Poor Economics Chapter 1 Excerpt (Worksheet)

1. List out 3 new words you came across in this reading. Write out the definitions of these new words in your own words.

**Poverty trap:** people remains poor in an economy but the economy can do nothing for help unless exterior forces come for help.

**Foreign aid:** offering of capitals from other countries.

**Malaria**: an infectious disease that can be transmitted through mosquitos, and thus can be efficiently prevented using bed nets.

1. What is the debate between Jeffrey Sachs and William Easterly? What are their key respective arguments?
   1. Jeffrey Sachs’ view:
      * Poverty traps exist.
      * Countries under poverty need financial aids.
      * One big push like foreign aid can help the countries out of poverty.
   2. William Easterly’s view:
      * There is no poverty trap.
      * No financial aid should be given to poverty-stricken countries.
      * People should seek for their own solution instead of completely relying on financial aid
      * We should respect people’s freedom to get what they think is necessary.
2. What is ‘Poor Economics’ main thesis?

The question is neither about whether there exist poverty traps nor whether there should be financial aids given. instead, the challenges lie in how to work out the optimal solution for those countries and the only thing we can say is whether a particular aid is good or not.

1. What are the key lessons learnt from the ‘bed net’ research study?

We need to narrow big problems down into smaller concerns.

Pure theoretical debating cannot solve any problem. Instead, we need to look at more practical questions as well as the root of the debate.

The best way to answer those questions is through real-life experiments and random trials.

1. What is the poverty trap? What are the different policy implications from the two versions of the poverty trap?

Poverty trap refers to that people remain poor in an economy but the economy can do nothing for help unless exterior forces come for help.

The first version believes that the income is a cycle, and what you have currently determines what you are going to have in the near future. Thus, only with a big push can one goes out the poverty zone and remain out poverty.

However, from the second version, we know that poverty can not be improved easily even with exterior help, because poor people usually earns more than what they currently have and thus can become better-off through their own efforts. Aid can only do a little help on that.

1. What are randomized control trials (RCTs)?

RCTs is a tool to conduct a relatively scientific experiment by letting the researches to work with local people and thus gain first-hand real-life information from a large scale. The results drew can thus be used to testify the theories they proposed.