Mid-Term Exam Economics 541 March 25 , 2015

Your Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (1)

Possible Points in Parentheses Answer what you can. There are 23 possible points.

1. Briefly Identify important ideas in Development Economics put forward in:

a. AK Sen The Concept of Economiv Development (1)

b. Arthur Lewis Economic Development with Unlimited Supplies of Labor (1)

c. Murphy, Shleifer and Vishny Industrialization and the Big Push (1)

d. Lawrence White, McKinnon and Shaw on Money and Capital and Financial Repression (1)

e. the Critique of the Financial Repression Theory by Joseph Stiglitz based on the Information Approach (1)

2. Briefly explain two applications of Transaction Costs in Development Economics which seems to challenge conventional wisdom and theory (2)

3. Provide your own critique of something done (theoretically or empirically) or concluded by the author of one required reading . What mistake might have been made or factor not considered and how might this affected the implications for theory, policy or other conclusions? (1)

4. Identify one required reading that has tried to demonstrate causality by way of the instrumental variable (IV) approach. Identify the nature of the data, explain the methodology and the conclusions (3)

5. Identify and describe One required reading that uses the”diff and diff” method for demonstrating the effect of some policy treatment on a variable of interest (3)

6.a Design a scheme for micro credit that would make the development of such a scheme in the presence of moral hazard. Explain why you think this scheme would be viable. (2)

6b. Design a scheme for micro credit that would make the micro credit market viable in the presence of adverse selection. Explain your answer. (2)

7. Policy Issues

a. What policies would have the most positive impacts in increasing formal credit in the economy and why? (1)

b. What kinds of effects could be expected from relatively rigid labor regulations, both positive and negative? (1)

c. What do you think should be done about child labor and why? (1)

d. What policy changes would you recommend be undertaken to increase the positive effects of most existing microcredit schemes? Explain your answer. (1)