

I. Empirical methods

These questions are based on the methodology readings by Finseraas and Kotsadam, but almost any introduction to applied econometrics could also work.

You want to study the effects of foreign aid, knowing that the poorer a country is the more likely it is that the country receives foreign aid. How would you approach the issue? Could you use an instrumental variable method?

II. Global inequality

The Penn World Tables (PWT) provide PPP-adjusted GDP numbers for a number of countries. I have compiled a file with these numbers using two different versions of PWT. You can access it from here ([Stata version](#), [Excel version](#)). PWT 7.0 uses the ICP data from 2005, whereas the PWT 9.0 uses ICP 2011.

To analyze inequality I prefer to use `inequal7` in Stata available from SSC (type `ssc install inequal7` to install), but feel free to use any package that computes Gini coefficients and handles weighted data.

- a. Compute inequality between countries using the Gini coefficient for the period 1970 to 2009. Does the level and trend in inequality depend on which round of the PWT you use?
- b. Repeat the same exercise, but weight the Gini coefficients with population.
- c. Use the weighted estimates from the latest PWT round. What is the role of China and India?
- d. Discuss what is missing to say something about global inequality, and discuss approaches to estimating this.
- e. How would you measure poverty? Discuss to what extent the poverty in the world has declined over the recent 10 years.