



STRATHMORE INSTITUTE OF MATHEMATICAL SCIENCES
BACHELOR OF BUSINESS SCIENCE IN FINANCIAL ECONOMICS
END OF SEMESTER EXAMINATION
BSE 4120 DEVELOPMENT ECONOMICS

DATE: 18th December 2024

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]

- a) Most development economists now seem to agree that the level and rate of growth of Gross National Income (GNI) and per capita income do not provide sufficient measures of a country's development. What is the essence of their argument? Provide *two* examples to support your answer. (5 marks).
- b) Describe the Human Development Index (HDI), and briefly explain the three dimensions of this index. Moreover, discuss one strength and one weakness of the Human Development Index (HDI) as a measure of human welfare. (6 marks)
- c) In order to establish the causal effect of matters such as inequality on economic development, sometimes it is essential for development economists to use instrumental variables in carrying out their research. Provide a discussion of when it may be necessary for a development economist to use an instrumental variable in their research and how an instrumental variable helps to establish causality. (4 marks)
- d) For African countries to continue making progress, the continent's governments must improve their institutions. How would you explain the term "institutions"? Moreover, discuss *two* impacts on a country from the lack of good institutions. (5 marks)
- e) In your opinion, do you think colonialism has had an effect on the economic development of African countries? If so, discuss in detail *two* specific effects of colonial legacy. (5 marks)
- f) Explain the key concepts of the Big Push Theory and specifically highlight how African governments could employ concepts from this theory to bring about economic development in their countries. (5 marks)

QUESTION TWO [15 marks]

- a) Table 1 below shows the Human Development Index (HDI) rankings for selected developing countries, together with the Gross national income (GNI) per capita rank minus the HDI rank.

Table 1: Rankings for selected developing countries

HDI Rank	Country	GNI per capita rank minus HDI rank
119	Venezuela (Bolivarian Republic of)	14
120	Bolivia (Plurinational State of)	3
120	Morocco	4
122	Nauru	-38
123	Gabon	-18
124	Suriname	-25
125	Bhutan	-15
126	Tajikistan	18

- i) Explain what the number “14” means for Venezuela, in the column that shows the *Gross national income (GNI) per capita rank minus the HDI rank*. In your discussion, provide *two* potential reasons as to why there is a difference in ranking between the GNI per capita and HDI for Venezuela (5 marks).
- b) Table 2 below shows the HDI dimensions for Venezuela, while Table 3 shows the minimum and maximum values of the dimensions.

Table 2: HDI dimensions for Venezuela

Indicator	Value
Life expectancy at birth (years)	71.1
Mean years of schooling	9.6
Expected years of schooling	13.5
GNI per capita (2017 PPP \$)	6,184

Table 3: Minimum and maximum values of the dimensions

Dimension	Indicator	Minimum	Maximum
Health	Life expectancy at birth (years)	20	85
Education	Expected years of schooling (years)	0	18
	Mean years of schooling (years)	0	15
Standard of living	GNI per capita (2017 PPP\$)	100	75,000

- i) Calculate the HDI for Venezuela and explain what the index value enables you to conclude about the level of human development in Venezuela. (6 marks)

- c) According to the World Bank, 712 million people (nearly 9% of the world's population) live in extreme poverty, defined as surviving on less than \$2.15 per day.
- i) Clearly discuss *two* reasons as to why we should be concerned with the measurement of poverty in developing nations. (4 marks)

QUESTION THREE [15 marks]

Below is an extract from The National Treasury and Planning State Department for Planning, Implementation of the Agenda 2030 for Sustainable Development in Kenya 2019 report.

