

Review Questions for Final Examination

Final examination: Friday December 15, 9-12am, GSPP 105

1. Policy issues in 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. Poverty assessment

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 draw 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. Inequality assessment

1. How to draw 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 (and equity in WR 2006) will increase growth. What arguments have they used in support of this proposition?

4. Social protection 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. Negative externalities and PES

1. When there are negative externalities generated by a private activity, why is there a logic for government intervention?
2. In this case, why does the government prefer using a tax on the polluting industry, while industry prefers regulation by a production quota?
3. What are the advantages and difficulties of putting into place a system of tradable permits, as under the Kyoto agreement?
4. Why pay for environmental services, and how to determine what price to pay?

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 micro-finance? What are the additional key characteristics of group-lending schemes? (Be sure to distinguish the critical key features that makes it work from the many detailed idiosyncratic characteristics of specific programs. 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?
7. What are the arguments for and against providing subsidies to micro-finance (Morduch’s discussion and class notes)

11. International migration and development

1. Using a graph, briefly explain the trade-based theory of migration. What are the implications for wages in the countries of origin and of destination.
2. What evidence do we have on the impact of migration on wages?
3. How can the extent of migration from Mexico be evidenced from Mexican population censuses? What conclusions are derived from that study?
4. What are the benefits and costs of migration for the country of origine. Contrast the cases of skilled and unskilled labor.

12. The Sachs-Easterly debate on foreign aid

1. What are the terms of the debate? What does each position imply for the design of foreign aid policy?
2. Can the approaches followed by the “planners” and the “searchers” be reconciled?