Masterprüfung

**Klausuren für Volkswirte, Betriebswirte, Handelslehrer
und Wirtschaftsinformatiker, MA und Diplom Studierende**

Datum: 04.02.2009

Prüfungsfach: Kreditpunkte-Klausur

„Development Aid "

Themensteller: Prof. Dr. Axel Dreher

Kandidat:

Name: ....

Vorname: ....

Matrikel-Nr.: ....

Fachrichtung: ....

Semesterzahl: ....

Raum: ....

Remarks:

Please leave 5cm on each edge of every page and number each page.

Please write your name and matriculation-number on each page.

When you start a new question, please use a separate sheet.

A non-commented language dictionary can be used.

Prof. Dr. Axel Dreher
Wintersemester 2008/9

Klausur Development Aid

Part	Topic	Points
I	*short questions*	15
II	*regression*	30
III	*essay*	45
∑		90

1	2	3	4	5	∑

Note:

Remarks:

The exam is divided into three parts. Please answer **all the questions in Part 1**. Select **one of the questions in Part 2** and answer **all the questions in Part 3**. The assigned points correspond with the estimated time needed to answer the question.

In total, one could receive a maximum of 90 points. The exam lasts 90 minutes. Please be aware of the time limit. Answers can be in Englisch or German.

Good luck!

Part 1: Please answer all the questions of Part 1. The estimated time needed corresponds with the maximum attainable points. All together, you should have about 15 minutes for this part.

1.) (10 Points)

Theory of Development Aid
a) How can external aid promote development? Take account of the role of savings.
b) Explain the possible weakness of the theory underlying in terms of aid fungibility.

2.) (5 Points)

Propose a model to test whether the World Bank's interests affect its decisions to allocate aid. What would be possible explanatory variable(s), representing the Bank's interests?

Part 2: Please answer one of the following two questions. You should spend about **30 minutes** for this question. In case both questions are answered, only question1) will be graded.

1) Interpret the table with regression output below. Do not answer with simple 'yes' or 'no' and provide your econometric reasoning. Also connect your answers to the existing literature. E.g., are the results shown below typical for such regressions?

   a) **(10 Points)** Which independent variables reduce the amounts of aid per capita according to the regressions?
   b) **(10 Points)** Given this table, do donors care about the institutional quality of recipient countries in allocating aid?
   c) **(10 Points)** Given this table, do corrupt governments receive less foreign aid?

TABLE 3—OFFICIAL FOREIGN AID AND CORRUPTION:
OLS PANEL REGRESSIONS OF FIVE-YEAR AVERAGES
(DEPENDENT VARIABLE: LOG OF AID PER CAPITA)

Independent variable	Time period		
	1975–1995	1980–1990	1990–1995
Constant	14.58	15.93	14.59
	(5.73)	(7.77)	(2.70)
Log(initial income per capita)	−0.56	−0.67	−0.67
	(−4.99)	(−4.31)	(−3.55)
Log(population)	−0.62	−0.63	−0.53
	(−13.44)	(−12.48)	(−7.37)
Openness	0.53	0.67	0.31
	(3.24)	(2.66)	(1.29)
Political rights	−0.03	−0.06	0.05
	(−0.85)	(−1.02)	(0.67)
Years as colony	0.01	0.00	0.00
	(2.85)	(1.72)	(0.77)
Friend of United States	0.01	0.001	0.001
	(0.70)	(0.07)	(0.04)
Friend of Japan	0.01	0.02	0.02
	(0.38)	(1.04)	(0.36)
Egypt	2.18	1.83	1.97
	(9.77)	(15.67)	(7.62)
Israel	2.69	3.08	3.40
	(2.18)	(3.27)	(1.01)
Corruption	−0.02	0.05	−0.05
	(−0.39)	(0.67)	(−0.44)
Time dummies	yes	no	no
Adjusted R^2:	0.65	0.65	0.69
Observations:	269	137	64

Notes: Values in parentheses are t statistics. Standard errors are calculated using White correction.

2) Please interpret the table below. Do not answer with simple 'yes' or 'no' and provide your econometric reasoning. Also connect your answers to the existing literature. E.g., are the results shown below typical for such regressions?

   a) **(10 Points)** Given this table, does aid increase economic growth?
   b) **(10 Points)** Comparing the OLS tests in model (1) and (2), what would you conclude about the role of aid/GDP on the determinants of economic growth?
   c) **(10 Points)** Given this table, what would be the most important variables for economic growth?

TABLE 3—GROWTH REGRESSIONS: USING ALL COUNTRIES
AND THE INDIVIDUAL POLICY VARIABLES

	(1)	(2)	
Estimation method	OLS	OLS	2SLS
Initial GDP	−0.65	−0.61	−0.74
	(0.55)	(0.58)	(0.62)
Ethnic fractionalization	−0.58	−0.53	−0.69
	(0.73)	(0.73)	(0.78)
Assassinations	−0.44*	−0.44*	−0.44
	(0.27)	(0.27)	(0.27)
Ethnic fractionalization	0.81*	0.81*	0.81*
× assassinations	(0.45)	(0.45)	(0.46)
Institutional quality	0.64**	0.64**	0.63**
	(0.17)	(0.17)	(0.17)
M2/GDP (lagged)	0.015	0.014	0.017
	(0.015)	(0.015)	(0.016)
Sub-Saharan Africa	−1.53**	−1.61**	−1.35*
	(0.73)	(0.76)	(0.76)
East Asia	0.89	0.93*	0.80
	(0.56)	(0.57)	(0.58)
Budget surplus	6.85**	7.00**	6.49*
	(3.39)	(3.38)	(3.47)
Inflation	−1.40**	−1.40**	−1.39**
	(0.41)	(0.41)	(0.41)
Openness	2.16**	2.12**	2.25**
	(0.51)	(0.50)	(0.54)
Aid/GDP	—	0.036	−0.085
		(0.13)	(0.19)

Notes: The variables are described in more detail in the text. The dependent variable is real per capita GDP growth. The excluded exogenous variables for 2SLS estimation are listed in Table 1. White heteroskedasticity-consistent standard errors are in parentheses. p-values for the tests of exogeneity appear in brackets.
   * Significant at the 10-percent level.
   ** Significant at the 5-percent level.

Part 3: Please answer all the questions. For this part, you should need 45 minutes.

1) (15 Points)
Discuss Sachs's big push approach and Easterly's counter-arguments regarding development aid. Taking account of this debate, can aid help achieve the United Nations Millennium Development Goals (MDGs)?

2) (15 Points)
Is debt relief an effective way of delivering development aid? Discuss arguments in favour and against debt relief.

3) (15 Points)
Is multilateral aid more effective than bilateral aid? Are political considerations less important for multilateral aid allocation? What about the allocation of NGO aid?