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Advanced Development Economics

**Winter Term 2008/09
(February)**

Exam, 120min

I. Choose one out of the four problems below and write a critical essay of four to eight hand-written pages. ($\approx 60\text{min}$)

1. Describe and critically evaluate in detail how the World Bank's international poverty line has been arrived at and how it is used to measure poverty across the developing world. Include a discussion of recent revisions to poverty measurement. In this context, also discuss different approaches in the literature on how to count or not to count the poor in the world.
2. Critically evaluate key insights from the empirical growth literature. In particular, focus on the importance of geography, institutions and natural resources for economic growth.
3. Discuss the mathematical and behavioural relationship between poverty, growth and inequality. Summarize the empirical evidence and discuss different approaches used in the literature to investigate these relationships.
4. Provide a brief motivation for the agricultural household model and discuss the modelling approach in detail. In your answer, you should briefly contrast the model with the standard model of household behaviour and refer to existing empirical evidence.

II. Discuss the results of one of the regression tables below. Describe the estimation methods which were used to obtain these results and discuss whether and why the method was appropriate in this case. Also point out where potential shortcomings are. Two to four hand-written pages ($\approx 30\text{min}$)

1. Burnside and Dollar (2000) Aid, Policies, and Growth. *AER*
2. Klasen (2002) Low schooling for girls, slower growth for all? *WBER*

III. Answer three out of the six following questions. Answer shortly, not more than one or two hand-written pages for each question (each $\approx 10\text{min}$)

1. Discuss possible interlinkages between the formal and informal sector in segmented labour markets.

2. Why is there a need for a multidimensional approach to poverty measurement? Also explain problems and possible solutions to do multidimensional poverty comparisons.
3. How can the “O-Ring Theory of Development” help in explaining macro vicious cycles?
4. Name and briefly discuss economic causes of the occurrence and the duration of civil war. What could be possible econometric specifications?
5. Who gives foreign aid to whom and why?
6. What is the rationale for subjective well-being measures? Also discuss the inter-temporal reliability of subjective well-being measures.

Appendix:

**Table 2. OLS Panel Growth Regressions
(including Middle Income Countries)**

Time dimension: six four-year periods, 1970-73 to 1990-93

Countries: 56 aid recipients

Dependent variable: Growth rate of per capita GDP

Regression No.	(1)	(2)	(3)	(4)	(5)
Observations	284	287	272	272	267
Constant	2.53 (.65)	2.62 (.71)	1.60 (.35)	.56 (.12)	.92 (.19)
Initial GDP per capita	-.60 (1.04)	-.60 (1.15)	-.48 (.75)	-.39 (.60)	-.44 (.65)
Ethnic fractionalization	-.007 (.90)	-.006 (.81)	-.006 (.78)	-.005 (.67)	-.005 (.66)
Assassinations	-.42 (1.50)	-.45 (1.63)	-.40 (1.45)	-.42 (1.54)	-.43 (1.58)
Ethnic x assassin	.008 (1.63)	.008 (1.74)	.007 (1.53)	.007 (1.54)	.007 (1.60)
Institutional quality	.66 (3.75)	.65 (3.75)	.66 (3.70)	.67 (3.76)	.71 (3.95)
M2/GDP (lagged)	.012 (.95)	.008 (.62)	.021 (1.37)	.028 (1.65)	.022 (1.27)
Sub-Saharan Africa	-1.43 (1.68)	-1.58 (2.18)	-1.33 (1.54)	-1.42 (1.63)	-1.47 (1.68)
East Asia	.81 (1.43)	.86 (1.52)	.89 (1.53)	1.12 (1.83)	1.26 (2.05)
Budget surplus	4.07 (1.03)	5.35 (1.68)	4.39 (1.08)	2.27 (.50)	.90 (.18)
Inflation	-1.56 (3.92)	-1.41 (3.46)	-1.58 (3.94)	-1.21 (2.51)	-1.19 (2.16)
Openness	2.11 (4.11)	2.07 (4.07)	2.17 (4.13)	1.83 (3.32)	1.61 (2.76)
Gov consumption	-2.53 (.55)	--	-7.35 (1.41)	-9.14 (1.77)	-8.25 (1.43)
Aid/GDP	--	--	.09 (.82)	.08 (.58)	-.05 (.27)
Aid x Policy	--	--	--	.19 (1.63)	.24 (2.87)
Aid ² x Policy	--	--	--	-.02 (1.68)	--
R ²	.41	.41	.40	.40	.40
Adjusted R ²	.38	.38	.35	.35	.35

Note: *t*-statistics (in parentheses) have been calculated with White's heteroskedasticity-consistent standard errors, for all regressions in the paper.

Source: Burnside and Dollar (2000)

Table 6. TSLS Aid Allocation Regressions

Time dimension: six four-year periods, 1970-73 to 1990-93

Countries: 40 aid recipients

Dependent variable: Aid as a percent of GDP

Type of Aid Mean Observations	Total 2.16 191	Bilateral 1.47 191	Multilateral .69 191	World Bank .16 191
Constant	35.8 (7.25)	19.8 (8.67)	15.9 (5.20)	4.57 (5.46)
Initial GDP per capita	-2.67 (6.90)	-1.44 (6.72)	-1.23 (5.50)	-0.43 (6.56)
Population	-.85 (6.57)	-0.49 (7.75)	-.36 (4.76)	-0.07 (3.52)
Policy	.44 (3.63)	.28 (3.54)	.15 (2.89)	0.05 (3.00)
Sub-Saharan Africa	-0.03 (0.06)	0.32 (1.59)	-0.34 (1.32)	-.10 (1.36)
Egypt	1.71 (4.11)	1.55 (4.28)	0.16 (1.10)	0.09 (1.62)
Franc Zone	.52 (1.46)	.30 (1.16)	.22 (1.66)	.04 (0.53)
Central America	0.73 (1.64)	.84 (2.58)	-0.11 (0.54)	-0.03 (0.46)
Arms imports (lagged)	.001 (0.88)	0.01 (0.94)	0.001 (0.44)	-0.002 (2.11)
R ²	.62	.56	.57	.51
Adjusted R ²	.59	.52	.54	.47

Instruments: Ethnic, assassinations, ethnic x assassin, institutional quality, M2/GDP (lagged), East

Source: *Burnside and Dollar (2000)*