

UNIVERSITY OF WARWICK

Summer Examinations 2015/2016

Development Economics

Time Allowed: 1.5 Hours

Answer **ALL FOUR** questions in **Section A** (10 marks each) and **TWO** questions from **Section B** (30 marks each).

A separate answer book is required for Section A and Section B.

Read carefully the instructions on the answer book provided and make sure that the particulars required are entered on each answer book. If you answer more questions than are required and do not indicate which answers should be ignored, we will mark the requisite number of answers in the order in which they appear in the answer book(s): answers beyond that number will not be considered.

Section A: Answer ALL FOUR Questions

Evaluate whether the following statements are true or false and provide reasons for your choice. Illustrate any argument you make using diagrams (if appropriate).

1. A country with extractive political institutions can have high economic growth in the short run. **(10 marks)**
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 2. Suppose there are two regions in a country, region A and region B where agricultural workers face income/wage uncertainty due to rainfall. Even if workers in region B have marginally lower (expected) wages than in region A, there may be migration of risk-averse individuals from region B to region A. **(10 marks)**
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 3. According to Jared Diamond, one of the reasons for the lower levels of industrial development in Africa as against Eurasian landmass is because the north-south orientation of Africa made it harder for industrial technology to diffuse in Africa than in Eurasia, which has an east-west orientation. **(10 marks)**
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 4. Countries with autocratic political institutions are better situated at preventing famines than are democratic countries. This is because in the absence of elections, autocratic countries can plan for the longer term and are less likely to undertake short-term measures. **(10 marks)**
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Section B: Answer TWO Questions

5. Per capita income levels in Africa are a fraction of what they are in Europe.
- (a) Describe and evaluate various argument(s) for the importance of geographic and environmental factors in accounting for this difference in per capita income levels. **(15 marks)**
 - (b) There is a feedback relationship between institutional quality and per capita income such that higher per capita incomes may strengthen the quality of institutions and vice versa. Economists have used the method of instrumental variables to disentangle the effects of income from institutions. What properties should such an instrument have? **(5 marks)**
 - (c) Can you suggest an appropriate instrument that has been used to evaluate the causal impact of institutions on long term per capita income? Critically describe the study and the results. **(10 marks)**
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6. In response to sluggish growth and economic crises, many countries in the developing world have tried (over the past three decades) to implement economic reforms to stimulate growth and development.
- (a) What are some of key mechanisms as to why many countries have been unable to overcome political barriers to the implementation of economic reforms? Briefly describe which of these mechanisms you think is particularly important. **(20 marks)**
 - (b) What accounts for the fact that in some other countries, policy reforms have been implemented and yet failed to promote sustainable economic growth? **(10 marks)**
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7. One of the biggest problems with regard to governance in developing countries is the widespread prevalence of corruption.
- (a) Describe the various arguments as to why some countries suffer from much higher levels of corruption than others. Critically evaluate the arguments using any empirical evidence discussed in class. **(20 Marks)**
 - (b) Describe a model where a temporary increase in governmental resources to combat corruption can result in a permanent reduction in levels of corruption? **(10 marks)**
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