

## Development Policy

### Working paper 2

Question 1: The ICOR (incremental capital-output ratio) has a long been used to make growth projections and evaluate investment efficiency in developing countries. (a) Explain how the ICOR is used to make growth projections and evaluate investment efficiency. (b) Explain the strengths and weakness of the ICOR for these purposes. (c) What are Easterly's (1999) main criticisms of the Harrod-Domar model as it has been used by the World Bank?

Question 2: A principal prediction of the Solow growth model is "convergence." (a) Explain what "convergence" means in the Solow model. (b) Explain the difference between "absolute" and "conditional" convergence. (c) Cross-country empirical evidence of conditional convergence is stronger than that of absolute convergence (e.g. MRW, 1992)—explain the implications of that evidence for growth theory and policy. (d) Cross-country empirical evidence of convergence is much stronger among open economies than among closed economies (e.g. Lucas, 2009)—explain the implications of that evidence for growth theory and growth policy.

Question 3: Total Factor Productivity Growth (TFPG) is an important concept in development economics. (a) How is TFPG typically measured? (b) What is the source(s) of TPF? (c) Young (1995) argued that the Asian Tigers (Hong Kong, Singapore, Taiwan and S. Korea) were "paper" (i.e. weak) tigers because TFPG accounted for a relatively small proportion of real per capita GDP growth in those countries—what was the logic of his argument? (d) What policy measures might be taken in Vietnam or other developing countries to raise TPF?

Question 4: Many economists argue that poor countries are poor because they adopt the bad policies. Acemoglu and Robinson argue that poor countries are poor because they inherited bad institutions. Still others argue that poor countries are poor because they have bad luck (i.e. bad geography). Which of these arguments do you find (a) most and (b) least convincing—explain why.

\*Answer to each question should not exceed two pages.

\*\*Some parts of the above questions ask for your opinion/assessment. In these cases, there is no necessarily a right or wrong answer, hence your grade will depend on how well you support your opinion/assessment logically and empirically.