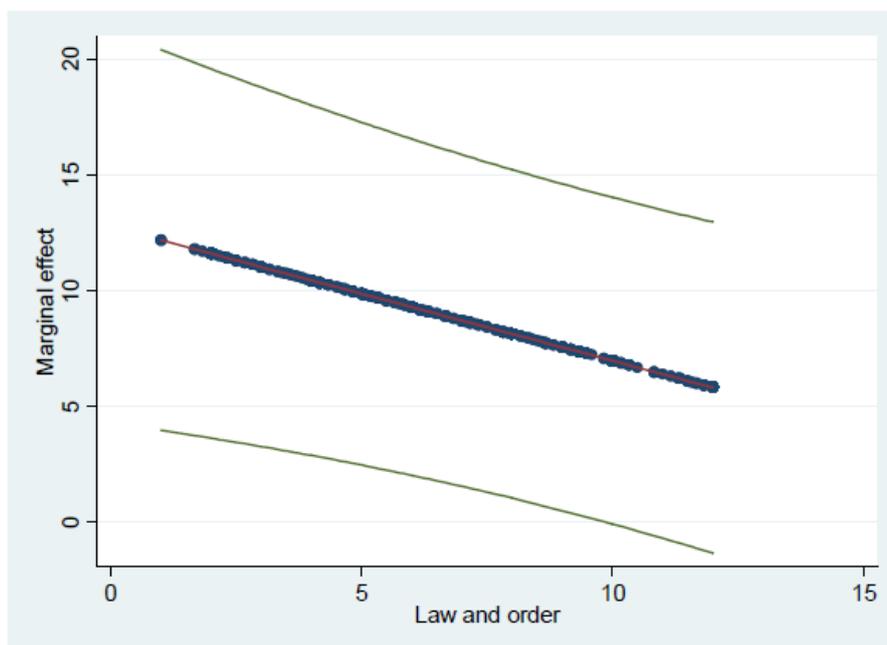
Provide a short comparison of the governance of the World Trade Organization and the International Monetary Fund. What are the main differences?

2) (5 points)

How should compliance with IMF conditionality be measured?

3) (5 points)

Does partial delegation of decision-making competence to the international level make policy announcements more credible? Answer shortly based on the results illustrated in the graph below.



Source: Dreher and Voigt (2008)

Dependent variable:

Euromoney, index: Risk ratings based on expert views, heads of syndication and loans, as well as data from the World Bank, forfaiting houses and credit rating agencies.

Explanatory variables:

Membership in selected international organizations, weighted (t-1): Indicator of membership in selected international organizations weighted by years of membership.

Law and order: Assesses the strength and impartiality of the legal system as well as the popular observance of the law. It ranges from 0 to 12, where a higher number indicates a better system of law and order.

Controls: log GDP per capita, trade as % of GDP, lagged dependent variable, fixed country and year dummies.

Part 2: Please answer one of the following two questions. You should spend about **15 minutes** for this part. In case both questions are answered, only question 1) will be graded.

1) (15 points)

Which factors significantly influence the design of IMF programs according to the empirical analysis below? Focus on the role of information transmission between the IMF and the borrowing country.

Table 3: Number of IMF Conditions, GLS, 1992-2005

	(1)	(2)	(3)
Government Stability	3.888 (4.60)***		3.343 (4.01)***
Law and Order	-7.010 (4.16)***		-8.357 (4.57)***
Bureaucratic Quality	-2.547 (2.09)**		-0.251 (0.22)
Ethnic Tensions	13.482 (7.44)***		15.374 (6.80)***
Democracy	0.368 (0.47)		0.223 (0.28)
Press Freedom	3.747 (0.86)		6.945 (1.57)
Trade (percent of GDP)	-0.174 (1.16)		0.295 (2.06)**
Lack of Transparency (Missing data)	-209.828 (8.71)***		-287.039 (12.46)***
Number of Quarters	6.097 (10.69)***	6.345 (18.75)***	6.672 (17.84)***
(log) GDP p.c.		-58.483 (3.86)***	-127.208 (11.17)***
GDP growth		-0.563 (2.18)**	-0.664 (1.51)
Current Account Balance (percent of GDP)		-0.428 (2.77)***	-0.689 (3.06)***
Reserves (percent of imports)		2.829 (2.42)**	-1.367 (1.02)
Inflation		-72.443 (5.75)***	-30.637 (1.33)
UNSC member		-41.085 (4.67)***	-19.766 (1.76)*
UNGA voting		-37.724 (1.97)**	-77.009 (3.31)***
Number of observations	170	219	142
Number of countries	55	66	46

