Final Examination  
(Three hours, 1/3 of final grade)

Part I. Definitions (Select any 5 of the following 6; 4 points each for a total of 20 points)  
Define the following concepts  

1. Lorenz curve and Gini coefficient  
2. Economic and financial appraisal of a project  
3. Moral hazard in repayment of a loan  
4. Purchasing Power Parity equilibrium exchange rate  
5. Environmental services  
6. Diffusion of a modern technology

Part II. Short questions (Select any 5 of the following 6; 8 points each for a total of 40 points)  
Give short answers  

1. Self-Targeting of anti-poverty programs  
   Why is self-targeting a potentially desirable approach to targeting compared to other approaches?  
   Explain how a workfare program could be designed to achieve self-targeting.  

2. Trade policies and industrialization  
   Why have many countries chosen ISI instead of EOI as industrialization strategies?  
   WTO has endorsed OEI. Why does Rodrik caution us about this approach to industrialization?  

3. Money lenders  
   What are the advantages and disadvantages of the money-lenders in providing credit to the poor?  
   What reasons can explain that their interest rates often very high?  

4. Real exchange rate adjustment  
   Briefly describe the mechanisms by which the real exchange rate adjust to a sudden increase in world price of a main export commodity, contrasting regimes of flexible and fixed exchange rate. Does this result in an appreciation or depreciation of the local currency?  

5. Climate change  
   What factors determine the impacts of climate change on a particular country? Suggest policies that may affect these impacts?  

6. Environmental services  
   What criteria are used to target resource purchases in developing countries? What are the main issues in implementing such programs? How can they affect the poor?

Part III. Essays (Select any 2 of the following 3; 20 points each for a total of 40 points)  

1. Poverty assessment and PRSP  
   (1) What indicator would you use in conducting a country poverty assessment if the government in power has a strong aversion to extreme poverty? Explain your choice.  
   (2) How would you establish empirically the policy instruments to be used to reduce chronic and transitory poverty.
2. Impact of an educational program

You want to analyze the impact of the construction of community-managed schools EDUCO in El Salvador. One of the features of the program is that the parents choose themselves whether to send their children to an EDUCO school or to a regular school.

Suppose that in order to evaluate whether EDUCO school lead to higher performance, you regress the child performance grade on some of his characteristics (gender, age) some of his family characteristics (parents’ education, job, income, etc.), and a dummy variable for whether the school he attends is an EDUCO school or not.

1. Define and explain the potential bias that one would get from this simple regression.
2. Describe briefly a method that would correct for this potential bias.
3. What information is required to apply this method?

3. Water

The new Indian water minister asks you to identify major avenues to reform water resource management in the country. Some of the problems you have to address include:
1. Unsustainable ground water use.
2. Low water use efficiency in irrigation
3. Excessive investment in infrastructure
4. Polluted bodies of water.

Identify likely reasons for each of the problems.
Suggest policy solutions to each problem.
What are the distributional consequences of your proposal?