

ECON 4915 – Development Economics

Spring 2011

Seminar 4

Question 1

Base your answer on the economic arguments developed in Harris-Todaro model of migration, which is discussed in class.

- (a) Consider two countries, *A* and *B*. These two countries are identical in every aspect (such as population size, production function in two sectors, level of ‘sticky’ wage in the formal industrial sector etc.) except their risk preferences. We assume that citizens of country *A* are risk averse where as citizens of country *B* are risk neutral.

Do you think that the wage gap (defined as wage in the formal industrial sector – the wage in the agricultural sector) in country *B* is expected to be more than the wage gap in country *A*?

- (b) Now consider the same framework as in (a), and we will also assume that both countries are equally risk averse. However, a researcher finds stronger evidence of village level mutual insurance in country *B* than in country *A*.

Do you think that the wage gap in country *B* is expected to be more than the wage gap in country *A*?

- (c) Ray Chapter 10. Exercise 8.

Question 2 (From the chapter on Dual Economy, Bardhan and Udry)

Discuss the effect of capital accumulation on Inequality. Discuss the possibility under which inequality may increase with capital accumulation. When do you think the converse effect may hold true?

Tuesday’s (Mar 22) seminar: **A1** will review Question 1, and **A6** will review Question 2.

Wednesday’s (Mar 30) seminar: **B1** will review Question 1, and **B2** will review Question 2.