

Examination in Intermediate Development Economics

27th of October 2013
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.

Please 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 15th of November the latest.

Good luck!

Section A

- Question A.1: *'The Solow model predicts that all countries grow at the same rate in the long run.' Is this statement true or false? If false, can you correct the statement? No points will be awarded without explanation.*
- Question A.2: *In developing countries and for traditional credit contracts (i) interest rates are high, (ii) repayment rates are low, and (iii) some people do not obtain any credit. Explain how the adverse selection theory can explain all three facts.*
- Question A.3: *Discuss how capital should optimally be allocated across uses in a society. Why might capital not be allocated this way?*
- Question A.4: *Discuss briefly why, theoretically, the existence and enforcement of property rights is important for credit markets, investment decisions and to reap gains from trade.*
- Question A.5: *'Children in developing countries do not go to school because their parents are poor.' Discuss the existing evidence in favour or against this hypothesis.*
- Question A.6: *Discuss three distinct reasons why 'Average GDP per capita' might not be a good measure of poverty.*

Section B

- Question B.1: *Micro-credit loans are often provided to several individuals of a group who are 'jointly liable'. What does 'joint liability' mean? Many people believe that joint liability might help to reduce moral hazard problems, and hence increase repayment rates. Why might this be true theoretically? Giné and Karlan (2009) tested this hypothesis. Explain their research design and results.*
- Question B.2: *Explain what hyperbolic discounting is, and how it can explain time-inconsistent choices. Then explain how a public policy programme, which recognizes that individual choices are characterized by hyperbolic discounting, could help self-employed entrepreneurs to purchase inputs. Lastly explain what are potential disadvantages of such a programme.*
- Question B.3: *Without receiving the full amount of the produce, agricultural tenants might not want to spend the socially optimal amount of effort/care when working on the field. Why? Banerjee, Gertler and Ghatak (2002) provide evidence on the effects of a reform of property rights, the so-called 'Operation BARGA'. Describe their research methodology and discuss whether this can provide evidence on the effects of increasing the tenants' share of output on agricultural productivity.*