Examination in

Intermediate Development Economics

26th of October 2012
9:00am-12:00am

This exam contains TWO sections: **Section A** and **Section B**.

Section A contains six questions, each worth 10 points. You have to answer ALL of those six questions.

Section B contains three questions, of which you have to answer ONLY TWO. You can choose which TWO of the three questions in Section B you answer. Each of those questions is worth 20 points. (Do not answer three questions in Section B. If you do so, only the first two questions answered will be marked.)

You can earn a maximum of 100 points on this exam. Your grade for this course is based on the sum of your points in this exam and the points you received for your presentation. If this sum is greater than 100, your final points are 100. For the grade E 45 points are required, for D 50 points, C 60 points, B 75 points and A 90 points.

Write your identification number (stated in the upper right hand corner on your exam cover) on each paper and cover sheet.

Use one cover sheet per question. Explain notions/concepts and symbols. If you think that a question is vaguely formulated, specify the conditions used for solving it. Only legible exams will be marked. No aids are allowed.

Results will be made available on your "My Studies" account (www.mitt.su.se) on the 16th of November the latest.

Good luck!

Section A

Question A.1: *`The Solow model predicts unconditional convergence, i.e. that all countries grow at the same rate in the short run.' Is this statement <u>true</u> or <u>false</u>? Why? If false, correct the statement. No points are awarded without explanation.*

Question A.2: *Describe carefully what we mean with a `poverty trap'. (You can use an example to illustrate your explanation, but the important part is to explain what is common to all `poverty traps'.)*

Question A.3: *Explain what hyperbolic discounting is, and how it might explain why farmers do not to purchase inputs such as pesticides in the current harvesting season, even if they say that they would want to purchase/use them during the next harvesting season.*

Question A.4: *The joint liability feature of microcredit schemes might help to solve moral-hazard problems in credit markets. Explain why this is true theoretically. Which experiment would you run to test this hypothesis empirically?*

Question A.5: *Explain how Suresh de Mel, David McKenzie and Christopher Woodruff estimate the returns to capital in microenterprises in Sri Lanka (QJE, 2008). Do their results make us believe that microenterprises in Sri Lanka are capital constraint?*

Question A.6: *Discuss three distinct reasons why `Average GDP per Capita' might not be a good measure of well-being and poverty.*

Section B

Question B.1: *Describe how adverse selection might explain why we see high interest and low repayment rates in developing countries' credit markets. Karlan and Zinman (Econometrica, 2011) provide evidence on how important adverse selection actually is for repayment rates. Describe their experimental design, how it allows to measure the effect of adverse selection on repayment rates, and their findings.*

Question B.2: *Discuss how one could derive predictions of the effects of the climate change that is to be expected over the next 50 years on mortality rates amongst the poor. The evidence discussed in class suggests one particular channel through which periods of hot weather affect mortality rates. Describe this channel and the evidence we have on it.*

Question B.3: *What are conditional cash transfer programmes? Discuss the available evidence on <u>whether</u> and <u>why</u> they lead to better education outcomes.*
Note: It is not sufficient to just state the findings of a study. You need to explain their empirical strategy, i.e. how they arrive at their conclusion.