Department of Economics

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| Course name: | Intermediate Development Economics |
| Course code: | EC2303 |
| Type of exam: | Main |
| Examiner: | Ingvild Almås, Konrad Burchardi, Mitch Downey |
| Number of credits: | 7.5 |
| Date of exam: | 30th of October 2019 |
| Examination time: | 9:00-12:00 |
| Aids: | No aids are allowed. |

**Write your identification number on each answer sheet (the number stated in the upper right-hand corner on your exam cover).**

**Start each new question on a new 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.

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

**Section A** contains four questions, each worth 10 points. You have to answer ALL of those four 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 80 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. You need to have done both the exam and the presentation to receive a grade. For the grade E 45 points are required, for D 50 points, C 60 points, B 75 points and A 90 points.

Your results will be made available on your Ladok account (www.student.ladok.se) within 15 working days from the date of the examination.

**Good luck!**

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# Section A

Question A.1: *Explain in short what a poverty trap is. Then provide a brief discussion on the empirical evidence.* Hints: Do we have evidence that suggest that poor nutrition leads to a nutrition-based poverty trap? What does the recent evidence in the intersection between psychology and economics suggest?

Question A.2: *What is an inequality measure? Discuss the four main principles for inequality measurement. And what is the Human development index? Mention the three basic dimensions of this index.*

Question A.3: Suppose three colleagues run experiments to estimate how installing drinking wells affects health. Consider the attached map (see end of exam script). Suppose **Colleague 1** randomly assigns exactly half the households in Village A to have a well dug on their land. Suppose **Colleague 2** randomly assigns Village B to have wells built on everyone's land and Village C to receive no wells. Suppose **Colleague 3** randomly assigns Village D to have wells built on everyone's land and Village E to receive no wells.

Colleague 1 estimates that wells do not improve health. Colleague 2 estimates that they do. Colleague 3 estimates that they do not. All three colleagues have scientists measure the quality of the water from the well and find that the well water is identical quality.

Assume (i) there is no statistical noise in their results and (ii) randomization was effective and each treatment group is comparable to each control group.

*In this case, what is the most likely explanation for why Colleague 2 concluded wells are effective while Colleagues 1 and 3 did not?*

Question A.4: 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.*

# Section B

Question B.1:  In "Democracy Does Cause Growth" (JPE, 2019) Daron Acemoglu, Suresh Naidu, Pascual Restrepo, and James Robinson show evidence that democracy increases economic growth. They provide several potential explanations for why this might be the case, but some remain sceptical.
*Use evidence from our lectures* to respond to four potential criticisms *that argue why we should not expect democracy to increase growth*.

(a) The biggest problem facing developing countries is that the state doesn't provide services (hospitals, education, etc.) in the poorest communities. Switching from a dictatorship to democracy will not solve this problem. [5 points]

(b) When poor countries democratize, they start trading more with rich countries. Since rich countries are capital abundant and poor countries are labour abundant, there are gains from trade as each country specializes in industries based on its comparative advantage. But a transformation towards trade creates more inequality and therefore more conflict. So switching to democracy can plunge countries into war. [5 points]

(c) Dictators have stronger control and more power than elected politicians. Thus, to eliminate corruption, we need dictators to impose harsh punishments on corrupt officials. [5 points]

(d) In developing countries, voters don't know what good policies are. They are distracted and easily swayed by whatever is popular at the moment (especially by influential groups). If we leave voters to decide what policies to implement, they will support bad policies. [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 Provide: 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]
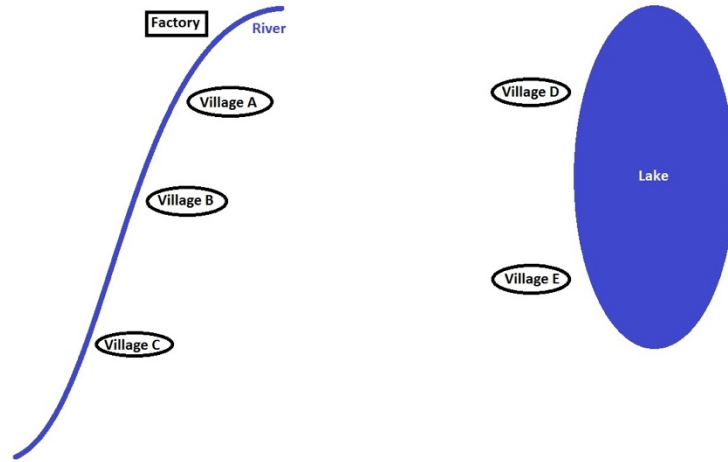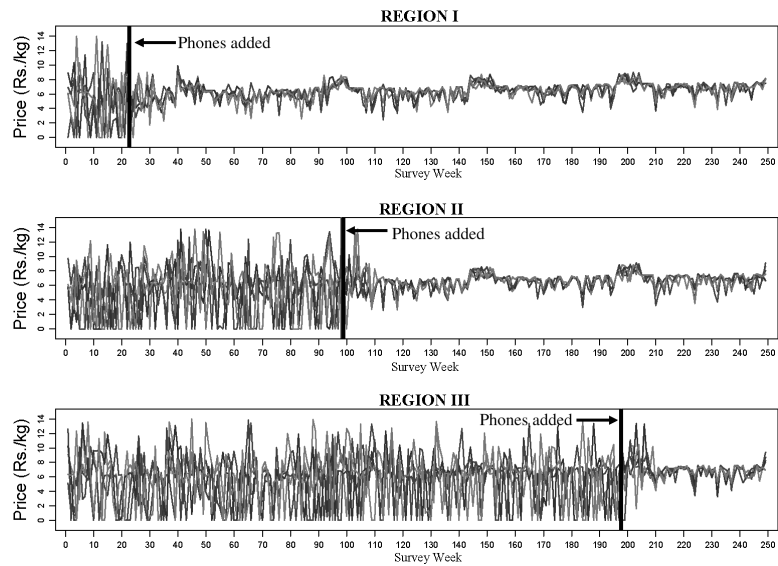
Figure: Question A.3



Table: Question B.3



FIGURE IV
Prices and Mobile Phone Service in Kerala