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| **Name:**<br><br>**Enrolment No:** | |

**UPES School of Business**
**End-Semester Examination – May 2024**

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| **Program: BA (Hons.) Economics** | **Semester: VI** |
| **Subject / Course: Development Economics II** | **Maximum Marks: 100** |
| **Course Code: ECON 3015** | **Duration: 03 Hours** |

**INSTRUCTIONS:**

- **This is a CLOSED-BOOK EXAM. Only calculator is allowed.**
- **Cellphones / Tablets / Laptops / Books / Notes etc. are NOT allowed.**
- **All questions are compulsory.**
- **Your answers must be "brief & to the point."**

| Q. No. | Questions | Marks | COs |
|---|---|---|---|
| | **SECTION A**<br>**10Q x 2M = 20 Marks** | | |
| **Q 1.** | **1.1.** Which factor contributes to economic development?<br>A) Investment in education and healthcare<br>B) Lack of access to basic infrastructure<br>C) Heavy reliance on foreign aid<br>D) High levels of corruption in government<br><br>**1.2.** What is the primary goal of development economics?<br>A) Improving living standards and reducing poverty<br>B) Maximizing profits for multinational corporations<br>C) Increasing income inequality within a society<br>D) Promoting unsustainable resource extraction<br><br>**1.3.** What is the role of human capital in economic development?<br>A) Enhancing productivity and innovation<br>B) Stifling technological progress<br>C) Contributing to environmental degradation<br>D) Exacerbating income inequality<br><br>**1.4.** Which strategy aims to reduce poverty through direct cash transfers to the poor?<br>A) Conditional cash transfer programs<br>B) Subsidizing luxury goods for the wealthy<br>C) Tax breaks for large corporations<br>D) Restricting access to education and healthcare | 20 | CO1 |

**1.5.** What is a common measure of economic development?

A) Gross Domestic Product (GDP) per capita
B) Military expenditure as a percentage of GDP
C) Total number of billionaires in a country
D) Stock market volatility

**1.6.** Which sector plays a crucial role in the development of rural economies?

A) Agriculture
B) Information technology
C) Luxury tourism
D) High-frequency trading

**1.7.** What does the term "brain drain" refer to in the context of development economics?

A) Migration of skilled workers from developing to developed countries
B) Excessive taxation on intellectual property
C) Overinvestment in education leading to unemployment
D) Inadequate funding for research and development

**1.8.** How does microfinance contribute to economic development?

A) Providing small loans to entrepreneurs and fostering self-employment
B) Enforcing strict lending conditions on small businesses
C) Promoting dependency on external aid
D) Investing in large-scale infrastructure projects

**1.9.** What is a key challenge faced by developing countries in achieving sustainable development?

A) Balancing economic growth with environmental conservation
B) Maximizing short-term profits at the expense of long-term stability
C) Overregulation of labor markets leading to unemployment
D) Prioritizing military spending over social welfare programs

