

Written Exam for the B.Sc. or M.Sc. in Economics summer 2015

**Development Economics**

Final Exam

August 5, 2015

(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**

**Problem A**

Please, briefly

1. define and explain development accounting.
2. explain how income inequality may affect the accumulation of physical capital.
3. explain what knowledge about poverty we gain from looking at the poverty gap index in addition to the poverty headcount index.
4. explain the differences in the leading causes of mortality between rich and poor nations.
5. state and explain the Johnston-Mellor linkages between agriculture and manufacturing.
6. explain how a combination of specific tariffs and an overvalued exchange rate can promote import substitution policies and explain the possible impact of the policy on exports and the balance of payments.
7. explain the difference between a commercial project appraisal and an economic project appraisal.

**Problem B**

Please describe possible links between inequality and economic growth. The description should include details about how high levels of inequality may retard economic growth, because such inequalities create a political demand for redistribution that can only be met by imposing taxes on income.

**Problem C**

In an economy with three sectors; two tradable sectors and one non-tradable sector, please explain the Dutch Disease phenomenon following a sudden increase in world market prices in one of the tradable sectors. Give examples of policies that may counter the Dutch Disease.