# Exam questions Development Economics ECON4915 - Spring 2012

**Keep the answers concise and relevant. Points will be deducted for irrelevant passages.**

Question 1: Political and cultural change (20 points)

Jensen and Oster (2009) investigate the effects of cable TV. What empirical strategies do they use in the paper and how do they argue for the internal validity of the results? Shortly discuss their findings and the external validity of the results.

Question 2: Institutions (40 points)

What is the relationship between institutions and long run economic development? Keep the discussion to the following four papers from the course literature: Acemoglu et al 2001 (AJR), Gleaser et al. 2004 (G), Nunn and Wantchekon 2009 NW, and Michalopoulos and Papaioannou 2011 (MP).

Question 3: Credit (15 points).

Poor people often face very high interest rates. This has been explained by the so called lender’s risk hypothesis. Assume that there is perfect competition and let

L = Loan amount,

R = Lender’s opportunity cost,

P = Fraction of loans repaid,

and i = Interest rate.

Use this notation to set up the lender’s risk hypothesis model, derive the main equation, and describe its implications in words. The model does not seem to describe reality very well, why is that? The model is still used to explain the high interest rates in developing countries but with an important twist – what is that twist?

Question 4: Inequality (25 points).

Based on the course material, argue for the following three possibilities:

1. Inequality may lead to lower growth
2. Inequality may be beneficial for growth
3. Inequality may be beneficial for growth in early stages of development, but may be harmful for growth at later stages of development