

**UNIVERSITY OF OSLO**  
**DEPARTMENT OF ECONOMICS**

Exam: **ECON4915 – Development Economics**

Date of exam: Friday, May 27, 2016

**Grades are given:** June 16, 2016

Time for exam: 2.30 p.m. – 5.30 p.m.

The problem set covers 2 pages

Resources allowed:

- No written or printed resources – or calculator - is 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 equal weight, totally 1/3)**

- 1) What do Alesina et al. (2015) mean by “ethnic inequality” and how does it differ from “ordinary” inequality? How do they measure it, and what proxy for income do they use? What is the impact of ethnic inequality on economic development?
- 2) Qian (2008) tests whether increased female income affects preferences for girls or boys. How does she test this? What empirical strategies are used? Are the strategies credible?

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

- 1) Explain why access to good insurance may improve the welfare of households in poor countries. Explain next what we mean by mutual insurance. Discuss to which extent mutual insurance is feasible.
- 2) Say individuals can be hit by a good shock or a bad shock, each with probability  $\frac{1}{2}$ . In the good case, income is  $H$ , in the bad case  $L$  (with  $L < H$ ).
  - a. Explain what a scheme with perfect insurance would imply in this model framework
  - b. Why may it be optimal for someone with a good shock to opt out of the scheme?
  - c. Discuss whether insurance over several periods can facilitate perfect insurance.
  - d. Discuss whether imperfect insurance schemes may be feasible even when perfect insurance breaks down.
- 3) Explain whether a formal insurance scheme (an insurance company) can overcome the difficulties discussed above. How do Cole et al. (2013) study the demand for formal insurance? What are their main findings?

## References

Alesina, A., Michalopoulos, S., and Papaioannou, E (2015): "Ethnic Inequality" forthcoming in *Journal of Political Economy*.

Cole, S., X. Gine, J. Tobacman, P. Topalova, R. Townsend, and J. Vickery (2013): "Barriers to Household Risk Management: Evidence from India", *American Economic Journal: Applied Economics*, 5 (1): 104–135.

Qian, N. (2008): "Missing women and the price of tea in China: The effect of sex-specific earnings on sex imbalance", *The Quarterly Journal of Economics*, 123(3): 1251-1285.