

Examination in Intermediate Development Economics

30th of October 2014
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 20th of November the latest.

Good luck!

Section A

Question A.1: *Explain what hyperbolic discounting is, and how it might explain time inconsistent choices.*

Question A.2: *Acemoglu, Johnson and Robinson present data that makes them believe that 'institutions' are a long-run driver of economic growth, but 'geographic conditions' are not. What is the evidence they present and why does it lead them to draw this conclusion?*

Question A.3: *The three graphs below plot (roughly speaking) the distribution of the marginal product of capital of firms in India, China and the United States, respectively. For each country the mean of the marginal product of capital was normalised to 1. Explain why these graphs suggest that the allocation of capital across firms might be better in the United States than in China and India.*

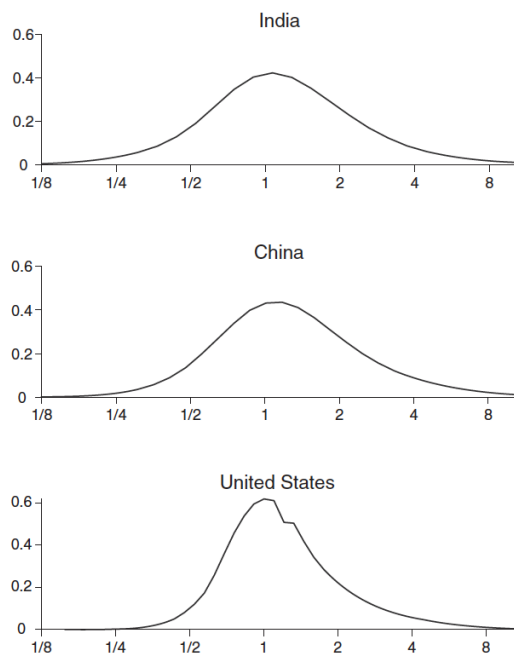


FIGURE II
Distribution of TFPR

Question A.4: *'The Solow model predicts that countries with a higher population growth rate will have a lower per capita capital stock 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.5: *Agricultural output might be lower when tenants are operating land under a share-cropping contract, since the tenants have lower incentives to purchase inputs and adopt costly technologies. If you could design an experiment to test whether share-cropping contracts do indeed have this incentive effect, how would that experiment look like? [Be as specific as possible.]*

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: (a) State the Kuznets hypothesis. (b) Explain why Simon Kuznets thought we might expect such a pattern in the data. (c) Below there is a graph from Thomas Piketty's book 'Capital in the 21st Century' (2013). To generate this graph the author obtained data on individual incomes in the United States for each year from 1910 until 2010. For each year the author identified the group of people who constitute the 10% of the population with the highest income in that year. He then calculated the income of this group relative to the total national income, and plotted how this 'share of top decile in national income' evolved between 1910 and 2010. Is this data evidence in favour or against the Kuznets hypothesis? [Remember to explain your answer.]

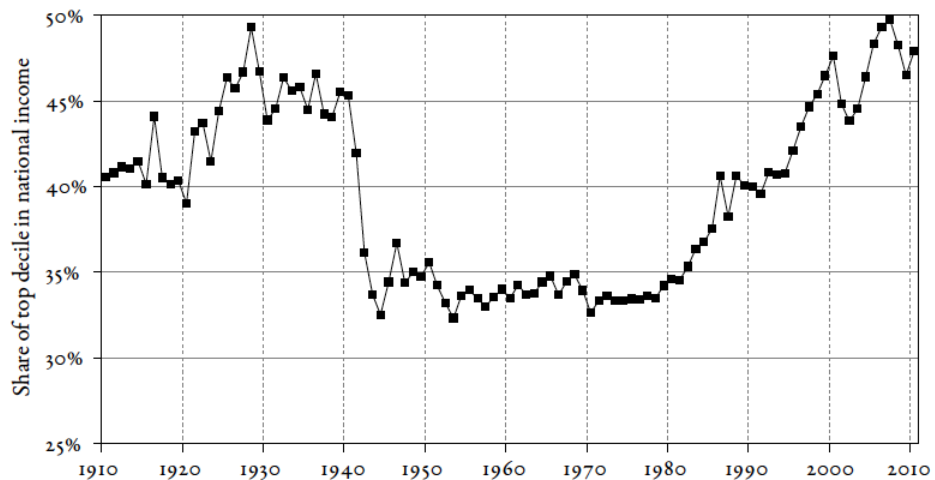


FIGURE I.1. Income inequality in the United States, 1910–2010

Question B.2: (a) Describe how adverse selection might explain why we see high interest and low repayment rates in developing countries' credit markets. (b) Karlan and Zinman (2011) provide evidence on how important adverse selection actually is for repayment probabilities. Describe their experimental design, how it allows to measure the effect of adverse selection on repayment rates, and their findings.

Question B.3: School dropout rates in developing countries are often high. Some people think that the reason for this problem is that children are not willing to attend school because they believe that completing school would not open up attractive opportunities for them. Other people think that the reason for the problem is that parents are taking decisions on behalf of their children, but they might not have the same interests as their children. Discuss the evidence in favour or against these arguments.