

Econ 157 problem set

[Literature](#), [Russian Literature](#)



Full Question A False. The Kuznets hypothesis states that the income inequality in poor countries first increase at a decreasing rate, then reaches a maximum and decline at an increasing rate with respect to per-capita income. Kuznets curve is inverted U shape. Its x and y axis shows per-capita income and inequality respectively. Therefore the slope of the curve denotes the growth rate of inequality at low per-capita income levels and the rate of declining of inequality at high per-capita income levels.

2. Question A-1:

True.

By drawing Lorenz Curves of two countries in the same panel the income inequality of those countries can be compared. These curves can cross in more than one place. Here an unequivocal statement regarding the income distribution of these two countries cannot be made. However Gini coefficient is a definite value between 0 and 1. If the Gini coefficient of country-one is greater than country- two it can be concluded that country two has comparatively a better income distribution compared to the country-1.

3. Question A-2:

True.

Poverty headcount ratio indicates the percentage proportion of population which is below the poverty line set by the central bank. With increasing value of the denominator Po value of this equation can decline. Example: country's poverty can increase at a lower rate compared to the total population growth while decreasing Po. Here the headcount of poor increase while the Po value decrease.

4. Question A-3:

False.

Consumers spend a higher proportion of total household income to buy essential foods in poor countries. Therefore decreasing income can substantially decrease the calorie intake by the families in these countries. In developed countries consumers' food basket includes non-essential foods and their utility is influenced by non-nutrient related concerns such as taste. Therefore income change can affect minimally to their calorie intake.

5. Question A-4:

True.

In the above model measurement error is produced from the unobserved variables. In regression analyses it is assumed that unobserved factors are independent from the explanatory variables. However ability and schooling are correlated. Therefore biased estimates can be produced.

1. Question B-1:

Probability of looking after parents = 0. 3

Probability of looking after by a son= 0. 3*0. 5

= 0. 15

Probability of not looking by a son = (1-p) = 0. 85

if the number of children = n

$(0. 85)^n \leq 0. 1$

$n \ln(0. 85) \leq \ln(0. 1)$

$n \geq \ln(0. 1)/\ln (0. 85)$

$n \geq 14. 16$

2. Question B-2:

In describing the differences in economic development across countries

geography and institutions are commonly used. Geography argument states that localized environment determine the quality of factors of production such as land, labor, capital and technology available in different countries. Thus location specific characteristics such as climate, being landlocked, special linkages with other countries and endowment of natural resources influence countries' economic growth. Example: in African continent warm climate, water scarcity and infertile soils restrict production of foods and nutrients requirement of the country. Institutions theory advocates that quality of institutional structures determine the productivity of countries' factors of production and economic growth alternatively. Early economists who proposed institutions theory were also related to capitalism.

Part C

The control group in this study comprises of the families who are living in the same village but did not apply for Grameen loans. It is a simple comparison involving two groups of households and minimum amount of data analyzing. The variability of household consumption is assumed to be determined by Grameen loans. Demographic characteristics of the heads of the households are not taken into account. However these characteristics can have a statistically significant influence on household consumption patterns example; age, gender, occupation, level of education, household size and monthly income. Alternatively the impact of Grameen loans could have been estimated by comparing the consumption out comes during the two time periods i. e. before obtaining the loan and after obtaining the loan. Monthly expenditure on foods, beverages and non-food consumption goods could have been used. In here before and after situations of the same group of

respondents are compared. Therefore the influence of unobserved factors on consumption outcome does not affect the conclusions of the study.