

Written Exam for the M.Sc. in Economics summer 2013

Advanced Development Economics: Micro Aspects

Final Exam

12 August 2013

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by “eksamen på dansk” in brackets, you must write your exam paper in Danish.

This exam question consists of 2 pages in total including this page.

Question 1: Social Learning

- a) Define the concept of social learning and describe the “Target Input” model.
- b) Comment on how neighbor technology adoptions affect own adoption, and describe the two most important testable implications of this model.
- c) Discuss how unobserved farmer characteristics affect estimation of different types of learning (individual versus social learning)?

Question 2: Rural Land Market

- a) Describe how a limited liability constraint, *i.e.*, a scheme in which the tenant is only liable up to his own wealth level, may affect a sharecropping contract.
- b) Operation Barga in India was a drive to increase tenant registration in West Bengal in India. A registered tenant could not be evicted as long as they paid their dues and the maximally legal binding due was set at 25 percent of the output. Explain and discuss the expected effects of operation Barga on agricultural productivity.
- c) Describe the approach used in Banerjee, Gertler and Ghatak (2002) to test the effect of operation Barga.

Question 3: Credit

- a) Consider a rural credit market where borrowers and lenders are risk neutral. Explain and illustrate graphically how a competitive equilibrium model with complete information and markets compares with a (i) competitive equilibrium with moral hazard (ii) Equilibrium with a fully informed monopolist, and (iii) Equilibrium where there is competition between an informed local moneylender and uninformed outside lenders.
- b) Outline examples of how the consequences of moral hazard may be neutralized.
- c) Microcredit institutions use different mechanisms to insure high borrower repayment rates and to reduce moral hazard problems. Describe these mechanisms and discuss advantages and disadvantages of each of the mechanisms.