

Review Questions for Final Examination
Final examination: Friday December 14, 9-12am

1. Policy issues in development

1. Explain the concepts of market failure, government failure, and community failure, and give examples. Why are they important concepts for public policy?
2. Give seven categories of indicators that can be used to characterize “development”.
3. How did the UNDP define a “human development” index? What are the advantages and limitations of this indicator?
4. 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? What would it mean if P_0 falls while P_1 rises between two periods?
3. How to draw a poverty profile? How do we know that comparison of two poverty profiles 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? Do the policy instruments to reduce each type of poverty differ?
6. Does growth have to be “pro-poor” to help reduce poverty? Give an example where poverty has fallen even though growth was not “pro-poor”.
7. In your Mexico poverty assessment in **Assignment #1**, how did you analyze the changes in poverty and inequality between 1998 and 2004? What were your main findings?

3. Inequality assessment

1. How to draw an inequality profile (Lorenz curve)?
2. Define two indicators of inequality: Gini coefficient and Kuznets ratios.
3. What is the Kuznets inverted-U curve 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?
5. Based on your **Policy Brief #1**, how is the concept of equity used in the WDR 2006 *Equity and Development*? If it is endorsed by the World Bank in its programs, what difference would it make for the design of these programs?

4. Social assistance 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?
6. Could we use the concept of joint liability (as in group lending) to devise a community targeting scheme?
7. Based on your **Policy Brief #2**, how does the WDR 2005 *Making Services Work for Poor People* suggest that accountability of providers to stakeholders could be achieved?

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. What is the economic rationale to pay for environmental services, and how to determine what price to pay?

6. WDR 2008 Agriculture for Development

1. Why is agriculture potentially effective for development in its growth, poverty, and sustainability dimensions?
2. What are “pathways out of poverty” for the rural poor? What policies could be used to make each more effective?
3. If the Doha trade negotiations are successful, they are expected to result in higher international food prices: why?. If this is the case, in developing countries, who will gain and lose among consumers and producers? Can the poor be expected to gain or to lose?
4. Using your **Policy Brief #3**, would you recommend using fertilizer subsidies in Malawi? If yes, how would you set them up?

7. 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 to assess the impact of Progresa on the failure rate in school, as done in **Assignment #2**. What is the assumption made for the validity of the method?

4. Describe how you can measure the heterogeneity of impact of Progresa on boys and girls?

5. 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.

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

8. 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 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.)

4. How does group-lending help solve the moral hazard problem? What are the advantages and disadvantages of group lending?

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

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

9. International migration and development

1. How can the extent of migration from Mexico be evidenced from Mexican population censuses? What conclusions are derived from that study?

2. 1. How can the extent of migration from Mexico to the US be evidenced from Mexican and US population censuses? What conclusions are derived from that study? What are the weaknesses of the approach?

3. What does theory tell about the impact of migration on wages? What is the empirical evidence?

4. What are the benefits and costs of migration for the country of origin, in the case of low-skilled migrants? (Global development prospect reading)

5. What are the benefits and costs of migration for the country of origin, in the case of high-skilled migrants? (Global development prospect reading)

6. Discuss the different mechanisms by which migration affect education. (McKenzie reading)

10. Decentralization

1. What are the economic arguments for and against decentralization?

2. What are the dilemma raised by the allocation of central government funds for decentralized investment programs?

3. What are the dilemmas raised by the financing of local investment by local taxes?

4. What evidence is there on the targeting effectiveness of welfare transfers in Albania by local authorities? How does it compare to what would have likely been achieved by a central agency.

5. Comments this sentence from Bardhan: "Decentralization is to be preferred when tastes are heterogeneous and there are no spillovers across jurisdictions"

6. Cite and briefly describe one empirical evaluation of the decentralized delivery of public services from Bardhan's review

11. Industrialization strategies, trade, and exchange rate policies

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. What are the reasons for protecting industry (ISI) as a strategy to industrialize? What are the conditions for success of an ISI strategy and why did it often fail?

3. Give the definitions of the nominal exchange rate and of the real exchange rate. What does appreciation of the real exchange rate mean? How could it happen?

4. What are the consequences of an appreciation of the real exchange rate on production, consumption, and factor use using the contrast between tradable and non-tradable goods? What are its consequences on imports, exports, and the balance of trade?

5. Explain the concept of a "Dutch disease", why it may occur, what are its consequences, why it is a "disease", and what could be done to avoid it.

6. When there are pressures to devalue the exchange rate, for instance when there is a speculative attack on a country's currency as in the Philippines and Brazil during their financial crises, what options does a country have in countering the attack to avoid devaluation?

12. The Sachs-Easterly-Collier debate on foreign aid

1. What are the terms of the debate? What does each position imply for the design and management of foreign aid policy?

2. What elements of the three strategies cannot be reconciled?

3. What elements are in fact complementary and could be combined in an improved approach to foreign aid?