



Strathmore
UNIVERSITY

STRATHMORE INSTITUTE MATHEMATICAL SCIENCES (SIMS)
BBS FINANCIAL ECONOMICS
END OF SEMESTER EXAMINATION
DEVELOPMENT ECONOMICS – BSE 4120

DATE: Monday, 15th July 2019

Time: 2 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE (30 Marks)

In 2010, fictitious data comparing Kenya and Bangladesh is provided below:

| Indictor | Kenya, Values |
|-------------------------------------|---------------------------|
| Life expectancy at birth (years) | 73.5 |
| Mean years of schooling (years) | 7.5 |
| Expected years of schooling (years) | 11.5 |
| GNI per capita (PPP in U.S. \$) | 7,263 |
| | Bangladesh, Values |
| Life expectancy at birth (years) | 65.7 |
| Adult literacy (%) | 53.5 |
| Gross enrolment (%) | 52.1 |
| GNI per capita (PPP in U.S. \$) | 1, 241 |

- a) Calculate Kenyas': (6 marks)
 - i. income index
 - ii. Life expectancy index
 - iii. Education index
 - iv. New HDI and what does it mean

- b) Calculate Bangladesh': (6 marks)
 - i. income index
 - ii. Life expectancy index
 - iii. Education index
 - iv. Old HDI and what does it mean

- c) Explain the advantages of using new geometric HDI? (3 marks)
- d) Outline other factors that you think should be included in the HDI to account for differences in the overall level of development? Why? (3 marks)
- e) Distinguish between:
 - i. Coordination failure and Freedom from Servitude (3 marks)
 - ii. Necessary condition and Sufficient condition (3 marks)
 - iii. Hidden momentum of population growth and total poverty gap (3 marks)
 - iv. Health inequality and Multidimensional Poverty Index (3 marks)

QUESTION TWO (20 Marks)

- a) In 2017, Ecuador economy had $K_t = 1000$; $s = 40\%$; $Y_t = 200$ $r = 20$, $S_t = 20$ and $\delta = 4\%$. Where K_t is capital; s is net savings ratio; Y_t is level of income, S_t is level of savings and δ is rate of capital depreciation.
 - i. Based on the Harold Domar model, compute the rate of growth for Ecuador economy (2 marks)
 - ii. Using the calculated rate of growth in (i) and given $Y_t = 200$, Compute GDP be in 5 years? (2 marks)
 - iii. In 2019, Ecuador economy changed to have $s = 65\%$ and $S_t = 45$. Compute the new growth rate? (3 marks)
 - iv. Based on the changes in the economy, compute the new GDP for Ecuador in the next 5 years (3 marks)
- b) Distinguish between size and functional distributions of income in a nation. Which do you conclude is the more appropriate concept? Explain your answer (10 marks)

QUESTION THREE (20 Marks)

- a) Describe the linkages between investments in Health and Education as points of development? In your explanation justify how such health investments may raise the return on investments in education, and vice-versa? 10 marks
- b) According to the Lewis model of structural change, give four reasons why the assumption of the Lewis model might not be warranted in today's world (4 marks)
- c) Classical theory provides the foundation for understanding development. Key among the theories set forth through the classical ideologies is the international dependence revolution. Briefly explain the 3 key approaches discussed under international dependence revolution. (6 marks)

QUESTION FOUR (20 Marks)

- a) List and briefly describe the principle cause of high population growth in developing countries and their major consequences (10 marks)
- b) Explain why fertility rates are falling much more rapidly in some developing countries than in others. (10 Marks)

QUESTION FIVE (20 Marks)

The Big Four Agenda of 2017 seeks to expand the manufacturing sector by; improving Kenya's manufacturing competitiveness and value of Kenyan products; dealing with counterfeiters and cartels; maintaining political stability; and through harmonious labor relations between workers and employers.

- i) Briefly discuss the sub-sectors and two key flagship projects that the manufacturing sector of the Big Four Agenda will seek to strengthen (12 marks)
- ii) Outline the four government commitments needed to support growth of manufacturing sector in the Agenda? (8 marks)