UNIVERSITY OF COPENHAGEN
DEPARTMENT OF ECONOMICS

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CORRECTION GUIDELINES

EXAM IN ECONOMICS 2009-II

DEVELOPMENT ECONOMICS

The four groups of questions in this exam relate to a wide spectrum of the topics in development economics, covered in the readings. There is a set of sub-questions under each of the four main points. Precision, clear language, precise illustrations and ability to organize will characterize the good exam. The responses must also document that the underlying analysis/line of argument has been understood.

The following guiding remarks can e made in relation to the individual questions.

Question 1: the following formulation is stated in the text: explain briefly´. That is, the good response contains brief precise answers and illustrations, which document that the areas covered by the four sub-questions have been fully understood. Loose (unexplained) statements are not satisfactory.

ad. (i) ”Conversion”. See Ray pp. 10-16. Is it central that it is explained that the prices of many goods in developing countries are not reflected in the exchange rate because of the existence of non-traded goods and services which typically have very low prices in poor countries. Other reasons such as under-reporting of income can also be given, but it is expected that the response contains more than a “re-writing” of the question posed, and it must be remembered that “imputation” of non-marketed production is standard in the calculation of GDP.

ad. (ii) “Savings and income”. See Ray from p. 211. Is should be explained that the marginal savings rate is different for different income groups, and that the complete income-savings picture probably looks like fig. 7.3 (S-shaped) (p. 215). The implications of income-redistribution for total savings and growth should be carefully explained.

ad. (iii) “Pro and con FDI”. See TS from p. 710 (9th edition). The good response has a balanced overview of both pros and cons. A range of arguments should be included.

Question 2: the key reading for this question is chap. 3 in TS (9th edition) and Basu (chapter 3).

ad. (i) “Overview and comparison”: The two models are put up/presented so it is clear that the core model assumptions and relationships are understood.

ad. (ii) "Key differences": The fixed coefficients of the Harrod-Domar model in contrast with the substitution possibilities in the neoclassical model and implications of this must be included.

ad. (iii) "Impact of an increase in the savings rate": It must be shown and explained why the growth rate remains the same in the long run in the neoclassical model (only the income level is affected) while the growth rate increases in the Harrod-Domar model.

Question 3: The underlying readings for this question are TS (9^{th} edition, chapter 9) and Ray, chap. 12.

ad. (i) "Peasants' rationality and technology choice": The starting point should be a discussion of risk, uncertainty and survival in the rural sector, and it should be explained why it can be rational to choose a technology with less yield and less spread (see for example TS from p. 443). Different characteristic of the different technology packages and market failure/non existing markets should be included in the response.

ad. (ii) "Share cropping": It must be explained precisely what sharecropping refers to (see for example Ray from p. 420).

ad. (iii) "Why so widespread": It must be explained and shown why sharecropping can become a rational choice for both the land owner and the tenant (see Ray from p. 431) as risk is shared. The model presented by Ray should be carefully explained.

Question 4: for readings see Ray, chap. 17 (especially from p. 676).

ad. (i) "The rationale behind export promotion": Core arguments must be identified and it must be clear that the export promotion arguments are a mirror image of the arguments for import substitution (see Ray from p. 656).

ad. (ii) "Policy elements". See ray from p. 677 (lower import tariffs, export subsidies, access to credit and other forms of support).

ad (iii) "Impact of export subsidies": Reference is made to fig. 17.10 and 17.11 and the associated text for respectively the impact on the exchange rate and why the benefits may shift towards foreign consumers because of price effects (after increased supply). The associated explanation and the illustrations must be carefully explained to understand the welfare implications, and it must be clear which role is played by world market prices.