Exam Spring 2022: Econ 1910 - Poverty and Distribution in Developing Countries

Provide an economic analysis that addresses the following questions (all three questions should be addressed).

1. What can explain that the incidence of corruption varies so much across countries?
2. What are likely consequences of corruption?
3. How would you argue that corruption deters a positive economic and social development?

Guide for answering/marking

On question a) I expect that students explain how corruption can lead to multiple equilibria. One example. Consider a system where a bribe taker can be discovered and punished by being fired—if the supervisor who detects the fraud can be either honest or corruptible.   We can then have two locally stable equilibria: One where low corruption implies that the effective punishment of being caught as a bribetaker is so high that it deters corruption; another where the incidence of corruption is so high that the effective punishment of being caught in the act is so low that it invites corruption. Basic idea: countries can be in different equilibria. Students are expected to be able to argue this case consistently – and perhaps analyze it graphically as well.

On question b) I expect any elements of a long list discussed verbally in class – from low trust in society to low economic growth because few persons trust that they can keep the fruits from own productive investments.

On question c) I expect that the students see the connection between fraud and a low development trap or a high poverty trap. I consider this question one that makes us able to distinguish the Bs from the As. They have heard about how corruption can be either sand or oil in the machinery. They can draw on that discussion. They have heard about the resource curse and bad institutions and can draw on that discussion.