

Written Exam at the Department of Economics winter 2017-R

Development Economics

Final Exam

August 26th

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language for which you registered during exam registration.

Please provide answers to all (A, B and C) questions.

This exam question consists of 2 pages in total

NB: If you fall ill during the actual examination at Peter Bangsvej, you must contact an invigilator in order to be registered as having fallen ill. Then you submit a blank exam paper and leave the examination. When you arrive home, you must contact your GP and submit a medical report to the Faculty of Social Sciences no later than seven (7) days from the date of the exam.

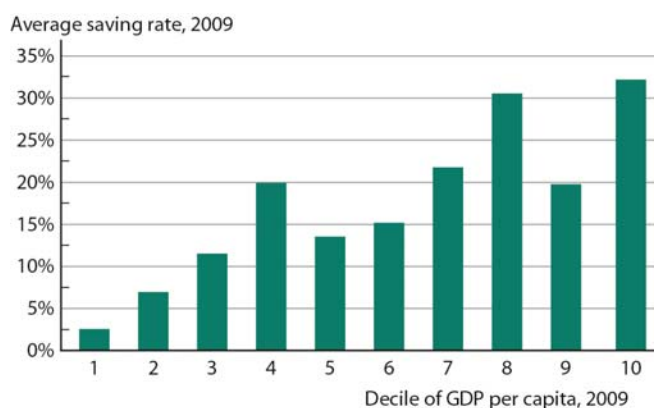
Problem A.

1. Why might GDP fail to measure value-added? Why might GDP be a bad indicator of “Economic Development”?
2. Please explain how it is possible to argue that: (a) Global inequality has increased from around 1980 to 2000; (b) Global inequality has decreased from 1980 to 2000; (c) Global inequality has been roughly constant between 1980 and 2000.
3. Please 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. Please, explain three points we take away from the “Preston curve”
5. Please, give three different motivations for providing foreign aid
6. Suppose that educated and uneducated workers both produce the same output, but that educated workers earn more because they can steal part of what the uneducated produce. If this were true, how would it affect estimation of the return to education a) using individual based wage equations (Mincer regressions), and b) using country based macro production function equations (as Barro and Lee)?

Problem B

1. Please, define “Official development Assistance” (ODA).
2. Roughly, how much ODA do the 22 OECD (so-called “DAC”) donors give, as a fraction of total GNI? From 1960 and today has ODA disbursement been increasing, decreasing or roughly constant as a fraction of (DAC) donor GNI?
3. Please discuss why in theory aid may increase growth; why aid may depress growth, or, aid may leave GDP per capita unaffected.
4. What does the evidence say regarding aid effectiveness (i.e., in terms of the impact of aid on economic growth)? The discussion should address the following issues:
 - a. What identification problem(s) arise when evaluating the impact of aid on growth?
 - b. Which “three views” on the impact of aid on growth are pervasive in the literature?
 - c. What is the “micro-macro” paradox?
 - d. Does the literature discussed under b) address the micro-macro paradox? Please, explain why or why not.

Problem C.



The figure shows that the average savings rate tends to be higher in richer places. Empirically, the correlation means that: (i) savings increase prosperity, and/or, (ii) income per capita increases savings, and/or, (iii) that factors correlated with income per capita also affect savings.

Please, provide *theoretical mechanisms* that can account for interpretation (i) – (iii).