Masterprüfung

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

Datum: 19.04.2010

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 or 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 2009/10

Exam Development Aid

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

1	2	3	∑

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 English or German.

Good luck!

Part 1:   Please answer all questions of Part 1. The estimated time needed corresponds to the maximum attainable points. All together, you should use about 15 minutes for this part.
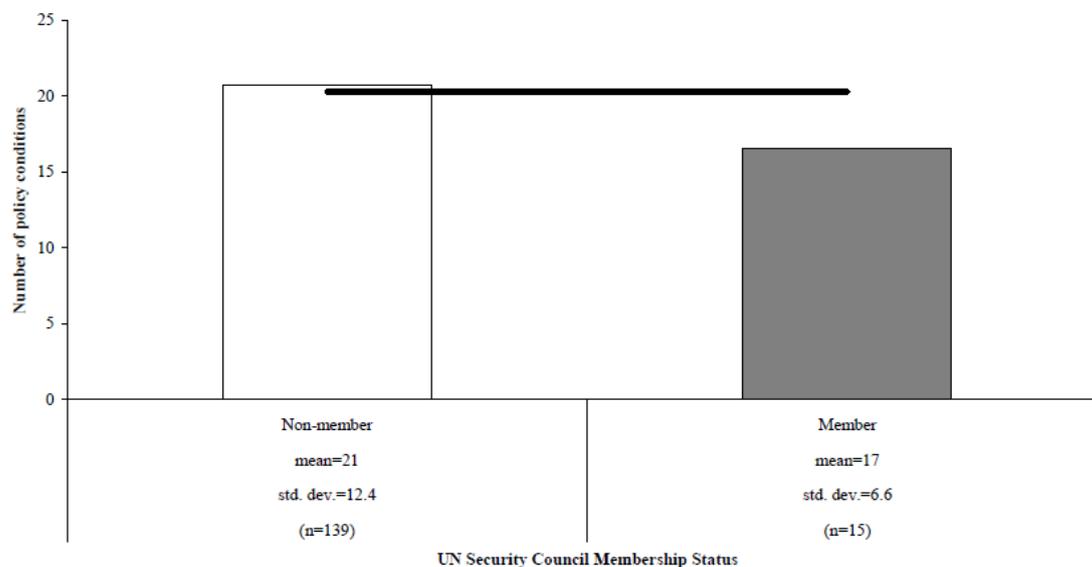
Q1) (5 Points)
What is the difference between tied aid, partially untied aid and untied aid? What is problematic with the tying of aid flows?

Q2) (5 Points)
Propose a model to test whether aid for health has been effective. What would be appropriate variables capturing the aid effort as well as the health situation?

Q3) (5 Points)
The graph below plots the number of policy conditions under IMF programs by non-permanent UN Security Council membership. Interpret the graph and explain shortly why UN SC membership might impact conditionality.

The horizontal line shows the average number of policy conditions across our entire sample.

Source: Dreher, Sturm and Vreeland (2009)

Q1) (30 Points)

The eight Millennium Development Goals (MDGs), which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, have been agreed to by all the world's countries and all the world's leading development institutions.

- a) **(15 Points)** Interpreting the regression output below, do the MDGs shape aid allocation?
- b) **(5 Points)** Which other factors not shown in the analysis below are expected to influence the allocation of development aid?
- c) **(10 Points)** Give some policy advice how to make it more likely that the MDGs will be reached by the target date of 2015. Where should aid be allocated to be effective?

