Final Exam, Development Economics 1, Period 2, 2020/21
Dec 10, 2020, 13.00-16.00

The exam has **3 Questions**. Answer all questions. A perfect answer is complete, but short and focused entirely on the question asked. The exam should be submitted as a pdf (or MS word) document, in the return box under Exam in Mycourses. The box will be hidden at 16.00 when the exam ends. Please observe the following format rules:

- Put your student number on top of each page (put it as a header). Do **NOT** add your name on the file, only the student number!
- Start a new page for every new main question (1, 2 and 3)
- Keep your answers within the word limits indicated in the exam instructions.

Question 1. (max 400 words /1 page with font size 12 and 1.5 line spacing)

In lecture 3-4, we saw that a high share of business activity in developing countries takes place in very small businesses, where we see little growth over time.

Suppose we tried to model and estimate the returns to capital with the following equation, where y_b is profits of business b and x_b is its capital stock.

$$y_b = \alpha + \beta x_b + \varepsilon$$

a. Explain the interpretation of β in this equation. *What are the main (endogeneity) challenges related to estimating this parameter? Explain.*

b. de Mel, McKenzie and Woodruff (2008) set out to estimate the returns to capital in microenterprises in Sri Lanka. *Explain briefly their empirical strategy, and in particular, how the strategy addresses the endogeneity issues related to estimating returns to capital.*

Question 2. max 600 words (1.5 page with font size 12 and 1.5 line spacing)

In lectures 8-11 of the course, we covered theories that seek to explain the large divergence in growth across countries.

a. The well-known Neoclassical (Solow) growth model highlights the role of capital investment in explaining growth differences between countries. Building on Douglass North and others, Acemoglu (2008) questions this explanation. *Explain briefly his critique and what he suggests as an alternative framework.*

b. In the paper discussed in lecture 10, Nunn (2008) estimates the effect of the slave trades on subsequent economic development in Africa. *Explain briefly the identification strategy used in this paper, and the <u>identifying assumption</u> behind this strategy. What are the threats to this assumption?*

c. Nunn (2008) and Nunn and Wantchekon (2012) suggest that the slave trades hindered development through their negative effect on both formal and informal institutions. *Explain with a concrete example how the quality and*

*type of **informal** institutions can impact economic development, and connect your discussion to the concept of transaction costs.*

Question 3. (max 400 words/1 page with font size 12 and 1.5 line spacing)

In Lecture 7 of the course, we reviewed, largely based on Dupas (2011), key barriers to the adoption of preventive healthcare measures that are highlighted in economic research.

a. Choose two of the factors that affect individuals' and households' adoption of preventive healthcare technologies discussed in the lecture/paper. *State and explain each of them briefly.*

b. Connect these factors to the preventive measures that are recommended for covid-19 such as physical distancing and the use of face masks. *How could the factors that you chose in 3.a. affect the degree of adherence of individuals to these preventive measures?* (Note: Your discussion should be focused on the two factors that you chose, and to the **individual's decision** of whether to adapt the preventive measure or not. Your discussion does not need to focus on developing countries).

Good Luck!