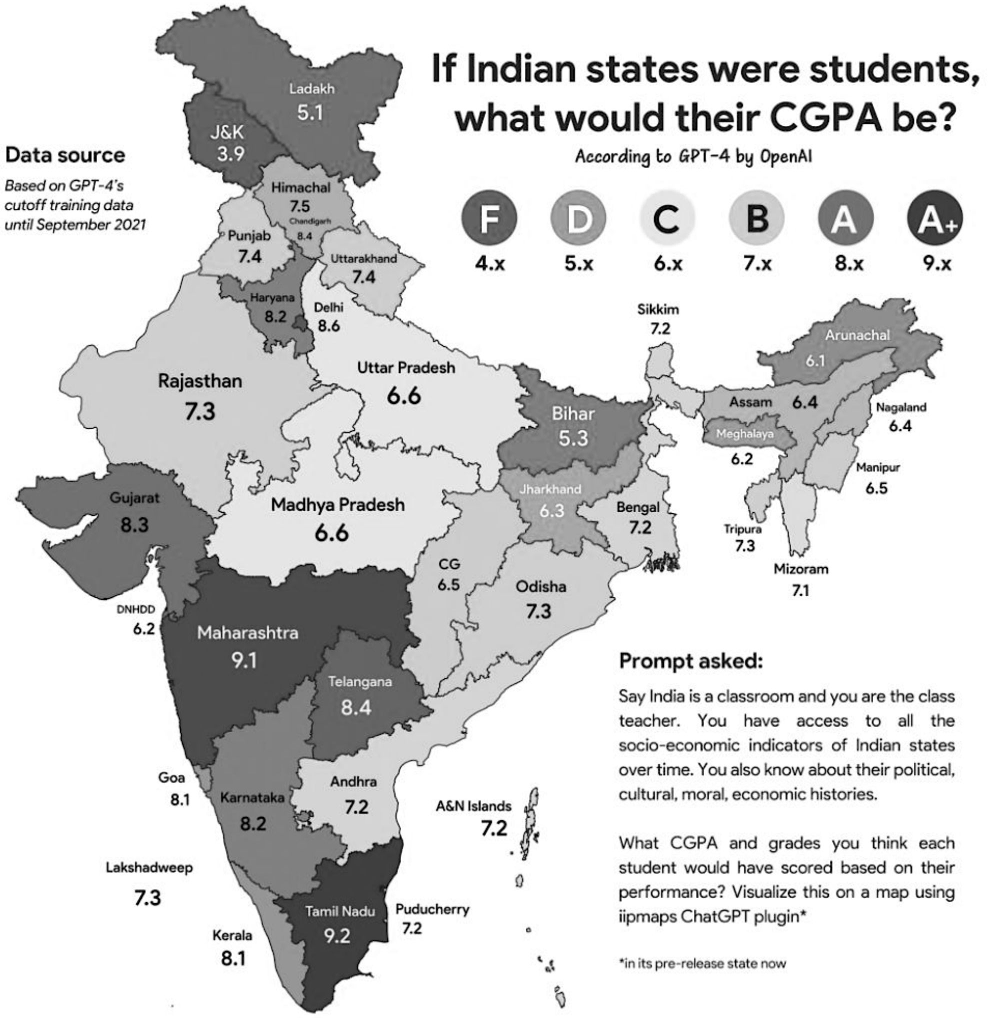
**1.10.** What is a fundamental principle of inclusive growth?

A) Ensuring equitable distribution of wealth and opportunities
B) Concentrating wealth in the hands of a few elites
C) Ignoring the needs of marginalized communities
D) Prioritizing economic growth over social welfare programs

**SECTION B**

**4Q x 5M = 20 Marks**

| | | | |
|---|---|---|---|
| **Q 2 – 5.** | (see below) | 20 | CO2 |




[2] Do you agree with what GPT-4 has produced? Why, or why not?

- Note: In case you disagree with these CGPAs as presented above, make sure you justify with relevant data and sources.

[3] Please choose your Home State and list a few socioeconomic factors behind its CGPA.

[4] Looking at the J&K and Ladakh's CGPA, list a few geopolitical factors behind its CGPA.

[5] Why do you think that the Southern and Western States are consistently better performing students in this Indian classroom, according to GPT-4? Is any bias available there?

