



**STRATHMORE INSTITUTE OF MATHEMATICAL SCIENCES
END OF SEMESTER EXAMS FOR THE DEGREE OF BACHELOR OF
BUSINESS SCIENCE IN FINANCIAL ECONOMICS
BSE 4120: DEVELOPMENT ECONOMICS**

24th July, 2023

Time: 2 hours

Instructions

1. This exam consists of five questions
2. Answer question **ONE (Compulsory)** and **any other two**

Question 1

- (a) The O-ring theory is a key development theory. Required:
- (i) State the assumptions made by the theory {6 marks}
 - (ii) Consider an economy with two high quality workers whose output is q_H and two low quality workers whose output is q_L . If there are two firms interested in hiring two workers in this economy, derive the thesis of the O-ring theory {6 marks}
 - (iii) State any three industries where the thesis in 1a(ii) applies {3 marks}
 - (iv) According to O-ring theory some social ills are likely to persist in the society, identify and explain these ills in the light of developing countries {5 marks}
- (b) Economic growth is not synonymous with development. Discuss. {10 marks}

[30 marks]

Question 2

- (a) Kwamboka argues that South Africa is not a developing country. With the help of clearly explained characteristics of developing countries, convince Kwamboka's why her position is doubtful . {12 marks}
- (b) The usual measures of growth are not sufficient in measuring development. With the help of relevant examples, explain the appropriate measures of economic development. {8 marks}

[20 marks]

Question 3

Figure 1 shows the goal posts of calculating the Human Development Index (HDI) in 2010:

Figure 1: 2010 Goalposts for the Human Development Index

Dimension	Observed maximum	Minimum
Life expectancy	83.2 (Japan, 2010)	20.0
Mean years of schooling	13.2 (United States, 2000)	0
Expected years of schooling	20.6 (Australia, 2002)	0
Combined education index	0.951 (New Zealand, 2010)	0
Per capita income (PPP \$)	108,211 (United Arab Emirates, 1980)	163 (Zimbabwe, 2008)

Required:

- State the classification of nations that arises from this index {6 marks}
- State five advantage that HDI index has over and above economic variables such as GDP {5 marks}
- In 2010, Kenya's life expectancy was 55.6 years, mean years of schooling were 7.0, expected years of schooling were 9.6 years and per capita income in PPP\$ was 1,628. Calculate Kenya's
 - Life expectancy index {1 mark}
 - Mean years of schooling index {1 mark}
 - Expected years of schooling index {1 mark}
 - Education index {1 mark}
 - Income index {1 mark}
 - NHDI {2 marks}
- Based on your computations in (c) above what was Kenya's 2010 NHDI rank? {2 marks}

[20 marks]

Question 4

Amartya Sen is credited for a progressive and most contemporary theory of development. Required:

- Explain the issues that Sen had with traditional development theories {5 marks}
- Given the issues in 4(a), what then is development according to Amartya Sen? {5 marks}

- (c) The structure of the Kenyan society has various practical aspects that achieve some of the notions put forth by Sen, with the help of relevant examples, explain any five of these aspects {5 marks}
- (d) Using the notions of Amartya Sen, explain whether Kenyans should be worried about the debt situation in Kenya and investments in flagship infrastructural projects {5 marks}

[20 marks]

Question 5

- (a) What are 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) How does absolute poverty differ from income inequality and state the different measures for poverty and inequality? {10 marks}

[20 marks]

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