

# **AFRICAN ECONOMIC RESEARCH CONSORTIUM**

## **Collaborative PhD Programme in Economics**

### **JOINT FACILITY FOR ELECTIVES**

**JULY 2 - NOVEMBER 2, 2007**

### **ECON 656: DEVELOPMENT ECONOMICS**

#### **First Semester: Final Examination**

**Time: 09:00 AM – 12:00 Noon**

**Saturday, August 25, 2007**

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#### **INSTRUCTIONS:**

There are **TWO PARTS** in this examination. Answer **TWO** questions from **PART I** and **TWO** questions from **PART II**. You are required to answer a total of **FOUR** questions.

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#### **PART I:**

**Answer the following TWO questions**

#### **Question 1**

Show that in any endogenous growth model, the optimal growth rate depends finally on the profitability of capital and the consumer's inter-temporal preferences. What is the implication for the assumption of increasing returns to scales? **(30 marks)**

#### **Question 2**

What is the "Dutch Disease"? Use a two-sector model to illustrate such a disease. **(30 marks)**

## **PART II:**

**Answer TWO of the following three questions**

### **Question 3**

What is the golden rule of capital accumulation? Show that at the golden rule the saving rate is equal to the GDP share of capital. Under what assumption will this hold? **(20 marks)**

### **Question 4**

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

- (a). What is the probability that Agbe will secure employment in the city? **(1 mark)**
- (b). What is his expected urban wage? **(1 mark)**
- (c). If Agbe is determined to go to the city, what is his overall expected wage value? **(1 mark)**
- (d). Compute Agbe's total expected income if he actually moves to the city. **(1 mark)**
- (e). Under what condition will Agbe not wish to move to the city? **(1 mark)**
- (f). Apart from expected incomes, what other factors encourage people to abandon villages and move to cities in the LDCs? **(4 marks)**
- (g). Briefly discuss why most migrants are entering the informal sector in most LDCs and the consequences of this. **(4 marks)**
- (h). What are the similarities between rural-urban migration and brain drain? What differences, if any? **(7 marks)**

### **Question 5**

Explain briefly the Big Push (balanced growth) approach to economic development. Is there any link(s) to endogenous growth models? **(20 marks)**