Stockholm University

Department:	Economics
Course Code:	EC2303
Exam Type:	Main
Examiner:	Konrad B. Burchardi
Credits:	7.5 credits
Exam Length:	3 hours

Examination in

Intermediate Development Economics

26th of October 2015
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 13th of November the latest.

Good luck!

Section A

Question A.1: *What are the advantages of running a randomised controlled trial when trying to understand the causal effects of some intervention on some outcome? What might be drawbacks of this research approach?*

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: *Acemoglu, Johnson and Robinson present data that makes them believe that `institutions' are a driver of long-run economic growth. Explain their argument.*

Question A.4: *Country A and Country B are similar in all respects, including the savings rate. There is one exception: For the next 5 years only, Country A has a higher savings rate. `The Solow model predicts that Country A and Country B will have the same 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: *Robert Jensen's paper `The Digitial Provide: Information (Technology), Market Performance, and Welfare in the South Indian Fisheries Sector' describes the beneficial effects of information technology on market efficiency. Explain (a) how he estimates the effects of the introduction of information technology on fish markets, (b) what he finds and (c) how we can understand these findings.*

Question B.2: *(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.]*

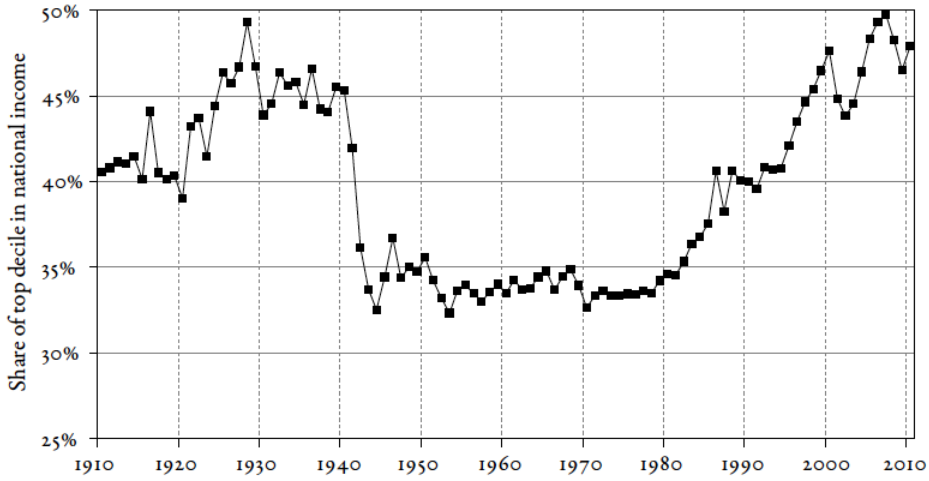

FIGURE I.1. Income inequality in the United States, 1910–2010

Question B.3: *The below graph plots the probability density function of the marginal revenue product of capital (MRPK) of enterprises in Rome and Armorica, respectively, in the year 50 BC, measured in gold coins. The mean of the MRPK in Rome is 1.04, and in Armorica it is 2.78. The opportunity cost of capital is unknown. [Remember to explain all answers.]*

(a) Was the allocation of capital in Rome inefficient?

(b) Imagine capital could be reallocated in the following way: You can select one Roman enterprise to have less capital (worth 1 gold coin), and one Roman enterprise to have more capital (worth 1 gold coin). You can do the same within Armorica. Where could you generate a higher increase in output, in Rome or Armorica?

(c) Could a flow of capital between Armorica and Rome lead to a more efficient allocation of capital? Which way should capital flow?