

ECO 2117C: INTRODUCTION TO THE ECONOMICS OF DEVELOPING COUNTRIES

Date: Thursday 12 February 2015 at 16:00.

Duration: 1 hour

Location: TBT 333

VERSION	A (put this on the optical answer sheet under 'course code' as ECO2117CA)
STUDENT NAME	
STUDENT ID	

Midterm exam:

This exam determines 35% of the final grade. In total 80 credits can be obtained over multiple choice questions (40 credits, 2 points per question) and short answer questions (40 credits, varying per question).

Absence from an examination

Absence from any examination or test due to illness must be justified. The Faculty reserves the right to accept or reject the reason offered. Reasons such as travel, employment, and misreading the examination schedule are not accepted. For the procedures you need to follow when you are too sick to write your exam: [http://aix1.uottawa.ca/~pmakdiss/Differee\(EN\).pdf](http://aix1.uottawa.ca/~pmakdiss/Differee(EN).pdf)

Examination policy

During the exam:

- You are NOT allowed to make use of the textbook, lecture slides, personal notes, a pocket calculator or any other sources of information.
- Language dictionaries are allowed but should be free of personal notes. Your dictionary may be subject to inspection and the right to use it can be withdrawn if the above condition is not met.
- If you finish writing the exam early, hand in your exam and the corresponding answer forms to the teaching assistant in front of the class room. If you are not finished at the end time, stay seated until one of the teaching assistants collects your exam and answers.
- You are asked to identify yourself by means of your student ID or another official ID document (driver's licence, passport, health insurance card).

After the exam:

- An answer key is posted on the website latest 24 hours after the final exam.
- Complaints about exam questions should be communicated to the professor in writing latest 5 workdays after the final exam (emails are accepted).
- Preliminary grades are posted on the website latest 10 workdays after the final exam.
- Complaints about the amount of points and/or grade awarded for this midterm exam can only be addressed in person during Geranda Notten's office hours until the last day of classes of this term.
- You can drop by during office hours to get personalized feedback on your (midterm) exam. When making an enquiry, it is expected that you bring your exam (midterm exam only as exam regulation stipulate that the professor stores the final exams) and that you have compared your answer with that provided in the answer key in advance of our meeting.

Multiple choice (20 questions, 2 credits per question, 40 credits in total)

1. A subsistence economy is
- a. a very low income economy.
 - b. an economy in which people make what they consume.
 - c. an economy in which people receive food for pay.
 - d. all of the above.

Answer: B

2. The Millennium Development Goals include
- a. eliminating the proportion of people living on less than \$1 per day.
 - b. reduce child mortality by two-third.
 - c. none of the above are correct.
 - d. both a. and b. are correct.

Answer: B

3. A good definition of the meaning of development is the
- a. elimination of absolute poverty.
 - b. improvement in the quality of life.
 - c. fulfillment of the potential of individuals.
 - d. all of the above.

Answer: D

4. A newly industrialized country is
- a. the same as a high income country.
 - b. any country that has experienced sustained growth in industry.
 - c. a special classification given to some upper-middle income countries that have achieved relatively advanced manufacturing sectors.
 - d. any country that has moved out of lower income status.

Answer: C

5. The number of units of developing country currency required to purchase a basket of goods and services in a developing country that costs one dollar in the U.S. is given by

- a. GNP price deflator.
- b. Human Development Index ranking.
- c. purchasing power parity.
- d. the exchange rate.

Answer: C

6. One of the components of the human development index is

- a. the percentage of the population who are high school graduates.
- b. the average daily intake of protein.
- c. life expectancy at birth.
- d. the number of doctors per hundred people in the population.

Answer: C

7. Conditions of today's developed countries at the start of their industrialization differ from conditions in the developing world in that

- a. population growth rates were lower.
- b. more advanced technology was available.
- c. there were more opportunities for development assistance.
- d. none of the above.

Answer: A

8. A key research question in development economics is whether developing countries are starting to converge with developed countries in the long run. In what respect are countries supposed to be converging?

- a. Growth rate
- b. Income inequality
- c. Per capita income
- d. Population

Answer: C

9. Most successful examples of modern economic growth have occurred in a country with

- a. a temperate-zone climate.
- b. a market economy.
- c. exports of manufactured goods.
- d. all of the above.

