

**UNIVERSITY OF FORT HARE**

**EDE 211/E**

**(End Module Assessment)**

**JUNE**

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**Time: 2 Hours**

**Subject: EDE 211/E**

**Marks: 50**

**This paper consists of 5 pages including the cover page**

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**INSTRUCTION(S)**

Answer **ALL** questions in section A.

Choose ONE question in section B.

**SECTION A**

**[15 marks]**

**Answer all questions**

1. In terms of the O-Ring Theory of Economic Development. Production is modeled with strong complementarities of inputs (labor & capital) and interdependencies among firms (output of one firm is input of another)
  - A. \*True
  - B. False
  
2. .... is a theory of development in which surplus labor from the traditional agricultural sector is transferred to the modern industrial sector, the growth of which absorbs the surplus labor, promotes industrialization, and stimulates sustained development.
  - A. \*Lewis model
  - B. Dualistic-development model
  - C. Rostow's model
  - D. Harrod-Domar model
  
3. .... predicts that expected incomes will be equated across rural and urban sectors when considering informal sector activities and outright unemployment.
  - A. \*Harris-Todaro model
  - B. Keynesian model
  - C. Todaro model
  - D. Harris model
  
4. According to the Gender Gap: Discrimination in Education and Health. Closing the educational gender gap is important because:
  - A. The social rate of return on women's education is higher than that of men in developing countries
  - B. Education for women increases productivity, lowers fertility
  - C. \*Educated fathers have a multiplier impact on future generations
  - D. Education can break the vicious cycle of poverty and inadequate schooling for women
  
5. A stationary population is when population growth is
  - A. Increasing at an increasing rate
  - B. Decreasing
  - \*C Zero
  - D. 100%
  
6. The emigration of highly-skilled people from the developing countries is known as.
  - A. The brain drain
  - \*B. Human capital deterioration
  - C. Productivity
  - D. Labor degradation
  
7. In terms of the underdevelopment as a coordination failure. A dual economy is distinguished from other economies by having
  - a. an industrial sector and a manufacturing sector.
  - b. \* a traditional agricultural sector and a modern industrial sector.
  - c. state ownership of the means of production.

- d. an industrial sector that concentrates on manufacturing and construction.
8. A period of rapid population growth between a preindustrial, stable population characterized by high birth and death rates and a later, modern, stable population marked by low fertility and mortality is known as.
- \*A. Demographic transition.
  - B. Population maturity
  - C. Demobilizing population
  - D. Birth-death transformation
9. Which one of the following is true.
- A. The Lorenz curve show the *difference* the percentage of the lowest income earners and the percentage of the highest income earners during a given year.
  - B. \*The Lorenz curve shows the *actual* quantitative relationship between the percentage of income recipients and the percentage of the total income they did in fact receive during, say, a given year.
  - C. The Quantile ratio shows the *actual* quantitative relationship between the percentage of income recipients and the percentage of the total income they did in fact receive during, say, a given year.
  - D. The Lorenz curve shows the *actual* qualitative relationship between the percentage of income recipients and the percentage of the total income they did in fact receive during, say, a given year.
10. Choose one answer below to fill in the space. When measuring inequality of a country, the \_\_\_\_\_ is the ratio of the shaded area and the area of the triangle.
- A. Quantile ratio
  - B. The Kuznets ratio
  - C. \*Gini coefficient
  - D. Coefficient of variation
11. .... theory of economic growth, states simply that the rate of growth of GDP is determined jointly by the net national savings ratio, and the national capital-output ratio.
- a. Lewis model
  - b. Dualistic-development model
  - c. Rostow's model
  - d. \*Harrod-Domar model
12. According to the \_\_\_\_\_ typology, growth results in higher income, a *more equal* relative distribution of income, and less poverty.
- A. modern-sector enlargement
  - B. modern-sector enrichment
  - C. \*traditional-sector enrichment
  - D. traditional-sector enlargement
13. Which of the following is Rostow's stages of development?
- a. Traditional Society
  - b. Transitional Stage and Take Off
  - c. Drive to Maturity and High Mass Consumption
  - d. \* All of the above

14. A tendency for per capita income (or output) to grow faster in higher income countries than in lower-income countries so that the income gap widens across countries over time.
- Transfer of Technology.
  - Convergence.
  - \*Divergence
  - Economic Growth
15. Which one of the following theories of economic development is an international-dependence revolution model?
- Lewis model
  - \*Dualistic-development model
  - Rostow's model
  - Harrod-Domar model

## **SECTION B**

**Answer one question**

**[35 marks]**

### **Question 16**

**Economic development is difficult to achieve. It has been impossible for some countries (e.g., Nigeria, Sudan), but accomplished by others (e.g., S. Korea, Singapore). The success or failure of economic development policies can be explained by the “principal-agent” model. With the use of an example explain the principal-agent theory as well as the coordinational failure. (15)**

**Answer:**

- Theory
  - o The principal in the theory can be the Government.
  - o Agents can include, Households, Private-sector firms, public agencies, Government-owned enterprises, and International companies
- An effective principal is needed to coordinate actions taken by agents and achieve an optimal outcome, making all agents better off. Coordination failure occurs when the principal fails to induce agents to coordinate their actions, which leads to an outcome that makes all agents worse off.
  - o The student can use any example as long as they explain the concept right in its application.