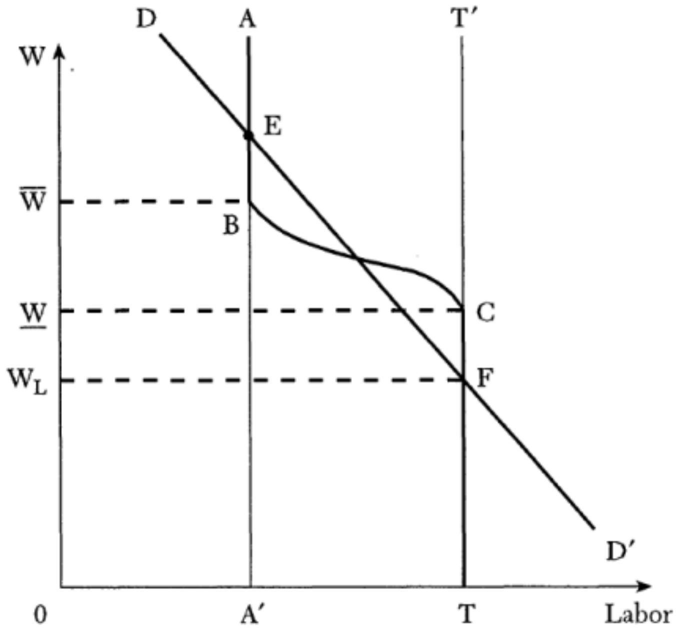
| SECTION C<br>3Q x 10M = 30 Marks | | | |
|---|---|---|---|
| **Q 6.** | A developing country considers implementing a minimum wage policy. Use a demand-and-supply model for the labor market to discuss the potential effects of this minimum wage policy on:<br><br>**a)** Employment levels<br>**b)** Wage levels<br>**c)** The overall welfare of workers | 10 | CO3 |
| **Q 7.** | During a food shortage, a government institutes a price ceiling on a staple food crop (e.g., rice or wheat) below the market equilibrium price. Analyze the likely consequences of this policy on:<br><br>**a)** Quantity demanded and quantity supplied.<br>**b)** The emergence of shortages or black markets.<br>**c)** The welfare of consumers and producers. | 10 | CO3 |
| **Q 8.** | The Reserve Bank of India (RBI) intervenes in the foreign exchange (FOREX) market to maintain a relatively stable exchange rate for the Rupee (INR). Discuss how this policy could impact the domestic market for an imported good (e.g., crude oil):<br><br>**a)** What are the immediate effects on price and quantity of the imported oil? You may illustrate with a demand-supply framework.<br>**b)** Discuss how this affects domestic consumers & producers who rely on the imported good?<br>**c)** Explain how the RBI's actions in the FOREX market are designed to influence the demand and/or supply of the imported product. | 10 | CO3 |

<table>
<tr><td colspan="4">SECTION D<br>2Q x 15M = 30 Marks</td></tr>
<tr><td>Q 9.</td><td>

Drawing from Kaushik Basu and Pham Van's seminal AER paper '<u>The Economics of Child Labor (1998)</u>,' please provide a critical analysis of the following statement:

"If child labor as a mass phenomenon occurs not because of parental selfishness but because of the parents' concern for the household's survival, the popular argument for banning child labor loses much of its force. However, this assumption about parental decision-making coupled with the assumption of substitutability in production between child and adult labor could result in multiple equilibria in the labor market, with one equilibrium where children work and another where adult wage is high, and children do not work."

- <u>Hint 1</u>: Three axioms: (1) Luxury/Altruism, (2) Substitution, and (3) Transitivity: these are important to model the labor market scenario for (a) good, (b) bad, and (c) unstable equilibria.
- <u>Hint 2</u>: You should produce a somewhat similar figure in analyzing the statement, what we did in class:




</td><td>15</td><td>CO4</td></tr>
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**Q 10.** | 15 | CO4

Using the Indian Periodic Labour Force Survey (PLFS) data, you estimated two different regression equations for (A) male workers and (B) female workers:

(A) $\boxed{\bar{W}_M = \alpha_M + \beta_M \bar{S}_M + \varepsilon_M}$

(B) $\boxed{\bar{W}_F = \alpha_F + \beta_F \bar{S}_F + \varepsilon_F}$

Here, the usual notations of regressions apply, and these following terms refer to as:

- $\boxed{\bar{S}_F}$ is the average schooling of women,
- $\boxed{\bar{S}_M}$ is the average schooling of men,
- $\boxed{\bar{W}_F}$ is the average earnings by women, and
- $\boxed{\bar{W}_M}$ is the average earnings by men.

[1] If $\boxed{\alpha_M = 750}$, $\boxed{\beta_M = 93}$, $\boxed{\alpha_F = 400}$, $\boxed{\beta_F = 85}$, $\boxed{\bar{S}_M = 15}$ and $\boxed{\bar{S}_F = 13}$, what is the gender gap in earnings?

[2] How much of this gender gap is "observed" and how much is "unobserved?"

[3] Which one: "observed" or "unobserved" part of the gender gap you'd refer to "gender discrimination at workplace?"

<u>Note</u>: If the answer is neither, please make sure you discuss the logic.

<u>Hint</u>: Recall the wage gap decomposition we studied in class.