UNIVERSITY OF KWAZULU-NATAL, WESTVILLE
SCHOOL OF ACCOUNTING, ECONOMICS AND FINANCE
UNDERGRADUATE PROGRAMMES
EXAMINATIONS: JUNE 2016

MODULE: Development Economics
CODE: ECON370W1

UNIVERSITY OF
KWAZULU-NATAL
INYUVEI
YAKWAZULU-NATALI

FINAL MAIN EXAMINATION 2016

DURATION: THREE (3) HOURS
TOTAL MARKS (200)

Internal Examiner: Dr Gerry Bokana

External Examiner: Prof. Terry Contogiannis

NB:
STUDENTS ARE REQUESTED IN THEIR OWN INTEREST TO WRITE LEGIBLY
AND IN INK

INSTRUCTION:
THIS EXAMINATION PAPER CONSISTS OF 11 PAGES (INCLUDING THIS COVER
PAGE), PLEASE ENSURE THAT YOU HAVE ALL OF THEM. CLEARLY INDICATE
BOTH YOUR STUDENT AND SEAT NUMBER ON THE COVER OF EACH ANSWER
BOOK.

1. SECTION A: SHORT QUESTIONS [50 MARKS]
   ▪ Students must answer all of the questions.

2. SECTION B: ESSAY QUESTIONS [100 MARKS]
   ▪ Students must answer ONE of the questions.
   ▪ Clearly indicate question number that you have attempted on the answer book.

3. SECTION C: MULTIPLE CHOICE QUESTIONS [50 MARKS]
   ▪ There is no negative marking.
   ▪ Enter your multiple choice answers on the MCQ answer sheet provided, using an HB pencil
     only (Entries in pen will not be recorded by the scanner and marks will thus be lost).
   ▪ Please ensure that you hand in your MCQ answer sheet as well as your written question answer
     sheet to the invigilators before you leave.
SECTION A

SHORT QUESTIONS

ANSWER ALL QUESTIONS

QUESTION 1

Describe the following concepts:

1.1. Development economics

1.2. Kuznets curve

1.3. Informal sector

1.4. Interlocking factor markets

1.5. Two-gap model
SECTION B

ESSAY QUESTIONS

(100 MARKS)

ANSWER ONE (1) OF THE FOLLOWING QUESTIONS

QUESTION 2

Explain what is meant by “investment in children,” describing the goals and methods of the parents.

OR

QUESTION 3

Is child labour a problem in developing countries? Explain.
SECTION C

MULTIPLE CHOICE QUESTIONS

Choose the one alternative that best completes the statement or answers the question.

1. International dependence theories distinguish between two groups of countries known as:

A) rich-poor.
B) developed-developing.
C) independent-dependent.
D) center-periphery.
E) colonized-noncolonized.

2. On which of the following does the neoclassical counter-revolution school most blame underdevelopment?

A) Relatively rigid cultural traditions.
B) Misguided government policies.
C) The legacy of colonialism.
D) Unfair trade practices on the part of developed countries.
E) World Bank and International Monetary Fund.

3. The system of land tenure in which tenant farmers pay a fixed share of their crop to landowners is called:

A) communal farming.
B) latifundio-minifundio system.
C) latifundio system.
D) sharecropping.
E) collective farming.
4. With tied foreign aid:

A) aid recipients must follow World Bank conditionality.
B) aid recipients must use the aid to purchase goods and services from the donor.
C) aid recipients must follow international monetary fund (IMF) conditionality.
D) multinational corporation investment depends on tax concessions.
E) all of the above.

5. Which of the following is an important factor in the success of agrarian land reform policies?

A) The introduction of tenant farming.
B) The introduction of sharecropping.
C) The introduction of more capital intensive methods.
D) Farmer training programs.
E) Control of rural-urban migration.

6. The debt service ratio is defined as:

A) the ratio of export earnings to GDP.
B) the ratio of payments on foreign debt to GDP.
C) the ratio of total debt to GDP.
D) the ratio of total debt to export earnings.
E) the ratio of payments on foreign debt to export earnings.

7. In the public choice (or new political economy) approach to development the emphasis is on:

A) the inherent efficiency of developing country markets.
B) growth in the rural sector.
C) the dependence of LDCs on former colonial powers.
D) the self-interested behavior of public officials.
E) growth in the urban sector.
8. In the two-gap model, which one of the following gaps, when binding, leads to foreign aid having the largest impact on GDP?

A) Foreign exchange gap.
B) Managerial gap.
C) Fiscal gap.
D) Savings gap.
E) None of the above.

9. An argument supporting promotion of the urban informal sector is:

A) it would reduce urban bias.
B) the formal sector is incapable of providing enough employment.
C) informal sector workers are poorly educated.
D) it uses a relatively high capital intensity.
E) all the above options.