Answer: D

10. Neutral technological progress occurs when

- a. higher output levels are achieved with the same quantity and combinations of factor inputs.
- b. higher output levels are achieved by more capital intensive methods.
- c. higher output levels are achieved by more labor intensive methods.
- d. higher output levels are achieved.

Answer: A

11. In contrast to the earlier neoclassical models of economic growth, in endogenous growth models, there is more emphasis on

- (a) capital accumulation.
- (b) population growth.
- (c) human capital.
- (d) all of the above.

Answer: C

12. Which of the following is a criticism of the neoclassical counter-revolution school's approach?

- (a) markets are not competitive in developing countries.
- (b) externalities are common in developing countries.
- (c) inequality may worsen when interventions are removed in developing countries.
- (d) all of the above.

Answer: D

13. On which of the following does the neoclassical counter-revolution school most blame underdevelopment?

- (a) misguided government policies
- (b) relatively rigid cultural traditions
- (c) the legacy of colonialism
- (d) unfair trade practices on the part of developed countries

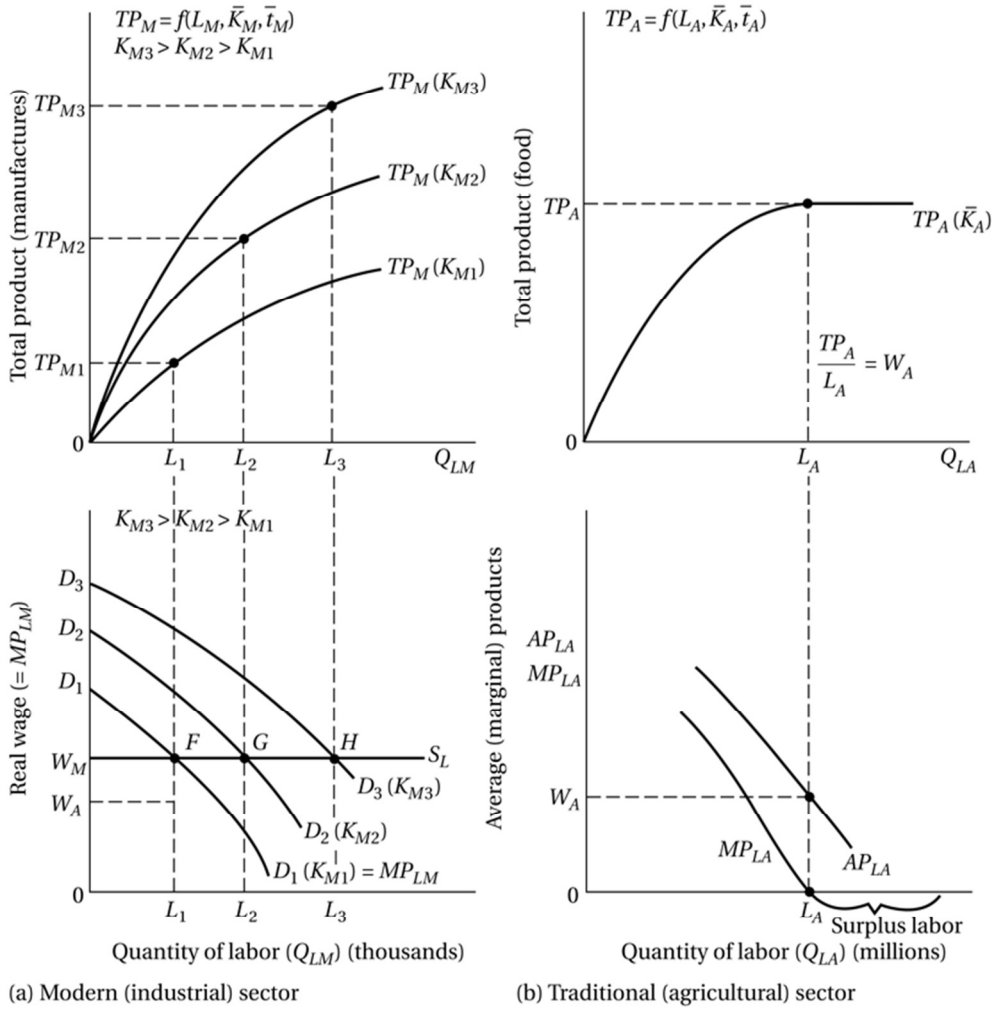
Answer: A

14. In the public choice (or new political economy) approach to development the emphasis is on

- (a) growth in the rural sector.
- (b) the self-interested behavior of public officials.
- (c) the dependence of LDCs on former colonial powers.
- (d) the inherent efficiency of developing country markets.

