

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

Exam: **ECON4915 – Development Economics**

Date of exam: Thursday, May 23, 2013

**Grades are given: June 12, 2013**

Time for exam: 2:30 p.m. – 5:30 p.m.

The problem set covers 2 pages

Resources allowed:

- No resources allowed

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

**Keep the answers concise and relevant. Points will be deducted for irrelevant passages.**

**Question 1: Political and cultural change (25 points)**

Jensen and Oster (2009)<sup>1</sup> investigate certain effects of having access to cable TV.

- a) Point out some reasons why access to cable TV may affect women's status.
- b) Briefly discuss the findings of Jensen and Oster (2009).
- c) What empirical strategies do they use in the paper, and how do they argue for the internal validity of the results?
- d) Briefly discuss the *external* validity of the results.

**Question 2: Institutions (25 points)**

Michalopoulos and Papaioannou (2011)<sup>2</sup> investigate the long run impact of both national level and local level institutions on economic development.

- a) Briefly discuss the findings and what we learn about the role of institutions in the development process.
- b) Describe how do they analyze the question, i.e. what data and empirical strategies are used and briefly discuss their findings with respect to internal and external validity.

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<sup>1</sup> Jensen, R. and Oster, E. (2009). "The Power of TV: Cable Television and Women's Status in India\*", *The Quarterly Journal of Economics*, 124 (3): 1057-1094.

<sup>2</sup> Michalopoulos S. and Papaioannou, E.(2011), Divide and Rule or the Rule of the Divided? Evidence from Africa, NBER Working Paper 17184.

**Question 3: Insurance and moral hazard (20 points)**

Consider a village with a large number of identical risk averse farmers. All risk is idiosyncratic. For each farmer there are two possible harvest outcomes: high (H) and low (L). The probability of H is  $q$  if the farmer's effort is low, and  $p$  ( $>q$ ) if effort is high. A high effort incurs an extra utility cost  $C$  for the farmer. Assume that in the absence of an insurance scheme, high effort is worthwhile for each farmer.

What can be attained by a mutual insurance scheme? What is the problem of moral hazard in this setting? How can the moral hazard problem be solved with an incomplete insurance scheme?

**Question 4: Natural resources and institutions (30 points)**

Consider the model in Mehlum et al. (2006).<sup>3</sup> In this model it is assumed that entrepreneurs allocate themselves between the activities "production" and "grabbing" until the return in each alternative is equal. There are joint economies in production: Grabbers fight for resource rents and feed on producers. Consider two scenarios: one where institutions are grabber-friendly (grabbers get the entire resource rent) and one where institutions are producer-friendly (producers get the entire resource rent). Within this model, what is the effect of a discovery of valuable resources in each scenario? Give also a critical assessment of the empirical test used in Mehlum et al (2006).

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<sup>3</sup> Mehlum, H. K. Moene, R. Torvik (2006). "[Cursed by Resources or Institutions?](#)". *The World Economy* 29, pp. 1117-1131.