

4915--2020:

Discuss the relationships between inequality, resource rents and development where you emphasize

- 1. to what extent unequal ownership of land and other assets can create poverty;**
- 2. to what extent unequal competition over the access to resource rents can hamper development and economic growth.**

There are several ways, of course, to answer these two questions. The most relevant articles from the readings are A) Poverty and land ownership (KM) and B) Institutions and the resource curse (HM, KM; and RT), where A) may be most relevant for questions 1 and B) for question 2.

In A) the main point is a non-convexity in production: higher incomes generate higher work ability, either because of better nutrition or because higher income means better access to non-labor inputs such as fertilizers etc. A peasant who owns some land has a competitive advantage in the rental market for land. He comes first in the line land renters and he receives a higher surplus on his land. One simple demonstration of how unequal ownership land generates poverty is this: Assume that there is just enough land such that equal sharing of the land can feed everybody at the ‘poverty line’ Q^* . Any unequal ownership of the land would then imply that some agricultural workers fall below the poverty line. More generally: equal division of land maximizes total agricultural output.

In B) there is rent seeking competition where those who specialize in rent seeking has an advantage over the others, implying that people can move from being a productive entrepreneur to become a parasite. The reduction in productive entrepreneurship implies a brake on development and growth. The paper demonstrate how this may depend on the quality of institutions—a hypothesis that is taken to data – showing that with grabber friendly institutions, more resources is a curse—while resources in countries with higher quality institutions that are more producer friendly, are a blessing for growth and development. The empirical part of the paper estimate the threshold.

It would be nice if the candidate tried to combine the insights from the two articles – assuming by for instance that some working small holders became urban rentseekers – or entrepreneurs in general.