Answer: B

Figure: The Lewis Model of modern sector growth in a two-sector surplus-labor economy



(a) Modern (industrial) sector

(b) Traditional (agricultural) sector

15. The labor supply curve of the modern sector (S_L) in the Lewis model is horizontal if there is surplus labor in agriculture (see figure above). This condition persists as long as

- (a) the marginal product of labor in agriculture (MP_{LA}) is less than the average product of labor (AP_{LA}) in agriculture.
- (b) the marginal product of labor in agriculture (MP_{LA}) is less than the marginal product of labor in industry (MP_{LM}).
- (c) there are diminishing returns to labor in agriculture.
- (d) the marginal product of labor in agriculture (MP_{LA}) is zero.

Answer: D

16. International dependence theories distinguish between two groups of countries known as

- (a) rich-poor.
- (b) developed-developing.
- (c) center-periphery.
- (d) independent-dependent.

Answer: C

17. Which of the following policies may decrease the level of capital intensity in industry?

- (a) an increase in the cost of capital
- (b) a decrease in the minimum wage
- (c) an increase in the cost of credit
- (d) all of the above.

Answer: D

18. According to the theory of structural patterns of development, which of the following tends to occur as a country develops?

- (a) an increase in the percentage of income spent on food
- (b) growth of the rural sector
- (c) a decline in trade as a share of GNP
- (d) a shift from agriculture to industry and services

Answer: D

19. Examples of institutions are

- a. a country's constitution
- b. a country's government
- c. none of the above
- d. both a. and b. are correct

Answer: A

20. Extractive institutions deter human and economic development because

- a. they enable a small population group to reap a disproportionately large share of the benefits from economic production
- b. they do not promote long term economic growth
- c. none of the above
- d. both a. and b. are correct

Answer: D

Open questions (max. 40 credits)

Question 1 Introducing Economic Development

Question 1A: According to Sen, development should be about the expansion of people's capabilities. Explain what capabilities are and illustrate your answer with an example. (5 credits)

A 'capability' is the freedom that a person has to do the things she values doing. An example of a capability is the ability to go from one place to another (i.e. to transport oneself). In order to have this capability the person needs a means of transport (bike, car, shoes etc.), she needs to know how to use that resource (bike, drive a car, walk) and her individual conditions and her environment should enable her to do this (i.e. driver's licence, safe bike paths, car adjusted for person with physical impairment).

For more information see p. 16-19 in the textbook and lecture slides "Development Defined".

Question 1B: What does Figure 1 (see next page) tell us about the role that income plays in development? Explain your answer. (7 credits)

The figure shows the relation between per capita income and the level of happiness across many countries. The pattern suggests that income is positively related to happiness. The higher the income, the more likely that happiness is also higher. For instance, among the countries with the lowest happiness levels, not one high income country can be found.

However, the figure also suggests that income is not all that makes a population happy. For instance, Chile and France have similar happiness levels but their income levels are quite different. As happiness is related to development (higher living standard & more opportunities contribute to perceiving one's life as more satisfactory), these findings also support the view that income is an important means to achieving development but that there are many other factors that also influence development outcomes.

For more information see p.19-20 and lecture slides "Development Defined".

Table question 2 Development indicators, BRIC countries.

Indicators	Brazil			China			India			Russia		
	2000	2009	Δ	2000	2009	Δ	2000	2009	Δ%	2000	2009	Δ
GDP per capita, PPP (constant 2005 international \$)	7,909	9,437	19%	2,667	6,206	133%	1,769	2,993	69%	8,612	13,622	58%
Literacy rate, adult total (% of people ages 15 and above)	86.4	90.0	4%	90.9	94.0	3%	61.0	62.8	3%	99.4	99.6	0%
Public spending on education, total (% of GDP)	4.01	5.08	27%	1.91	4.41	3.09	-30%	2.94	4.09	39%
Gross enrolment in education (%) Combined: primary, secondary and tertiary	90.2	85.1	-6%	39.0	68.7	76%	52.1	62.6	20%	40.0	84.3	111%
Net enrolment in primary education (%)	91.7	94.1	3%	100	100	0%	79.2	92.1	16%	91.4	93.4	2%

Note: Δ means the relative change in indicator value and is expressed in per cent (%).

