

Final Examination

(3 hours, 40% of final grade, 100 points)

Part I. Respond concisely in words and equations to the following 4 questions (10 points each)

1. Explain very succinctly the strategy used by Nigel Key in estimating transactions costs in the product market.
2. There is evidence of the urbanization of poverty. Use a decomposition of the change in an aggregate poverty index between two periods to analyze the sources of this urbanization of poverty.
3. Briefly describe the challenges created by competition for the functioning of micro-finance institutions
- 4.

Part II. Land rental contracts (30 points)

1. Share contracts imply a disincentive for inputs that are exclusively provided by one of the parties while output is shared. Give three reasons why this contract may be observed in spite of being second-best and refer to the papers where this interpretation has been proposed.
2. When there is risk aversion and no insurance market, and when labor effort cannot be enforced, show how you would establish that there is a trade-off on efficiency between incentive payment and risk aversion effects. To do this, pose the problem mathematically and give the intuition of the result.
3. You have cross-section household survey data at the plot level giving the following information.
 - Labor use per hectare in each plot.
 - Household and plot characteristics. You know for example whether the owner of a plot lives in the village (VILLAGE = 1) or not.
 - Whether households rent land IN, OUT, or engage in NO-trade (base category).
 - Whether plots are on SHARE rent, FIXED rent, or OWNER-operated (base category).
 - Many households cultivate several plots and can be jointly IN and OWNER.How would you set up the econometric analyses to do:
 - 3.1. A Shaban-type test of the Marshallian inefficiency of sharecropping.
 - 3.2. A test of the Cheung hypothesis according to which sharecropping may be efficient when it serves to share risk and the landlord can easily monitor and enforce the tenant's effort.

In each case, carefully discuss the econometric problems you may face in estimating the equation you propose, explain how you address them, and show the set up of your test.

Part III. Measuring welfare (30 points)