Notes: Estimation is with GLS fixed effects and correction for AR(1) autocorrelation within panels and cross-sectional heteroskedasticity across countries; absolute value of z statistics in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%

Source: Marchesi, Sabani and Dreher (2009)

Dependent variable:

Number of IMF conditions: Sum of all conditions divided by the number of quarters the programs are in effect. When a condition is included at all test dates throughout the program, it is thus counted as “one.”

Description of variables:

Table 2: Sources and Definitions

	Variables	Definition	Source
ECONOMIC			
	Log of per capita income	GDP per capita (constant 2000 US\$)	WDI, WB (2008)
	GDP growth	GDP growth (annual %)	WDI, WB (2008)
	Rate of inflation	Inflation, consumer prices (annual %)	WDI, WB (2008)
	International reserves (to imports)	Total reserves in months of imports	WDI, WB (2008)
	Current account balance	Current account balance (% of GDP)	WDI, WB (2008)
	Domestic (fixed) investments	Gross capital formation (% of GDP)	WDI, WB (2008)
	Growth of government consumption	Government consumption expenditure (annual % growth)	WDI, WB (2008)
	Total debt service (to exports)	Total debt service to exports	WDI, WB (2008)
	Total external debt (to GDP)	Total external debt (% of GDP)	WDI, WB (2008)
POLITICAL			
	Voting in line with the US in the UNGA	Percentage of votes within a year inline with the US	Based on Voeten (2004)
	Temporary member of the UN Security Council	Dummy for temporary UNSC membership	Dreher et al. (2006, 2009)
BIAS			
Institutional Capacity and Complexity			
	Government stability	Government Stability, annual averages	ICRG (1984-2005)
	Corruption	Corruption, annual averages	ICRG (1984-2005)
	Law and order	Law and Order, annual averages	ICRG (1984-2005)
	Investment profile	Investment Profile, annual averages	ICRG (1984-2005)
	Bureaucracy quality	Bureaucracy Quality, annual averages	ICRG (1984-2005)
	Social conditions	Socioeconomic Conditions, annual averages	ICRG (1984-2005)
	Ethnic tension	Ethnic Tensions, annual averages	ICRG (1984-2005)
	Strength of special interests	Share of seats in the parliament held by “special interests” parties (religious, nationalistic, regional, rural)	Database of Political Institutions, WB
	Democracy	Polity2 score taken from the Polity IV dataset	Marshall and Jaggers
Externalities			
	Economic globalization	Actual flows and restrictions both on finance and trade	Dreher (2006)
	Overall globalization index	Overall globalization index	Dreher (2006)
	Trade	Exports plus imports (% of GDP)	WDI, WB (2008)
	Financial globalization	First principal component of the existence of multiple exchange rates, restrictions on current and/or capital account transactions, requirement of the surrender of export proceeds	Chinn and Ito (2007)
<hr/>			
	Variables	Definition	Source
LOCAL KNOWLEDGE			
Transparency			
	Democracy	Polity2 score taken from the Polity IV dataset	Marshall and Jaggers
	Press freedom	Freedom of the press index	Freedom House (2006)
	Missing data	Share in 250 Economics data series for which no data reported	WDI, WB (2008)
Complexity			
	Social conditions/ Ethnic tension	Annual averages	ICRG (1984-2005)
IMF KNOWLEDGE			
Government officials			
	Bureaucracy quality	Bureaucracy Quality, annual averages	ICRG (1984-2005)
	Education	School enrolment, primary (% net)	WDI, WB (2008)
		School enrolment, secondary (% net)	WDI, WB (2008)
		School enrolment, tertiary (% gross)	WDI, WB (2008)
Externalities			
	See above		

Important remark:

International Country Risk Guide's (ICRG) indicators range from zero to 12, with higher values showing “better” environments.

2) (15 points)

Do IMF and World Bank involvement raise the probability of a government crisis in the borrowing country? If yes, under which conditions? Answer based on the regression analysis below and motivate the findings.

