



AFRICAN ECONOMIC RESEARCH CONSORTIUM

Collaborative PhD Programme in Economics for Sub-Saharan Africa

COMPREHENSIVE EXAMINATIONS IN CORE AND ELECTIVE FIELDS

FEBRUARY – MARCH 2012

DEVELOPMENT ECONOMICS

Time: 08:00 – 11:00 GMT

Date: Tuesday, February 28, 2012

Instructions:

Answer a total of FOUR questions: ONE question from Section A, ONE question from Section B, and TWO questions from Section C. The sections are weighted as indicated on the paper.

SECTION A (15%)

Answer only ONE Question from this Section

Question 1

“When ownership and labour are separated, the incentive to work hard is subdued. Work tends to become lax and careless rather than energetic and creative. A multitude of labour market institutions and practices can be understood as attempts to overcome this fundamental problem of incentive and motivation of workers.” (Excerpt from Debraj Ray, Development Economics, p. 407). Cooperative associations and communal enterprises are examples of such institutions in smallholder agriculture in Sub-Saharan Africa.

- (a) Compare and contrast how the use of labour provided by cooperative associations and communal enterprises resolves the problem of incentive and motivation of workers on smallholder farms in Sub-Saharan Africa. **(10 marks)**
- (b) Briefly explain the drawbacks of the above types of labour in Sub-Saharan African smallholder agriculture. **(5 marks)**

Question 2

Distinguish between economic growth and economic development. **(15 marks)**



SECTION B (25%)

Answer only ONE Question from this Section

Question 3

The financial and economic crisis which started in advanced countries in 2008 resulted in a recession affecting other economies through financial, trade, investment, aid and remittances channels. Sub-Saharan Africa recovered rapidly from the crisis.

- (a) Explain why the Sub-Saharan African countries recovered rapidly from the crisis. **(15 marks)**
- (b) Suggest and justify policy measures that these countries should adopt in order to strengthen their resilience to similar economic shocks in the future. **(10 marks)**

Question 4

How can a country use trade policies to promote development? **(25 marks)**

SECTION C (60%)

Answer TWO Questions from this Section.

Question 5

Empirical verification of the sources of economic growth sometimes uses the growth regression technique.

- (a) What is meant by the growth regression technique and what are its limitations? **(5 marks)**
- (b) In their study, Ndulu et. al. (The Political Economy of Economic Growth in Africa 1960-2000) reported the following pooled conditional regression results for Sub-Saharan African countries based on 1960-4 to 2000-4 data:



Dependent variable: growth of real GDP per capita

| Explanatory variable | Regression Coefficient |
|--|------------------------|
| Initial real GDP per capita | - 1.363 (0.000)*** |
| Initial years of life expectancy | 0.065 (0.045)** |
| Age dependency ratio | -0.044 (0.001)*** |
| Growth of potential labour force participation | 0.655 (0.0008)*** |
| Landlocked | -0.469 (0.256) |
| Trading-partner growth | 0.551 (0.001)*** |
| Income effect of terms of trade improvements | 0.032 (0.154) |
| Political instability | -0.292 (0.000)*** |
| Inflation rate (< 500) | -0.010 (0.015)** |
| Black market premium (<500) | -0.014 (0.023)** |
| Unproductive govt. consump./GDP | -0.099 (0.001)*** |
| Constant | 11.575 (0.000)*** |
| Observations | 495 |
| R-squared | 0.356 |
| F-statistic | 12.441 |
| Prob>F | 0.000 |

Robust p-values are in parentheses (*significant at 10%; **significant at 5%; *** significant at 1%).

- (i) What is the economic interpretation of these regression results? **(15 marks)**
- (ii) Explain the policy implications of your answer to (i). **(10 marks)**



Question 6

Financing is often considered a major constraint to development. Outline and discuss the different sources of financing for development. **(30 marks)**

Question 7

An economy is made up of two sectors – rural and urban. People who cannot find employment in the urban formal sector automatically enter the urban informal sector. The urban wage rate is given as W_u , the rural wage rate as W_r , and the urban informal wage rate as W_i . Employment in the formal and informal sectors is given as L_f and L_i respectively. Let p be the probability of getting a formal urban job, while $1-p$ is the probability of getting into the informal sector. Peter resides in a remote village and is thinking of going to settle in the city.

- (a)
 - (i) What is the probability that Peter will secure formal employment in the city? **(2 marks)**
 - (ii) What is Peter's expected income if he actually moves to the city? **(2 marks)**
 - (iii) Under what condition will Peter not wish to move to the city? **(2 marks)**
- (b) Apart from expected incomes, what other factors encourage people to abandon villages and move to cities in the LDCs? **(8 marks)**
- (c) Briefly discuss why most migrants are entering the informal sector in LDCs and the consequences of this. **(8 marks)**
- (d) What are the similarities and differences between rural-urban migration and brain drain? **(8 marks)**

Question 8

Using the institutional approach, discuss the functioning of the market, the state, and civil society with reference to development in SSA. **(30 marks)**

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