

Examination in Intermediate Development Economics

25th of October 2017
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 exam identification number on each answer sheet. Use the printed answer sheets for all your answers. Do not answer more than one question on each answer sheet.

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: *Explain what share-cropping contracts are, why they might lead to lower output than fixed rent contracts, and why they might be observed anyway.*
- Question A.2: Hall and Jones present in their paper “Why Do Some Countries Produce So Much More Output Per Worker Than Others?” (QJE, 1999) a methodology to quantify the contribution of human capital to economic growth. *Describe their approach, how it differs from the Mankiw, Romer, Weil (QJE, 1992) approach, and the key finding of Hall and Jones.*
- Question A.3: Suppose a colleague is conducting research that attempts to understand the effect of income taxation on economic activity in a developing country. In the country of interest, income tax rates are set by the relevant district level authorities, and the country has 273 districts. The colleague has collected district level data on the average tax rate (he calculates that by dividing total income taxes paid by total income) and GDP per capita in US dollar. He comes to you with the print-out of the attached figure (see end of exam script) and tells you: “Look at this graph. Isn’t it striking? I ran a regression of a districts’ GDP per capita on the district’s average tax rate in 2015, and get a coefficient on the average tax rate of -19.4, highly significant at the 0.1% level. Income taxation is really not that bad. If a district increases the average tax rate by 1 percentage point, average GDP per capital will just fall by 19.4 USD. That is a decrease of 0.35% relative to the average GDP per capital of 5453 USD in the country.”
Do you agree with his conclusion? Please explain why or why not.
- Question A.4: Acemoglu, Johnson and Robinson (AER, 2001) present data that makes them believe that ‘institutions’ are a driver of long-run economic growth.
Explain their argument.
- Question A.5: In their paper “Why don’t the Poor Save More? Evidence from Health Savings Experiments” (AER, 2013) Pascaline Dupas and Jonathan Robinson study the savings behaviour in rural Kenya. *Describe what they find as answer to the question set out in the title of their paper, and how they arrive at that conclusion.*
- Question A.6: *What is the Kuznets Hypothesis? Is there empirical evidence in favor/against it?*

Section B

- Question B.1:
- (a) *Explain why entrepreneurs might not take up investment opportunities with high average returns in the absence of functioning insurance markets.* [5 points]
 - (b) Karlan, Osei, Osei-Akoto, and Udry (QJE, 2014) investigate the role of improved access to insurance and credit for farmers' investment decisions. *Please describe their experiment, and what conclusion they draw from the results presented in the attached graph (see end of exam script).* [10 points]
 - (c) Take up for weather insurance has been surprisingly low amongst farmers in developing countries. *Explain what aspect of traditional weather insurance products might be responsible for the low take-up, according to Casaburi and Willis (working paper, 2017).* [5 points]
- Question B.2:
- (a) *Describe how adverse selection might explain why we see high interest and low repayment rates in developing countries' credit markets.* [8 points]
Dean Karlan and Jonathan Zinman present in their paper entitled "Observing Unobservables: Identifying Information Asymmetries With A Consumer Credit Field Experiment" (Econometrica, 2009) an empirical strategy that allows to uncover whether adverse selection is present in credit markets.
 - (b) *Explain how their experimental design allows to test for the presence of adverse selection in credit markets.* [7 points]
 - (c) *State their findings on the presence of adverse selection in credit markets and discuss what you think we learn from these about the importance of adverse selection in credit markets in general.* [5 points]
- Question B.3:
- (a) In "The Digital Divide: Information (Technology), Market Performance and Welfare in the South Indian Fisheries Sector" (QJE, 2007), Robert Jensen presents the attached figure (see end of exam script). It depicts the daily average price for fish on local markets, markets are grouped into three regions, and the solid vertical line depicts when cell phone towers started operating in the regions. *Explain how we can understand the striking pattern in the figure.* [10 points]
 - (b) In "Information, Demand and the Growth of Firms" (working paper, 2017) the authors follow up on the earlier findings, and study the effects of the cell phone tower roll-out on productivity in the boat building sector. *Explain why, according to them, productivity in the boat building sector changed after cell phone towers became operational, and what data they present to substantiate that claim.* [10 points]

