

**Ec 81: Economic Development  
Final Examination**

Prof. O'Connell

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**Instructions:** The exam is designed to take 2 hours (5 questions, at 20 minutes per question), so there should not be time pressure. Choose 4 questions from Part 1, and one from Part 2, and write a short essay. All questions have equal weight.

A good essay uses the analytical framework(s) we have developed in the course and refers to empirical evidence and/or country examples where relevant. Please label any diagrams and write legibly.

**PART 1: Choose any 4 of the following 8 questions**

1. What are the most important links from education to economic development? Is there a strong case for subsidizing education? At what levels – primary, secondary, tertiary? Is there a case for providing bigger subsidies for educating girls than boys?
2. The government wants to protect an infant industry by giving it an effective rate of protection of 25%. Does it matter whether this is achieved using tariffs or quotas? Explain the equivalencies and non-equivalencies between these trade policy instruments.
3. What is the conflict trap, and how does the prevalence of conflict among the bottom billion shape Collier's policy advice?
4. What is the natural resource curse, and what are the economic channels through which it occurs? What economic policies would you advocate to avoid it? In *The Bottom Billion*, Collier argues that political institutions tend to perpetuate the curse in countries with natural resource exports. What institutional solutions does he offer?
5. Compare a sharecropping contract to a fixed-rent contract. Which of these is efficient (briefly explain)? In the inefficient case, why can't the landlord and tenant agree to make efficient choices? Now explain why tenants are probably in a poor position to bear risk. Can this help explain the persistence of sharecropping contracts? Finally, why isn't it best of all just to pay the tenant a fixed wage?
6. Group lending was the most striking innovation of the Grameen Bank, and it has been widely imitated by other microfinance initiatives. How does group lending address the problems that limit the supply of credit to poor households from traditional formal-sector lenders (e.g., banks)? Now consider the public subsidies that have been required to keep these initiatives in business (e.g., the Grameen bank required a subsidy of 22 percent of the value of its loans). How would you determine whether this is a good use of public funds?

7. How do poor rural households deal with income risks? Do informal village-level arrangements fully substitute for the absence of formal credit and insurance markets? What are the consequences of these arrangements for the growth of rural incomes over time?
8. Emerging market economies are being hit hard by the global financial crisis, both directly through higher interest rate spreads and reductions in capital inflows, and indirectly through a slowdown in export revenues. What implications do these developments have for debt sustainability? What options does a country have when it faces a very sharp reversal of capital inflows?

**PART 2: Choose 1 of the following 2 questions.**

9. What are the market failures that hold back the growth of labor productivity in the manufacturing sector in developing countries, according to Hausmann and Rodrik? They advocate a trade policy package of ‘promotion with discipline’ – what do they mean by these terms? How do these authors interpret the growth experience of Latin America and Asia between 1960 and 2000?
10. Collier argues that one way industrial countries can help African populations move out of the bottom billion is to grant trade preferences to certain African exporters. What sectors is Collier talking about, and what does he mean by trade preferences? Is he advocating temporary or permanent preferences, and why? Finally, why does he say that preferences are more important for these countries now than they would have been in 1980?