

EC1B5 Winter Term 2023-24

Answer Key to Discussion Question 2 (Week 3 Class)

Week 3 class: Compare GDP of two countries (one should be a country that you are familiar with).

- a. How would you conduct a development accounting across the two countries?
- b. Give one economic reason why the difference in GDP exists.

Answer key:

This question aims to improve the understanding of differences in GDP across countries. You should exploit your specific knowledge about the countries you pick.

Go through the reasoning behind development accounting. Use data on GDP, physical capital (K) or human capital (H). The residual can capture technological, institutional, or cultural differences. Discuss which of these factors are important.

Pay attention to institutions, culture or policies that change the mix of informal vs formal sector, or home vs market production.