Table 3: *Tobit Results for Total Aid by All Donors (unweighted)* [a]

Targets/indicators of need [b]	Aid categories [c]		
Target 2: Hunger	Total aid	Developmental food aid	Emergency food aid
• Undernourishment (99)	0.03	0.01	0.04***
• Malnutrition of children (83)	−0.67***	−0.03*	0.02
Target 3: Primary schooling	Total aid	Education	Basic education
• Net primary enrolment (89)	−0.20	0.02	−0.02
• Primary completion rate (98)	0.03	0.02	−0.01
• Average years of schooling (71)	0.76	0.27	0.08
Target 4: Gender disparity in education	Total aid	Education	Basic education
• Ratio girls/boys in education (110)	0.14	0.05	−0.01
• Literacy ratio, males/females (89)	−5.87	0.09	−0.14
Target 5: Under-5 mortality	Total aid	Health	Basic health
• Under-5 mortality rate (121)	−0.02	−0.01	0.00
• Immunization, measles (121)	0.14	0.02	0.00
Target 6: Maternal mortality	Total aid	Health	Basic health
• Maternal mortality ratio (113)	0.00	0.00	0.00
• Births attended (99)	0.42*	0.03	0.01
Target 7: HIV/AIDS	Total aid	Health	Population programs
• Prevalence of HIV (92)	−0.01	−0.01	0.08***
Target 8: Malaria, other diseases	Total aid	Health	Basic health
• Incidence tuberculosis (121)	−0.02	0.00	0.00
• Malaria ecology (111)	0.11	0.02	0.01
Target 9: Environmental sustainability	Total aid	Environmental protection	Agricultural land resources
• CO2 emissions (120)	−1.77	−0.06*	0.00
• Forest area (117)	0.21	0.01	0.00
• Nationally protected areas (130)	0.10**	0.00	0.00*
• GDP per unit of energy use (79)	−0.09	0.03	0.03
Targets 10/11: Water & sanitation/slum dwellers	Total aid	Water supply & sanitation	Basic drinking water
• Access to improved water (113)	−0.03	0.03	−0.00*
• Access to improved sanitation (111)	0.11	0.03*	−0.00

***, **, * significant at the 1, 5, and 10 percent level, respectively.
[a] Based on a Tobit model estimated with per capita income and governance as controls; controls and constant term not reported. — [b] Number of observations in parentheses. For definition and sources, see Appendix Table A1 and A2. — [c] Period average of grant equivalent of aid in 2002–2004, per capita of the recipient countries' population.

Source: Thiele, Nunnenkamp and Dreher (2007)
(Definition of variables on next page)

Definition *of Variables:*

Aid variables

•Grant equivalent per capita   nominal amount×grant element/100 per population of recipient

Indicators of need

- Access to improved water source   percent of population
- Access to improved sanitation   percent of population
- Average years of schooling   relates to the total population aged 15 and over
- Births attended by skilled health staff   percent of total
- CO2 emissions per capita   metric tons per capita
- Forest area   percent of total land area
- GDP per unit of energy use   2,000 PPP $ per kg of oil equivalent
- Immunization, measles   percent of children of the age of 12–23 months
- Incidence of tuberculosis   estimated incidence rate of all forms of tuberculosis, per 100,000
- Literacy ratio, males to females   literacy rate of adult males divided by literacy rate of adult females
- Malaria ecology   predictive of the extent of malaria transmission
- Malnutrition of children, weight   percent of children under five
- Maternal mortality ratio   adjusted ratio per 100,000 live births
- Nationally protected areas   percent of total land area
- Net primary school enrolment ratio   percent of the population of the corresponding official school age
- Prevalence of HIV   percent of population aged 15–49
- Prevalence of undernourishment   percent of population
- Primary completion rate, total   percent of the relevant age group
- Ratio girls/boys in primary education   percent
- Ratio girls/boys in secondary education   percent
- Under–five mortality rate   probability per 1,000 newborn babies

Q2) (30 Points)
One of the main purposes of the IMF is to promote exchange rate stability.

  a) **(10 Points)** What is the impact of IMF involvement on the likelihood of a currency crisis? Are the estimated coefficients of the control variables in line with your expectations? (Model 1&2)
  b) **(10 Points)** Through which channels might the IMF influence the likelihood of a currency crisis? Explain.
  c) **(10 Points)** Are your hypotheses in b) in line with the empirical results shown below? Does the IMF help or hurt?

