INSTITUTE OF ECONOMIC STUDIES
FACULTY OF SOCIAL SCIENCES
CHARLES UNIVERSITY IN PRAGUE

OPLETALOVA 26, CZ 110 00 PRAGUE
PHONE: +420 222 112 330 (FAX 304)
ies@fsv.cuni.cz, http://ies.fsv.cuni.cz

TOPICS FOR STATE FINAL EXAM

Economics of Least Developed Countries (JEM 123)

Michal Bauer and Julie Chytilová
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1. Constant returns to physical capital: Harrod-Domar model
Harrod-Domar model: macroeconomic balance, assumptions of production function, Harrod-Domar equation, policy implications and applications, weaknesses of the model

2. Decreasing returns to physical capital: Solow model
Solow model: decreasing returns to capital, dynamics of the model, policy implications and limitations. Conditional and unconditional convergence.

3. Increasing returns to capital: Poverty traps and human capital
Solow model: overview. Poverty traps: savings trap and capital threshold. Solow model augmented by human capital.

4. Barriers to technology adoption
Externalities, complementarities and technology adoption. Linkages and coordination. Increasing returns to scale and incentives to develop new technologies. Other applications of complementarities: education investments, types of institutions, persistence of traditional social norms. Kremer's O-ring model.

5. Poverty
Advantages and disadvantages of different measures of poverty: poverty rate, poverty-gap ration, income-gap ratio, human development index. Development as freedom (A. Sen).

6. Population
Demographic transition. Fertility choice and missing markets. Mortality and fertility. Microeconomic theory of fertility. Negative externalities and fertility. Un-met need vs. desired fertility. Population growth in growth models.

7. Poverty and health
Nutrition trap and gender bias. Explain the logic of randomized evaluations.

8. Education
Measuring returns to education. Wider effects of education. Problem of causality in measuring effects of education. Evaluations and education interventions.

9. Rural-urban migration
Lewis model and barriers to industrialization. Harris-Todaro model, migration decisions and size of informal sector.

10. Information asymmetry and credit-rationing
Agency problems and banking of the poor. Illustrate credit rationing due to adverse selection, ex ante moral hazard and ex post moral hazard.

11. Microfinance and information problems
Microcredit innovations. Illustrate how joint-liability and dynamic incentives mitigate adverse selection, ex ante moral hazard and ex post moral hazard.

12. Microinsurance
Risk aversion. Strategies to smooth consumption. Perfect insurance model and evidence. Limited insurance and ex ante moral hazard.

13. Microfinance
Limited insurance and enforcement. Returns to capital and implications for microfinance. Patterns of savings among the poor. Blurring distinction between borrowing and saving.

14. Institutions
Allocation of talent – model of parasitic and productive enterprises: types of unproductive enterprises, assumptions, profit functions of parasitic and productive enterprises, parasitic poverty traps, comparative statics. Institutions and aid in the context of model of parasites and productive enterprises

15. Institutions and geography
Contrast interaction of geography and institutions as described in Engerman and Sokoloff (2000), Acemoglu, Johnson and Robinson (2001) and Sachs (2004). Land property rights and efficiency.