Table 6: Hypothesis 4 – Government Crisis and inherited IFIs

	(1)	(2)	(3)	(4)	(5)
Democracy	0.050 (3.19)***	0.049 (3.17)***	0.046 (2.90)***	0.002 (1.40)	0.002 (1.61)
Regime duration	-0.011 (1.54)	-0.010 (1.48)	-0.011 (1.58)	0.000 (0.20)	0.000 (0.13)
Riots (log)	0.157 (1.02)	0.077 (0.50)	0.113 (0.73)	0.070 (1.98)*	0.029 (0.93)
Demonstrations (log)	0.819 (5.89)***	0.844 (6.10)***	0.835 (5.97)***	0.136 (3.88)***	0.120 (4.23)***
Strikes (log)	0.432 (2.09)**	0.394 (1.92)*	0.429 (2.07)**	0.118 (2.00)**	0.156 (3.34)***
Guerrilla warfare (log)	0.398 (1.51)	0.349 (1.33)	0.341 (1.28)	0.056 (1.10)	0.037 (0.73)
Assassinations (log)	0.352 (2.16)**	0.379 (2.32)**	0.359 (2.19)**	0.085 (2.04)**	0.112 (3.35)***
Purges (log)	1.353 (5.06)***	1.365 (5.16)***	1.377 (5.12)***	0.193 (2.34)**	0.233 (3.57)***
Growth per capita (t-1)	-0.040 (3.60)***	-0.039 (3.53)***	-0.043 (3.80)***	-0.002 (1.90)*	-0.003 (3.40)***
Number of World Bank projects (t-1), current government	0.344 (3.62)***		0.306 (3.12)***	0.048 (2.55)**	
Number of World Bank projects (t-1), previous government	-0.014 (0.09)		0.005 (0.03)	0.108 (1.32)	
IMF program, dummy (t-1), current government		0.688 (2.45)**	0.425 (1.45)		0.016 (0.43)
IMF program, dummy (t-1), previous government		-0.081 (0.19)	-0.121 (0.29)		0.012 (0.09)
Major government crises (t-1)				0.109 (2.66)***	0.122 (3.28)***
Constant				0.051 (1.52)	0.066 (2.50)**
Method	Logit	Logit	Logit	GMM	GMM
Observations	2314	2355	2289	3127	3215
Number of countries	91	90	90	132	132
Number of instruments				103	88
AR1 Test (p-value)				0.00	0.00
AR2 Test (p-value)				0.94	0.48
Sargan-Hansen Test (p-value)				0.79	0.68

Notes: Columns (1)-(3) show the results of conditional fixed effects logit regressions accounting for temporal dependence. The dependent variable is 1 when there was at least one major government crisis in a given country and year. Column (4) and (5) represent the results of dynamic panel GMM estimations including fixed time effects, where the dependent variable is the number of major government crises in a given country and year. Absolute value of z statistics in parenthesis. ***/** indicates significance at the 10/5/1-percent significance level.

Source: Dreher and Gassebner (2008)

Dependent variable:

Major government crises: Any rapidly developing situation that threatens to bring the downfall of the present regime, excluding situations of revolt aimed at such overthrow.

Variables of interest:

IMF programs: Dummy variable that is one if an IMF program has been in effect for at least five months in a certain year, and zero otherwise. Includes programs under the Structural Adjustment Facility and Poverty Reduction and Growth Facility.

World Bank projects: Variable counting the number of World Bank projects in effect for at least five months in a certain year. Includes projects given for structural adjustment, according to the definition from the World Bank's webpage.

Part 3: Please answer all the questions. For this part, you should need 60 minutes.

1) (20 points)

Analyze potential principal-agent problems in international organizations. Also describe the IMF using a common agency framework and discuss the implications of preference heterogeneity of its major shareholders.

2) (20 points)

Comment on the following official statement of the World Bank: "It is true that during the Cold War years aid was politically motivated. Now however aid is being delivered to countries most in need, and to those who show they are determined to use it well."
(World Bank, FAQ, www.worldbank.org)

3) (20 points)

Sketch a reform proposal for the IMF. Relate your ideas to empirical findings in the literature.

Good luck!