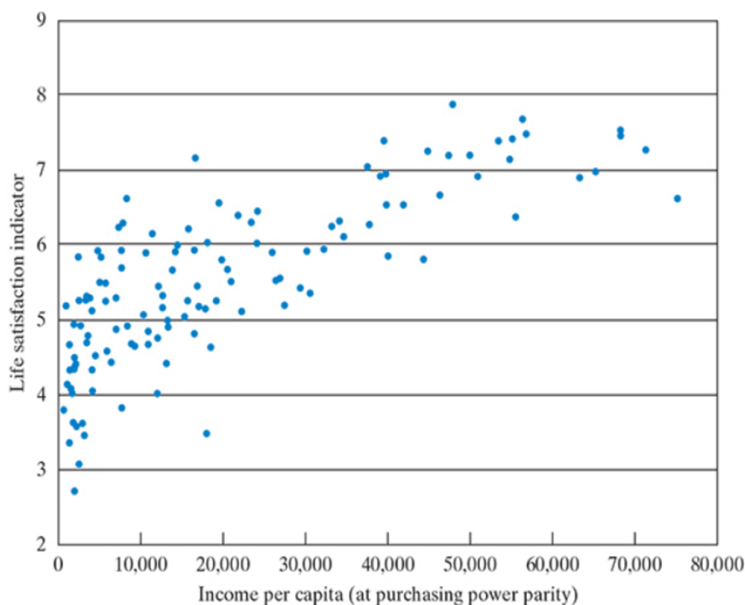
The overriding objective of the Kenyan Government is to transform the country into an industrialized middle income country offering our entire citizen a high quality of life in a clean and secure environment. In pursuit of this objective, the government places great emphasis on achievement of the Sustainable Development Goals as panacea for attaining a balanced socio-economic development.

- a) Clearly explain what the Sustainable Development Goals are. In your discussion, provide an example of *two* Sustainable Development Goal (SDG). For *each specific* SDG you mention, describe *two* indicators used to measure whether or not countries are on target to meet the specific SDGs you have mentioned. (7 marks)
- b) Distinguish between economic growth *and* economic development. In your discussion, explain how each can be measured.(4 marks)
- c) The extract above mentions that “the government places great emphasis on achievement of the Sustainable Development Goals as panacea for attaining a balanced socio-economic development.” Provide *two* discussion points on how the Sustainable Development Goals are linked to the economic development of Kenya. (4 marks)

QUESTION FOUR [15 marks]

- a) In general, define the term “inequality”. Why might high levels of inequality lead to lower rates of growth and development? Further, explain why it might be difficult for a country to get out of this trap of inequality. (5 marks)
- b) As Kenya works on providing a high quality of life to all citizens, do you think that rapid economic growth and a more equal distribution of income are necessarily conflicting objectives for Kenya? Provide two arguments to support your view. (4 marks)

c) Figure 1 below shows the relationship between life satisfaction and income per capita.



Note: The data on the x-axis is drawn from the World Bank World Development Indicators. The y-axis uses the Cantril Self-Anchoring Striving Scale from the Gallup World Poll, asking respondents to imagine a ladder with steps from 0 (worst possible life for you) to 10 (best possible life for you) and answer. On which step of the ladder would you say you personally feel you stand at this time?

- i) From the relationship shown in figure 1 above, is it reasonable to infer that high levels of income cause high levels of happiness? Provide a detailed discussion. (3 marks)
- ii) Additionally, do you think that happiness a sufficient indicator for measuring the economic development of a country? Justify your answer. (3 marks)

QUESTION FIVE [15 marks]

- a) The Kuznets curve is named after its creator, Simon Kuznets, an American economist who introduced the concept in 1950s and 1960s. Using a diagram, illustrate and explain the Kuznets inverted-U hypothesis. Further, discuss *one* limitation of this hypothesis for developing countries in Africa today. (6 marks)
- b) With the aid of an example, explain the main idea presented in the O-ring model in relation to development. Additionally, what role do you think international trade can play in solving the key challenges identified in the O-ring model? (5 marks)
- c) Why do you think an understanding of the meaning and measure of economic development is important for policy formulation in developing nations? Provide a discussion of *two* key reasons. (4 marks)