AFRICAN ECONOMIC RESEARCH CONSORTIUM

Collaborative PhD Programme in Economics for Sub-Saharan Africa

COMPREHENSIVE EXAMINATIONS IN CORE AND ELECTIVE FIELDS
FEBRUARY 11 – MARCH 2, 2015

DEVELOPMENT ECONOMICS

Time: 08:00 – 11:00 GMT   **Date: Friday, February 20, 2015**

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

(a) Explain the distinction between formal and informal financial markets.   **(5 marks)**

(b) In the context of development priorities, what are the roles of the following institutions in African development process?

  (i)   Central banks

  (ii)   Development banks

  (iii)   Informal financial institutions   **(10 marks)**

Question 2

(a) How have conflicts affected economic development of African countries in the last few decades?   **(9 marks)**

(b) What policy measures can be adopted to stem conflicts in Africa?   **(6 marks)**

SECTION B: (25%)

Answer only ONE Question from this Section

Question 3

(a) Is poverty a relative or absolute concept? Explain.   **(10 marks)**

(b) As a multidimensional phenomenon, poverty is defined and measured in a multitude of ways.

   (i)   Explain two different approaches of measuring poverty.   **(8 marks)**

   (ii) Bring out their policy implications.   **(7 marks)**

Question 4

With the help of statistics provided in the table below, analyze the view that Brain Drain explains Africa's Skill Gap with the Rest of the World.   **(25 marks)**

	(1) Skilled emigrants/ (Skilled emigrants + Skilled working age residents)	(2) Skilled Residents/All Residents	(3) Skilled Emigrants/All Residents	(4) Counterfactual skilled/residents ratio if all skilled emigrants still become skilled but remain at home
Sub-Saharan Africa	13%	2.8%	0.4%	3.2%
World	5%	11.3%	0.6%	11.9%
North America	1%	51.3%	0.5%	51.5%
Caribbean	43%	9.3%	6.9%	15.2%
Mexico/Central America	17%	11.1%	2.3%	13.0%
South America	5%	12.3%	0.7%	12.9%
Eastern Europe	4%	17.4%	0.8%	18.0%
Europe (excluding E. Europe)	9%	18.3%	1.7%	19.6%
North Africa	7%	8.6%	0.7%	9.2%
East Asia	5%	6.0%	0.3%	6.3%
West Asia	7%	11.4%	0.8%	12.1%
Australia/New Zealand	5%	32.7%	1.9%	33.9%
Oceania	49%	3.1%	2.9%	5.8%
Seychelles	56%	7.1%	9.0%	14.8%
Cape Verde	67%	2.5%	5.1%	7.2%

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Mauritius	56%	2.7%	3.5%	6.0%
Liberia	45%	2.6%	2.1%	4.6%
Congo	22%	4.4%	1.3%	5.6%
Sierra Leone	53%	1.0%	1.1%	2.1%
Sao Tome & Principle	22%	3.9%	1.1%	4.9%
Eritrea	34%	2.0%	1.0%	3.0%
Somalia	33%	2.0%	1.0%	3.0%
Ghana	47%	1.1%	1.0%	2.1%
South Africa	8%	10.4%	0.8%	11.1%
Zimbabwe	13%	5.3%	0.8%	6.0%
Kenya	38%	1.2%	0.7%	1.9%
The Gambia	63%	0.4%	0.7%	1.1%
Equatorial Guinea	13%	3.9%	0.6%	4.5%
Source: William Easterly and Yaw Nyarko (2008).				

SECTION C: (60%)

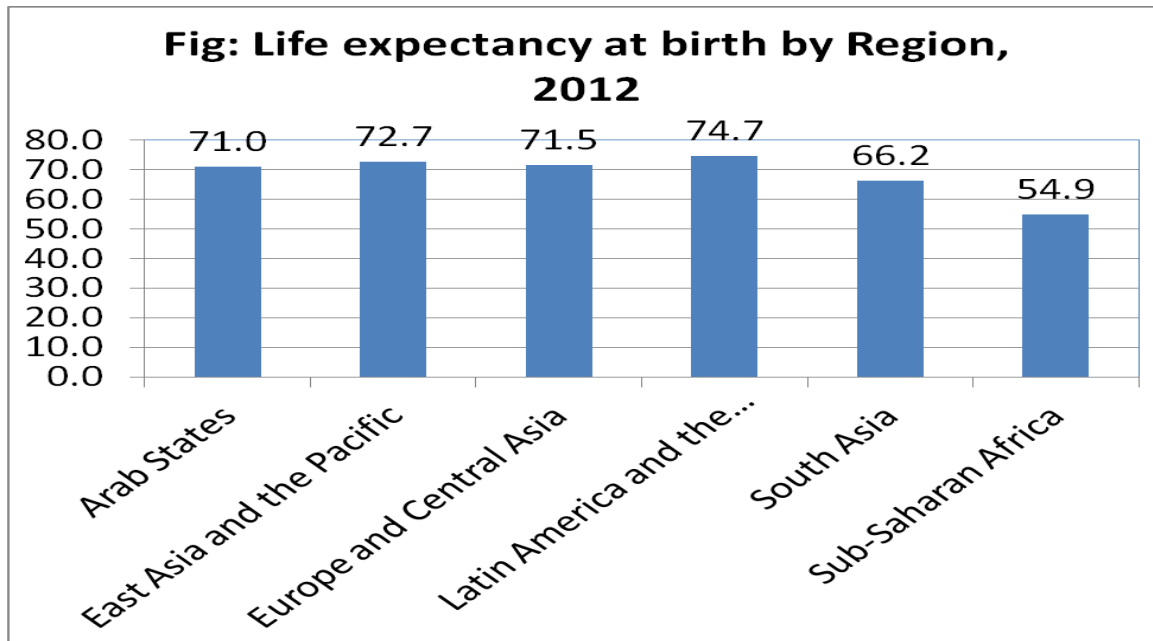### *Answer TWO Questions from this Section,*

