

UNIVERSITY OF OSLO
DEPARTMENT OF ECONOMICS

Exam: **ECON4915 – Development Economics**

Date of exam: Thursday, May 28, 2015

Grades are given: June 10, 2015

Time for exam: 2.30 p.m. – 5.30 p.m.

The problem set covers 1 page

Resources allowed:

- No resources allowed (except if you have been granted use of a dictionary from the Faculty of Social Sciences)

The grades given: A-F, with A as the best and E as the weakest passing grade. F is fail.

I. Short questions (each question carries weight 1/6 each, totally 1/3)

- 1) Explain Padró i Miquel's¹ (2007) explanation for how it is possible to sustain politics that are bad to everybody but a tiny elite in divided societies.
Be as explicit as possible on how he goes forth to model these questions. However, you do not need to formally solve the model.
- 2) Discuss briefly how growth can affect migration from rural to urban areas and how this migration, in turn, can affect poverty in rural and urban areas.

II. Structured essay (each question carries equal weight, totally 2/3)

- 1) Explain why credit markets in poor countries usually are not perfect.
- 2) Explain what we mean by microfinance and how it can improve credit markets.
- 3) Banerjee et al.² (2015) study the effect of microfinance in slums in Hyderabad, India. Explain their approach and discuss whether it is warranted. What are their findings on the effects of microfinance?
- 4) What are the consequences of imperfect credit markets on the relationship between inequality of financial wealth and economic growth?
- 5) Explain the challenges of empirically investigating the causal effect of inequality on growth. How does Easterly³ (2007) overcome these?

¹ Padró i Miquel, Gerard (2007) "The Control of Politicians in Divided Societies: The Politics of Fear". *The Review of Economic Studies*, Vol. 74, No. 4 (Oct., 2007), pp. 1259-1274.

² Banerjee, Abhijit, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan. 2015. "The Miracle of Microfinance? Evidence from a Randomized Evaluation". *American Economic Journal: Applied Economics*, 7(1): 22-53.

³ Easterly, W. (2007), "Inequality does cause underdevelopment: Insights from a new instrument". *Journal of Development Economics*, 84 (2), 755–776.