



STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
END OF SEMESTER EXAMINATION
MDF 8106: DEVELOPMENT ECONOMICS

Date: Thursday 13th April 2023

Time: 3 Hours

Instructions

1. This examination consists of **SIX** questions.
2. Answer **QUESTION ONE** and **ANY OTHER THREE** questions.

Question 1 (Compulsory) (30 marks)

Country Z is a typical Sub-Saharan African country which is characterized by the following:

- Moderate economic growth levels
- Low GDP per capita (low-income country)
- Agriculture accounting for the largest share of GDP, with manufacturing accounting for less than 10%
- Low savings and investment levels
- High poverty and inequality levels
- Low human development index
- Largely exporting primary products
- High dependence on imported consumer goods but the current government is considering the promotion of domestic production of most consumer goods.
- High reliance on foreign grants and loans to finance the budget

- i. As a development economics expert, advise the government of Country Z on how to jump-start growth and development from a theoretical perspective. **(8 marks)**
- ii. Should the country pursue an import substitution strategy, or an export led growth? Explain your answer. **(8 marks)**
- iii. Identify and explain four policies that the country can pursue to address the high levels of poverty and inequality **(8 marks)**
- iv. Explain the human capital approach to development and its application to Country Z. **(6 marks)**

Question 2 (10 marks)

Suppose there are 40 households earning the following income levels. Using deciles, calculate the income shares and interpret the level of inequality.

2072	3050	4110	4789	5622	6015
2310	3042	4291	4815	5689	6131
2435	3250	4362	5001	5712	6246
2541	3580	4430	5247	5782	6347
2680	3728	4615	5322	5822	6499
2751	3944	4739	5438	5899	
2870	4011	4799	5551	5993	

Question 3 (10 marks)

The Foster-Greer-Thorbecke (FGT) index is the most commonly accepted measure of poverty. Suppose there are 42 people in an economy, with a poverty line of 4000. Given their expenditure levels, calculate and interpret:

- Headcount index **(2 marks)**
- Total poverty gap (TPG) **(3 marks)**
- Foster-Greer-Thorbecke Index (FGT) **(5 marks)**
the FGT index.

2070	3050	4110	4789	5622	6015
2300	3140	4290	4845	5690	6111
2430	3430	4460	5000	5715	6224
2640	3680	4630	5237	5782	6337
2790	3720	4715	5301	5802	6497
2860	3930	4733	5400	5849	6558
2900	4050	4747	5511	5913	6622

Question 4 (10 marks)

The main transformative shift of the Sustainable development Goals is the need for developing countries to mobilize their own resources for development. Explain any five ways through which the developing countries can mobilize domestic resources to finance development.

Question 5 (10 marks)

Modern production requires that many activities be done well together in order for any of them to amount to a high value'. Identify the theory and discuss its implication for development.

Question 6 (10 marks)

- i. Briefly explain how growth can be made more inclusive through social protection. **(4 marks)**
- ii. The Multi-dimensional Poverty Index (MPI) is one of the ways of measuring poverty. Suppose a household has the following characteristics
- (a) two children have died
 - (b) all their 6 children are malnourished
 - (c) three children are out of school
 - (d) two household members did not complete 5 years of schooling
 - (e) they have no electricity, inadequate access to safe drinking water, inadequate sanitation and unimproved cooking fuel.
- What would be their MPI score? Interpret the score **(6 marks)**