

Review Questions for Final Examination**1. Concepts of development**

1. Give seven categories of indicators that can be used to characterize “development”.
2. How has the UNDP defined “human development”? Why has this indicator been criticized?
3. Define the concept of vulnerability. How can it be measured?

2. Analysis of poverty

1. How to define an extreme and a normal poverty line?
2. Give definitions and interpretations of the poverty index P_α and its specialization to P_0 , P_1 , and P_2 . What do they each mean? Can the number of poor increase if P_0 is falling?
3. How to graph a poverty profile? How do we know that comparison of two poverty profiles (say measured in two periods) is robust to the choice of a poverty line?
4. How to calculate the aggregate P_α from the P_α for subgroups in the population?
5. How would you define chronic and transitory poverty? What are the policy instruments to reduce each type of poverty?
6. Is growth always good for poverty reduction? Why is there a debate on the quality of growth for poverty reduction?

3. Analysis of inequality

1. How to graph an inequality profile (Lorenz curve)?
2. Define two indicators of inequality.
3. What is the Kuznets inverted-U and why is there a debate about it?
4. Many have argued that lowering inequality will increase growth. What arguments have they used in support of this proposition?

4. Anti-poverty programs and targeting

1. In targeting, what are errors of exclusion (Type I) and inclusion (Type II)? Why should we be concerned with each of these errors?
2. If we do not know people’s income levels, and want to target program interventions on the poor, what options do we have?
3. Explain how a workfare program can be designed to achieve self-targeting.
4. Is it true that self-targeting always has a cost on beneficiaries? Give several examples.

5. Since the poor often know each others, while the social welfare agency does not know them, how could this be used to target program interventions?

5. Progresa and targeting for efficiency

1. Explain why Progresa pays mothers to send their children to school and under what condition.
2. Why could one argue that it is better to target Progresa transfers for education on the basis of the risk that a child may not be sent to school, as opposed to targeting on poverty?

6. Stabilization and adjustment policies

1. What adjustments are needed to reduce an imbalance between aggregate supply and demand?
2. What are the instruments used in stabilization policies?
3. What are the instruments used in adjustment policies?
4. What are the main arguments that Stiglitz has used in criticizing the role of the IMF in managing globalization?

7. Price policies and industrialization strategies

1. Contrast the industrialization strategies following ISI, EOI, and OEI. Explain the policy interventions in each. What are the advantages of EOI over ISI? Why is ISI initially easier to implement than EOI? What is needed to make OEI succeed?
2. Choice of trade policy instruments
Why do economists recommend tariffs over quantity restrictions as instruments to protect an industry? Why do they recommend subsidies over trade interventions to induce industrialization?
3. Define the concepts of border price and domestic price. Define the concepts of NPC and EPC. Why is EPC a better indicator of the incentive effect of trade interventions than NPC?
4. What are the arguments that Rodrik has used in criticizing the role of WTO in guiding developing countries toward industrialization?

8. Rural development policy and household and community behavior

1. Explain how the framework based on Assets-Context-Livelihood Strategies-Well-being Outcomes can be used to categorize policy interventions in support of rural development. Give examples.
2. Explain the concept of price bands on the labor market and show how it can be used to develop a typology of peasant households.
3. Why is the concept of an “inverse relation between total factor productivity and farm size” important for the political economy of a land reform policy? When can one expect such a relation to hold?

9. Impact evaluation of development programs

1. Define the simple difference method. When can it be used? What should you check to argue its validity?
2. Describe the propensity score matching method. Under what conditions can it be used?

3. Describe the double-difference method used for the assessment of the impact of Progresa on enrollment. What is the assumption made for the validity of the method?

4. Define the selection bias that can result from endogenous program placement, and explain with an example how it can lead to a bias in estimating impact. Define the selection bias that can result from self-selection in program participation, and explain with an example how it can lead to a bias in estimating impact.

5. What validity checks should you do for the randomization of a program assignment. Use the Quetta school subsidy impact analysis as an example.

10. Micro-finance institutions

1. Define:

- Moral hazard in repayment
- Adverse selection
- Limited liability in a loan

2. What are the advantages and disadvantages of money-lenders in providing credit to the poor? Why are their interest rates often very high?

3. What are the basic rules of functioning in group-lending schemes? How does group-lending solve the moral hazard problem? What are their advantages and disadvantages?

5. What are some consequences of the emerging competition in the micro-finance sector?

6. What are the dilemmas faced by microfinance institutions in introducing incentives for their agents?

11. Real exchange rate

1. Define the real exchange rate and give the expression for two indicators commonly used.

2. What is the effect on the real exchange rate of:

- a decrease in the price of oil for an oil exporting country?
- a decrease in the price of oil for an oil importing country?
- an increase in remittances from migrant workers?
- an important increase in foreign aid?
- a sudden increase in capital flight?

3. Briefly describe the mechanisms by which the real exchange rate adjusts to a sudden increase in the world price of a main export commodity, contrasting regimes of flexible and fixed exchange rate.

4. What is the effect of a real exchange rate appreciation on the export and import-competing sectors? Who are the gainers and the losers?