BIRLA INSTITUTE OF TECHNOLOGY & SCIENCE, PILANI
FIRST SEMESTER 2022-23

COURSE NO.: ECON F313   **DATE: 03 NOV 2022**

COURSE TITLE: ISSUES IN ECONOMIC DEVELOPMENT   **TIME: 90 min**

WEIGHTAGE : 30 %

MID SEMESTER EXAMINATION (REGULAR)

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Instructions:

- Closed book examination.
- Attempt all questions.
- Read the question carefully and Answer all questions directly on these sheets.
- Try to keep your answers brief and to the point. Write legibly. Allocate your time carefully: some students spend too much time on the straight and short answer questions and write unnecessary material. Remember that long answers by themselves do not have any value.
- Students must count/check the number of pages in this examination paper before beginning to write, and report any discrepancy immediately to the invigilator.
- Use of mobile phones, electronic devices (other than calculators) during the examination time prohibited.

Question paper consists of _____ Pages.
This paper consists of TWO SECTIONS: SECTION – A & SECTION – B.
For full credit, show your work on numerical problems, and be sure to explain your answers when asked to.

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NAME	**:**	
Signature	**:**	

How the concept of 'Economic Development' is viewed in "Classical Liberal" and "social theories of development"?

SECTION: A – For each of the following questions try to keep your answers brief and to the point. Make sure your answers are well organized, neatly written, and explicit. Irrelevant and general answers will carry zero weightage.

(46 Marks)

(A1 –A10: 4 Marks Each)

A1 List the core values of economic development which it includes and write also the important objectives of Economic Development?

A2 Explain briefly the alternate interpretation of meaning of 'Economic Development' from the view of 'Distributive Justice' and Sen's "Capabilities" Approach.

A3 Write the importance of Quality of Life Index (Quality of Life Index, QLI) in measuring the achievement of development of a country and what are the components of QLI was used by the UNDP Human Development Report? Why did the socialist countries usually have an index of human development (human development index) is high despite their low GNP per capita?

A4 State the circulatory system described in the 'Classical Theory of Economic Development' to explain the concept of economic growth and development.

A5 The complementarily with respect to demand requires that Under Developed Countries should establish such industries which could support each other. To make an investment in one project may be risky because in UDCs the demand for goods and services is limited due to lower incomes. Of what type is the demand curve $p = \frac{a}{x+b} + c$, where a, b and c are positive constants? If a/b is small, show that a relatively small fall in price increases the demand from zero to a large amount.

A6 <u>Consider the Romer Model and the related production function given as follows: Y = $AK^{a+b}L^{1-a}$,</u> where a = 0.1 and b = 0.

  a Calculate what will be the growth rate of per capita income? In such a situation, under what circumstances per capita income growth might be increased?
  b With the same given production function and the values, a = 0.1 and b = 1.1, using the Romer equation what will be the growth rate of per capita income?

A7 The Big Push is a model of how the presence of market failures can lead to a need for a concerted economy wide and probably public-policy-led effort to get the long process of economic development under way or to accelerate it. The figure given below represents this model. Under which circumstance will such public-policy-led effort are needed? Carefully explain your answer.

A8 Explain briefly the importance of 'Capitalist Surplus' in the Lewis model of Economic Development?

A9 Write the important propositions of Nelson's equilibrium trap for developing or underdeveloped countries?

A10 According to Leibenstein theory, what are the influences which work against the per capita income growth in developing nations and how to overcome them?

A11 Please label the following statement as TRUE, FALSE OR UNCERTAIN (i.e., truth or falsehood depends on missing information). You must support your answer; no credit for an unsupported label. Be brief.

(3 x 2 = 6.0 Marks)

a. If we control for differences in the rate of population growth and savings, then unconditional convergence predicts the long–run growth rates of all countries will be the same.

b. Assuming similar exogenous parameters governing the evolution of the economy, conditional convergence predicts that history in the sense of different initial conditions does not matter; all countries converge to the same level of per capita income.

c. Lack of development is generated externally with the linear stages model, and is attributed to a lack of savings and investment where as it is generated internally in the dependency model.

SECTION B: For the following question write the answer to the point and explain (if necessary) with examples. **(14.0 Marks)**

B1 Assume the Lewis model of a labor surplus economy with a traditional and modern sector, which is currently in the first phase of economic development. Suppose that the government orders a minimum wage which exceeds the wage currently paid, which must be paid by all employers in the modern sector. Briefly explain the effect of this policy on:
a) the extent of migration from the traditional to the modern sector;
b) the rate of growth of per capita income in the economy.
Restrict your attention to the short run impact, when the country continues to operate in the first phase with surplus labor in the traditional sector.

(5.0 Marks)

B2 In an economy there are four (4) workers, Jani, Farid, Madan, and Dayal. Consider Kremer's O-ring model. Suppose that there are two firms, and each firm hires only two workers, each of whom has skill level equal to q (q is assumed to lie between 0 and 1, with 1 being the highest skill level). Two of the workers (Jani and Madan) are highly skilled (q = 0.9); the other two (Farid and Dayal) are less skilled (q = 0.3). Output is given by the product of the q-levels.
a) Calculate the total output that would be produced by these two firms under each of the following scenarios:

Scenario I - Firm A hires Jani and Farid, and Firm B hires Madan and Dayal.
Scenario II- Firm A hires Jani and Madan, and Firm B hires Farid and Dayal.
Under which scenario is output highest?
b) Compute the output, but with highly skilled workers having a q value of 0.6 and low skill workers 0.5. How do your results differ from those in the above part? What do these results suggest about sorting of workers in an economy?

(4.0 Marks)

B3 What role do you think international trade and foreign investment can play in solving some of the problems identified in the big push model for the developing/underdeveloped economies?

(5.0 Marks)

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