

## Exam 1910, Spring 2023

1. How would you define developing countries?
2. Discuss what determines the economic growth in these countries.
3. Give two examples of so-called poverty traps?
4. Is the availability of natural resources good for economic growth and poverty reduction?

### Instruction to graders:

#### 1. How would you define developing countries?

Here we expect a wide definition of countries with low GDP per capita and a high level of poverty in the population. It would also be good if the students mention that these features are correlated with education levels, sectoral composition of production, child mortality, life expectancy etc.

#### 2. Discuss what determines the economic growth in these countries.

Here we expect a graphical presentation of either i) the mechanism in the Solow model (contained in one chapter in the hand-out) or ii) the big push mechanism also discussed in the hand-out. Most students would associate growth with the Solow model and then- of course – the growth process as the movement towards the steady state. It would be super if students complement the discussion by other features such as the how basic subsistence needs affect savings, how weak institutions affect skill developments in the population, how initial conditions affect industrialization vs agriculture with rather different growth potential.

#### 3. Give two examples of so-called poverty traps?

Several poverty traps are discussed in the hand-out to students including those based on how nutrition affects productivity, and how productivity affects nutrition; how parasitic activities (including corruption) affect productive activities and how productive activities affect the profitability of being a parasite rather than a producer. It would be particularly fine if students discuss traps that can be used complementary to the growth process discussed above. The hand-out gives one example of traps in the Solow model determined by how low initial incomes do not generate sufficient savings to start the Solow mechanism as the income goes to necessary consume to poor workers and to luxury consumption to a no-saving landed elite. There is also a discussion of how rent seeking and grabbing affect the big-push mechanism – and how wage inequality in the big push mechanism can generate a development trap (and thus a poverty trap).

#### 4. Is the availability of natural resources good for economic growth and poverty reduction?

The hand-out has a separate chapter on this and a separate chapter on parasites (who also can live of natural resource rents). The discussion here is based on a model of industrialization (and growth) with a big-push mechanism