Figure: Question A.3

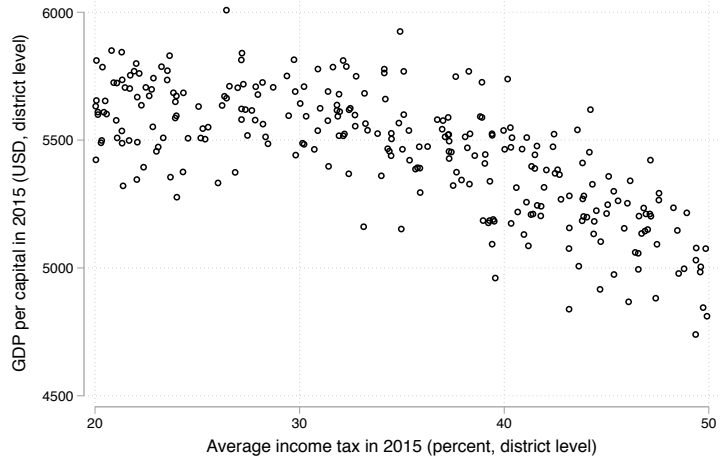


Figure: Question B.1

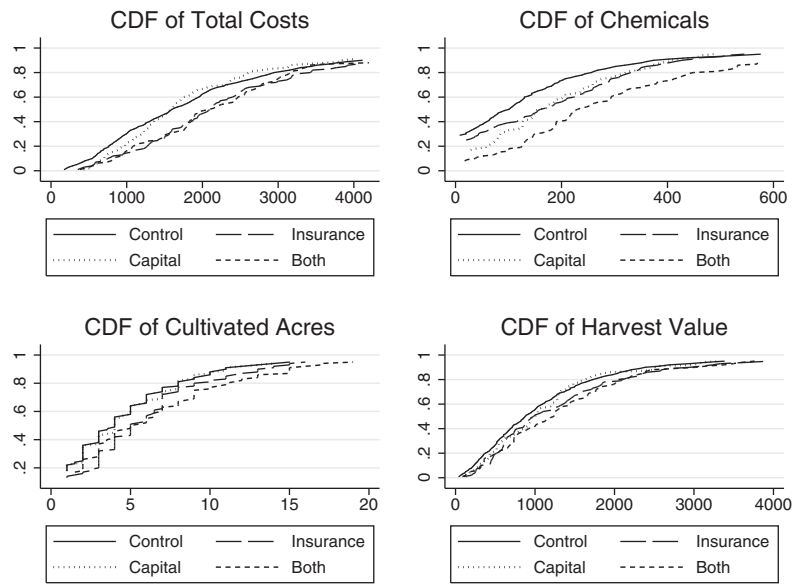


Table: Question B.3

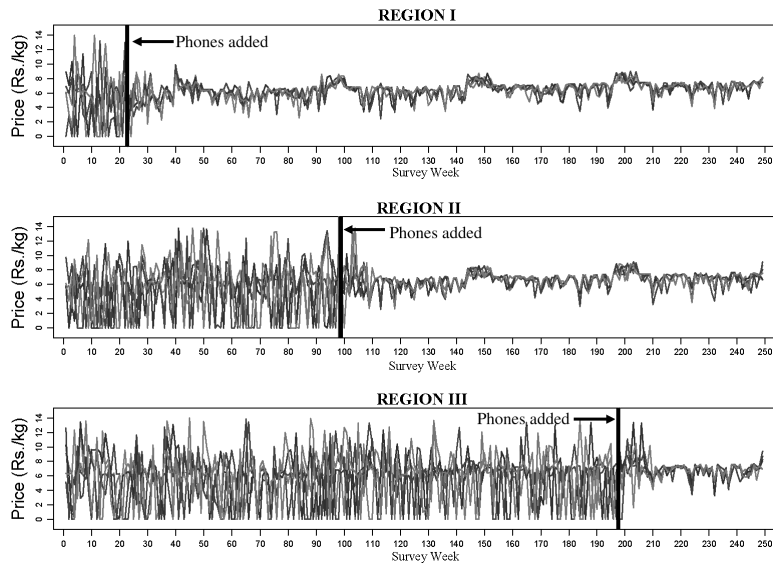


FIGURE IV
Prices and Mobile Phone Service in Kerala