Source: The World Bank and the United Nations

Question 2b: The second Millennium Development Goal is to “achieve universal primary education”. This goal will be met if, by 2015, “all boys and girls complete a full course of primary schooling” (Todaro & Smith, 2012, p. 24). Which BRIC country made the most progress towards reaching this goal from 2000 to 2009? Base your answer on the Table above and explain how you reach that conclusion.
(7 credits)

India because its primary school enrolment has seen the most progress (i.e. the largest positive change in numbers namely 13 percentage points or roughly 16%) and because that indicator is most closely related to the universal primary education target. You could have added to your explanation the limitation that having more kids in school does not necessarily mean that a) they are also finishing school and b) they receive a quality education / actually learn to read, write, calculate and so on.

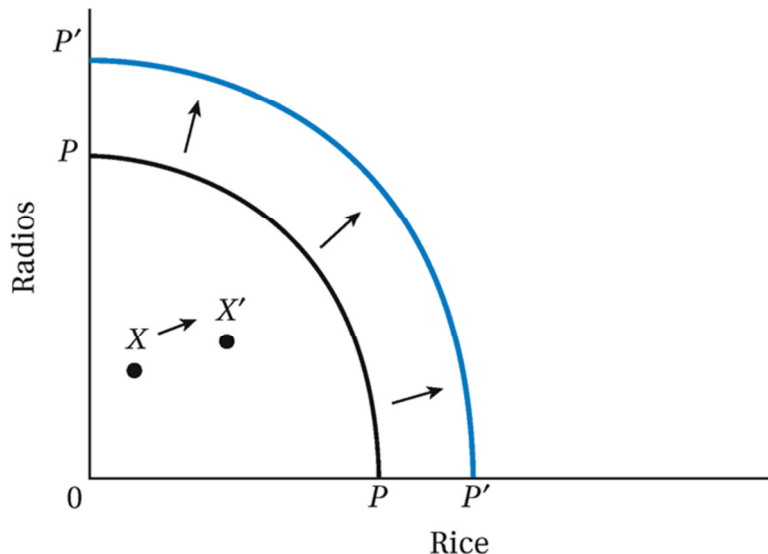
(It is not China because this country already had 100% enrolment rates over that period)

(The literacy and gross enrolment in education indicators are less related to the target because the literacy rate is relevant for adults and most of those are not in school anymore. The gross enrolment rates include all levels of schooling and not just primary)

For more information see the answer guidelines for assignment 1 (especially p. 4-5).

Question 3: Economic Growth and Development

Figure question 3A: The production possibility frontier



Question 3a: The Figure above illustrates the production possibilities frontier (PPF) of a simple economy in which only rice and radios are produced. Producing rice is relatively labour intensive while producing radios is relatively capital intensive. The Figure illustrates a number of specific ways in which this economy can grow:

- How can this economy grow? Explain two options. (Note: There are more than two)
 - Describe how each option is illustrated in the Figure. (Note: Feel free to add notes to the Figure)
- (7 credits)

There are three possibilities (you only needed to mention 2)

1. (Proportional) increase in capital & labour
2. (Neutral) technological progress
3. More efficient use of production factors (capital, labour)

Possibilities 1 & 2 will lead to an outward movement of the PPF ($PP \Rightarrow P'P'$). If the economy was already efficient (i.e. located on a point at the PP curve), it can now move to a point beyond the PP curve and, at best on the $P'P'$ curve. If the economy was not using its resources to its most efficient level, possibilities 1 & 2 could have resulted in a move from X to X' .

Possibility 3 can only be illustrated by a move from X to X' (or a similar movement within the PPF curve).

For more information see p. 140-143 and lecture slides “Economic growth & development”.

Question 3b: The Harrod-Domar model is a classic theory of economic growth. What drives economic growth in this model and to what extent is this theory still useful today?
(7 credits)

The factor driving economic growth in this model is capital accumulation. The sources of capital in this model are savings (domestic and foreign) which are then invested into expanding the stock of capital, thus leading to economic growth.

Capital accumulation is still an important source of economic growth; it is a necessary condition but not a sufficient condition for economic growth simply because it only focuses on one factor of production and ignores all other factors (labour, technology, human capital etc.).

For more information see p. 112-115 and lecture slides “Economic growth & development”.
