

1. (Weight 35%) Complementarities between actions arise when one person's action gives an incentive for others to take the same action. Such complementarities can give rise both to vicious and virtuous spirals for society. Give one example, from the text book or self-made, for each of the two. Discuss in both cases whether there are policies that can improve on the outcome.

2. (Weight 65%) Assume that there is a rich landowner that wants someone to farm his land. Potential farmers are all poorer than the landowner. Consider three types of contracts: Wage contract, fixed-rent contract and sharecropping contract.

i. Discuss the pros and cons of each type of contract from the landowner's point of view.

ii. Discuss the pros and cons of each type of contract from the farmer's point of view.

iii. What type of contract (or combination of contracts) can satisfy the needs of both the farmer and the landowner?

For the first question, the definition of the term is given in the text.

The issue is covered in many parts of the curriculum. The important thing is that the student demonstrates that she understands that this is different from regular market interaction.

Also the student may point out that in most cases a positive

complementarity may generate a vicious circle when set in reverse. i.e

If you do not invest, I do not invest etc. Policies may be fines and subsidies or big push interventions.

The second question is a classic in development economics and also well

is covered in the text. The students should have seen both the diagrams in marginal production/marginal returns and in production levels/return levels.

The students should be able to derive the returns to the farmer and

land owner under different contracts. Under fixed rent the students

should be able to say something about the willingness to pay for a

contract. Also that the sharecropping contract by construction entails some rents for the farmer.

Question iii) invites a discussion of risk versus efficiency. The

question also opens up for other discussions that students with

knowledge about institutions in developing countries could get credit from.

An essay that presents the frameworks in a sensible way should get a C.

An A and a B should be reserved to those who have a good structure and

who explicitly address and provide insights on the sub questions.