Table 1: IMF involvement and currency crises, 1976-2000

	(1)	(2)	(3)	(4)	(5)	(6)
IMF program in previous 5 years	-0.81	-0.81			-0.836	-0.10
	(1.97)**	(2.37)**			(1.46)	(1.73)*
Compliant with IMF program, 5 years			-0.75		-0.402	0.002
			(1.80)*		(0.74)	(0.03)
IMF loans (percent of GDP), 5 years				-0.20	-0.055	-0.004
				(1.49)	(0.32)	(0.31)
Interest Rate differential (t-1)	0.00	0.00	0.00	0.01	0.016	0.01
	(1.61)	(0.12)	(0.12)	(1.31)	(0.89)	(2.73)***
Reserves/M2 (t-1)	-0.54	-0.53	-0.59	-0.60	-0.558	0.004
	(2.57)**	(2.71)***	(2.95)***	(2.69)***	(2.36)**	(0.23)
Exports/GDP (t-1)	-5.37	-6.10	-8.00	-5.97	-7.628	0.15
	(2.59)***	(3.41)***	(3.93)***	(3.06)***	(3.43)***	(1.32)
Flexible exchange Rate Regime (t-1)	0.14	0.13	0.13	0.13	0.153	-0.004
	(3.04)***	(3.04)***	(2.69)***	(2.85)***	(2.63)***	(0.78)
Capital Account Oppenness	-0.60	-0.61	-0.52	-0.32	-0.265	-0.01
	(3.38)***	(3.68)***	(2.94)***	(1.77)*	(1.28)	(0.71)
Inflation (t-1)	0.00					
	-0.35					
Current Account/GDP (t-1)	0.49					
	-0.22					
Domestic Credit/M2 (t-1)	0.10					
	-1.08					
Budget Deficit/GDP (t-1)	-3.19					
	-1.23					
(log) GDP p.c. (t-1)	0.38					
	-0.86					
Election, dummy (t-1)	0.17					
	-0.59					
Lagged dependent variable						-0.03
						(0.33)
Observations	759	868	769	695	602	607
Number of countries	50	53	50	46	43	59
Method	Logit	Logit	Logit	Logit	Logit	GMM
Fixed country effects	Yes	Yes	Yes	Yes	Yes	No
Fixed time effects	Yes	Yes	Yes	Yes	Yes	Yes
log likelihood	-203.08	-233.93	-195.42	-199	-159.38	
Prob > chi2	0.00	0.00	0.00	0.00	0.00	
Arellano-Bond-Test (p-level)						0.55
Sargan Test (p-level)						0.16

Notes:
The dependent variable is one when at least one speculative attack occurred in a certain year, and zero otherwise.
Absolute value of z statistics in parentheses.
* significant at 10%; ** significant at 5%; *** significant at 1%

Source: Dreher and Walter (2008)
(Definition of variables on next page)

Dependent variable:
Dummy (Crisis=1): Currency crisis episodes are identified based on a monthly weighted exchange market pressure index of exchange rate changes, reserve changes, and changes in the interest rate differential (Eichengreen et al. 1995). When at least one speculative attack occurred in a given year, the variable is coded as 1.

Variables of interest:
IMF Program-Dummy: Coded as 1 if the country had an IMF Program (SBA, EFF, PRGF, or SAF) for at least 5 months in a certain year.
Compliance-Dummy (1 = Compliance): Coded as 1 if the country was compliant with its IMF program. Noncompliance is recorded if more than 25% of the amount agreed for an IMF program remains undrawn at program termination (as suggested by Killick (1995)).
IMF Loans: Sum of net financial flows for all IMF programs (in percent of GDP).

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

1) (15 Points)
Does aid work? Starting with Burnside and Dollar (2000), write a short essay on this question using your knowledge on the results of the bilateral aid effectiveness literature.

2) (15 Points)
Discuss the advantages and disadvantages of debt relief in comparison to other forms of aid supply such as project aid.

3) (15 Points)
Outline a policy agenda how multilateral aid allocation should be improved.