AT LEAST one of which MUST BE Question 5 or 6

Question 5

The following two figures provide maps of global performance in Education and Health indicators. With these figures, answer the three questions below.
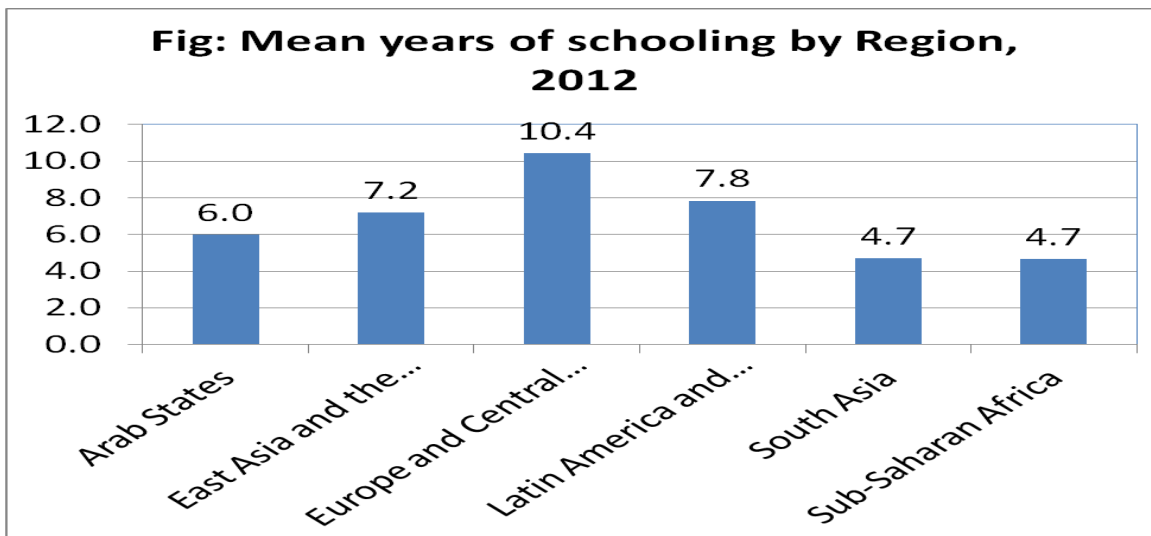
Source: Figures generated Global Human Development Report (HDR), 2013.

Fig: Life expectancy at birth by Region, 2012

Source: Figures generated Global Human Development Report (HDR), 2013.

(a) What are the possible implications of the health outcomes on human capital formation in Africa? **(10 marks)**

(b) What possible factors underlie the low educational and health performance in Africa? **(10 marks)**

(c) How can policies or programmes make education and health more relevant to the meaning of development? **(10 marks)**

Question 6

There are contestations on the role of trade at the regional or international levels in helping achieve economic growth and development in the economy.

(a) Using the "pessimists" and "optimists" arguments, analyze the link between trade and economic growth in Sub-Saharan Africa. **(15 marks)**

(b) What is your view of regional trading groupings in dealing with the above arguments? **(15 marks)**

Question 7

(a) Given the Solow model of the form: $Y = f(K, AL)$ where A is technological progress, K is capital stock, and L is worker productivity. Make the necessary assumptions and show clearly the following:

 (i) Break-even investment and steady state value of the per capita stock and per capita income. **(3 Marks)**

 (ii) Balanced growth path. **(2 marks)**

 (iii) Golden Rule Level of Capital. **(2 marks)**

 (iv) The meaning of long run economic growth. **(3 marks)**

(b) Show and explain the impact of financial innovation on steady state level of capital. **(5 marks)**

(c) State and discuss the predictions of the Solow model as related to the absolute convergence and conditional convergence. **(7 marks)**

(d) What is the role of political and legal systems as well as technological improvements in explaining convergence in sub-Saharan Africa? **(8 Marks)**

Question 8

Are the objectives of rapid economic growth and reduction in income inequality necessarily compatible? Discuss using theory and empirical evidence from developing countries.
(30 marks)