10. The flow of private foreign investment and grants and loans is included in a country's:

A) capital account.
B) current account.
C) cash account.
D) balance of payments.
E) none of the above.

11. The purpose of commodity buffer stocks is to:

A) encourage commodity substitution.
B) raise commodity prices.
C) moderate price fluctuations.
D) guarantee national security.
E) set a price floor.
12. Which one of the following is not one of the forms taken by the international flow of financial resources?

A) Public portfolio investment.
B) Foreign portfolio investment.
C) Remittances of earnings by international migrants.
D) Private foreign direct investment.
E) Development assistance.

13. An argument in favor of foreign direct investment is that it tends to:

A) decrease local ownership.
B) increase access to modern technology.
C) reduce inequality.
D) promote rural development.
E) none of the above.

14. Which one of the following is an argument against multinational corporations (MNCs)?

A) An increase in government tax revenue.
B) An increase in the use of labour intensive technology.
C) A deterioration of the balance of payments accounts.
D) A reduction in inequality.
E) None of the above.
15. Multinational corporations (MNCs) can often decrease their tax liability through:

A) use of transfer pricing.
B) use of more foreign input sources.
C) use of more capital-intensive techniques.
D) bargaining with the host country.
E) none of the above.

16. A motivation of developed countries in providing development assistance is:

A) economic rationale.
B) geopolitical influence.
C) the creation of markets.
D) genuine humanitarian concern.
E) all of the above options.

17. A program through which new ideas, methods, and advice are offered to farmers to increase farm yields is known as:

A) agricultural workshop.
B) agricultural mechanization.
C) an agrarian system.
D) land reform.
E) agricultural extension.
18. Which of the following would most likely reduce the birthrate?

A) A reduction in the opportunity cost of a woman’s time
B) An increase in child mortality
C) A decline in the availability of secondary education
D) Public health improvements.
E) All of the above.

19. Other things constant, the elimination of factor price distortions in developing countries would most likely:

A) promote perfect competition.
B) have little effect on rural-urban migration.
C) increase rural-urban migration.
D) increase urbanization.
E) decrease rural-urban migration.

20. Kuznets’ inverted-U hypothesis:

A) implies that things must get worse before they get better.
B) suggests that inequality will worsen and then improve as a country grows.
C) suggests that inequality will improve and then worsen as a country grows.
D) points out six characteristics of modern economic growth.
E) criticized the Gini coefficient of developing countries.

21. Human capital is best defined as:

A) human capacities that raise productivity.
B) the amount of money people have to spend on schooling.
C) the amount of wealth people have.
D) the average education level of the population.
E) investments done by humans.
22. Developing countries have not benefited as much as expected from their higher education programmes because of:

A) high unemployment of youth.
B) increasing returns to scale in each individual’s education.
C) graduates get jobs in the private sector.
D) lack of program focus on the needs of the country.
E) all of the above.

23. An individual’s demand for education is most affected by:

A) direct and indirect costs of schooling.
B) development priorities of the country.
C) the desire to escape agricultural work.
D) poverty level.
E) all of the above.

24. The supply of public school places is determined by:

A) individuals’ demand for education.
B) direct and indirect costs of schooling.
C) political processes, often unrelated to economic criteria.
D) geographical location of poor.
E) all of the above.

25. The World Bank approach to combating child labour stresses:

A) making child labour legal under certain conditions.
B) giving employment to children from poor families.
C) encouraging families to migrate to richer countries.
D) providing each child with a computer so that children have an alternative to working.
E) tackling the sources of poverty.

26. The proportion of the total population aged 0–15 and over 65, is known as the:

A) dependency burden.
B) unproductive population.
C) surplus labour.
D) child labour coupled with old-age labour.
E) out of labour age population.
27. Poverty is better studied with size distribution measures than those based on factor distribution because:

A) labour income may be highly concentrated in well-paid modern sector workers.
B) some poor farmers may receive a sizable share of income in rent.
C) income from nonmarket activities such as foraging may be important.
D) size distribution of income is given according to percentiles, such as the highest 40% or lowest 20%.
E) all of the above.

28. The S-curve is used to illustrate:

A) the typical path taken by the current account over time.
B) economic fluctuations in the economy.
C) the typical growth path of a developing economy.
D) the existence of multiple equilibria.
E) the poverty trap.

29. The functional distribution of income refers to the distribution of income between:

A) the factors of production.
B) rural individuals or households.
C) urban individuals or households.
D) individuals or households.
E) informal urban individuals or households.

30. In endogenous growth models, it is assumed that:

A) the capital-labour ratio is constant.
B) there are diminishing marginal returns to capital.
C) growth is explained by forces outside the model.
D) there are external economies from public or private investments.
E) (B) and (D) are correct.