### **(b) What are the implications of the 0-Ring Theory? (12)**

**Answer:**

- Firms tend to employ workers with similar skills for their various tasks.
- Workers performing the same task earn higher wages in a high-skill firm than in a low-skill firm.
- Because wages increase in skills at an increasing rate, wages will be more than proportionally higher in developed countries than would be predicted from standard measures of skill.
- If workers can improve their skill level and make such investments, and if it is in their interests to do so, they will consider the level of human capital investments made by other workers as a component of their own decision about how much skill to acquire.
- One can get caught in economywide low-production-quality traps.

- O-ring effects magnify the impact of local production bottlenecks because such bottlenecks have a multiplicative effect on other production.
- Bottlenecks also reduce the incentive for workers to invest in skills by lowering the expected return on these skills.

**c. Name and explain TWO principal measures of income distribution that economists use. (8)**

- **Gini coefficient:** The Gini coefficient is a measure of inequality of a distribution, where 0 represents perfect equality (everyone has the same income) and 1 represents perfect inequality (one person has all the income). The Gini coefficient is calculated by dividing the area between the Lorenz curve (a graphical representation of income distribution) and the line of perfect equality by the total area under the line of perfect equality. The resulting value ranges from 0 to 1.
- **Income quintile ratio:** The income quintile ratio is the ratio of the average income of the highest quintile (top 20%) of earners to the average income of the lowest quintile (bottom 20%) of earners. This measure provides information on the income gap between the richest and poorest members of a society.

Both measures have their strengths and weaknesses. The Gini coefficient provides a more comprehensive picture of income inequality by taking into account the entire income distribution, while the income quintile ratio focuses specifically on the income gap between the highest and lowest earners. However, the income quintile ratio may be easier for people to understand and relate to, as it compares the incomes of the richest and poorest groups directly.

### **Question 17**

- a. Briefly discuss five Millennium Development Goals and targets (15)**

**Refer to page 204 to 219, Chapter 1**

**Answer: Learner should discuss the following goals (5x3)**

The Millennium Development Goals (MDGs) were a set of eight international development goals established by the United Nations in the year 2000, to be achieved by 2015. These goals were created to address some of the world's most pressing social, economic, and environmental challenges.

The eight MDGs were:

- Eradicate extreme poverty and hunger

- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria, and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

**b. Discuss the differences between the traditional HDI in comparison to the “new” (NHDI) formulation. In what ways do you think either one is a better measure of human development? (15)**

**Refer to page 47 to 53, Chapter 2**

Answer:

The traditional Human Development Index (HDI) is a composite measure of three dimensions of human development: health, education, and income. It was developed by the United Nations Development Programme (UNDP) in 1990 as a way to assess a country's level of development beyond economic indicators such as Gross Domestic Product (GDP).

The HDI measures life expectancy at birth as an indicator of health, years of schooling as an indicator of education, and Gross National Income (GNI) per capita as an indicator of income. Each dimension is given equal weight in the calculation, with a score ranging from 0 to 1.0. A higher score indicates higher human development.

In contrast, the New Human Development Index (NHDI) was introduced by the UNDP in 2010 to address some of the limitations of the traditional HDI. The NHDI takes into account inequality within each dimension of human development, as well as the distribution of these dimensions across a population.

The NHDI measures life expectancy at birth, expected years of schooling, and Gross National Income (GNI) per capita. However, it also includes three additional indicators: the inequality-adjusted life expectancy index, the inequality-adjusted education index, and the Gini coefficient of income inequality.

The inequality-adjusted life expectancy index considers the difference in life expectancy between different groups within a population, such as urban and rural residents or different income levels. The inequality-adjusted education index measures disparities in access to education and the quality of education received. The Gini coefficient of income inequality measures the distribution of income within a country.

Overall, the NHDI provides a more comprehensive measure of human development than the traditional HDI, as it considers both the level of development and the distribution of development within a population. However, it is also more complex to calculate and interpret.

In terms of which is a better measure of human development, it depends on the purpose and context of the assessment. The traditional HDI may be more suitable for a quick and easy comparison of overall levels of development between countries, while the NHDI may be more appropriate for identifying specific areas of inequality and targeting interventions to address them. Ultimately, both measures are important tools for understanding and improving human development around the world.

**c. State FIVE Problems of the Harrod -Domar Model (5)**

- Assumption about the way households choose to between consumption (C) and saving (S). Assumed households save a fixed proportion of income.
- The way firms choose to adjust their capital stock to output. The assumption that firms want to keep their capital stock in a fixed proportion to their output ( $K/Y$ ), which makes the capital/output ratio an exogenous behavioral parameter in the model. This requires further examination of the link between capital and output.
- H-D did not allow any room for a crucial factor of production, labor. H-D explains output growth solely by saving and efficiency and yet there was evidence even in the 1950s that population or labor-force growth should be included.
- The model encourages less developed nations to borrow money for capital stock and investments with an objective to enhance economic growth, however, this can lead to a debt trap in which a less developed country cannot come out and can have problems in repaying.
- Lastly, the H-D model ignores the roles of factors such as technological change and labour productivity, which affect growth and the model fails to consider the diminishing returns arising from increased capital stock for a given technology.