Review Questions for Final Examination

1. Analysis of poverty

1. How to define an extreme and a normal poverty line?

2. Give definitions and interpretations of the poverty index $P_\alpha$ and its specialization to $P_0$, $P_1$, and $P_2$. 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?

4. How to calculate the aggregate $P_\alpha$ from the $P_\alpha$ 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?

2. Analysis of inequality

1. How to graph an inequality profile (Lorenz curve)?

2. Define some 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?

3. Anti-poverty programs and targeting

1. In targeting, what are errors of exclusion and inclusion? 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. Since the poor often know each others, while the agency does not know them, how could this be used to target program interventions?

4. Household behavior and policies to improve household incomes

1. Explain why food and labor market failures may prevent peasant households from responding to price incentives in cash crop production.

2. Explain why labor market failures (e.g., price bands on the labor market) combined with heterogeneous control over productive assets leads to household labor deployment strategies that result in the formation of social classes.
3. Explain why, in the World Bank’s new approach to rural development,
   Regional development is a precondition to rural development.
   Rural development combines focus on assets, context, and transfers.

5. **Project appraisal in developing countries**

1. Define the three fundamental criteria for project appraisal: net present value, benefit-cost ratio, and internal rate of return.

2. If you want to compare candidate projects, which criterion would you use?

3. If there are market distortions or market failures, how would you do the economic appraisal of a project? How would you implement a project that has been appraised under these conditions?

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 arguments in favor and against a cold turkey approach to reform?

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. Using old welfare theory (consumer and producer surplus), compare the incidence of gains and losses from:
   - An import tariff.
   - An import quota (quantity restriction).
   - A direct subsidy to exporting industries.
   - What are the relative advantages and inconveniences of each in inducing industrialization?
   - 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. What are they each useful for?