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

Development Economics

Final Exam

June 10, 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 growth accounting.
2. explain how income inequality may affect the accumulation of human capital.
3. explain what is measured by the poverty headcount index and calculate the overall poverty headcount in a country with 100 million people in which the poverty headcount index among the 15 million minority people is 70 percent while the poverty headcount index is 10 percent among the 85 million majority people.
4. explain three points we take home from the Preston curves.
5. give four of the causes of the food crisis of 2005-2009.
6. explain why an expansion of credit from formal financial institutions to large informal lenders may not improve the terms of credit for small borrowers with no access to formal credit.
7. explain how an undervalued exchange rate can be related to outward-orientation and export promotion and explain the possible impact of the policy on imports and the balance of payments.

Problem B

Consider a situation in which a trader is lending to a farmer and the farmer's output is sold to the trader at an agreed price. In the model we have a set of market prices for inputs and outputs. The direct input price is normalized to 1, and we note that the farmer needs to borrow money to pay for all inputs. The trader's opportunity cost for loans is the market interest rate i, while the market output price is denoted p. A contract between the farmer and the trader specifies an interest rate on the loan and a price for the output. Given these prices the farmer determines the loan size, and hence the input and output in his farm production. In addition to the contract option the farmer has an outside option giving him a profit of A.

Show that the loan will be advanced at a rate of interest that is below the opportunity cost of funds for the trader, and all profits are made by the trader by buying output at a discounted price. Also discuss what may happen to the contract interest rate, production and the farmers profit if the government imposes a minimum output price to be paid by all traders.

Problem C

Please discuss the advantages and disadvantages of import substitution policies. Give examples of how import substitution policies can be implemented and explain how a combination of specific tariffs and an overvalued exchange rate is an import substitution policy. Please briefly explain the possible impact of the tariff and exchange rate policies on exports and the balance of payments.