Masterprüfung

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

Datum: 16.02.2010

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
$\sum$		90

1	2	3	$\sum$

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.
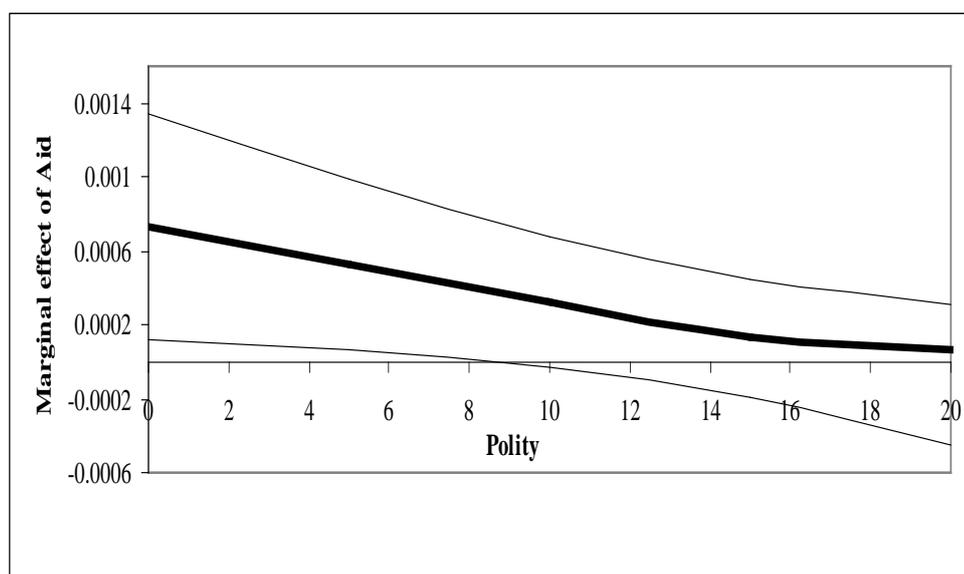
Q1) (5 Points)
Define Official Development Assistance (ODA). What is meant by the "grant element" of a loan?

Q2) (5 Points)
List arguments in favor and against debt relief.

Q3) (5 Points)
The graph below shows the marginal effect of aid on growth dependent on democracy as well as the corresponding confidence interval. Interpret the graph and explain what might drive the result.

Source: Bearce (2008)

Note: Democracy is measured using the Polity indicator, which is based on political participation and competition, the openness and competitiveness of executive recruitment, as well as constraints on the chief executive. The Polity indicator has been rescaled so that the least democratic country/year is coded as 0 and the most as 20.

Part 2: Please answer one of the following two questions. You should spend about **30 minutes** for this part. In case both questions are answered, only Question 1) will be graded.

Q1) (30 Points)

Djankov, Montalvoa and Reynal-Querol (2009) test their hypothesis that the effectiveness of aid depends on donor fragmentation by replicating Burnside and Dollar (2000).

a) **(10 Points)** What are the important results of the Burnside and Dollar (2000) study on bilateral aid effectiveness?
b) **(10 Points)** What might be the benefits and drawbacks of donor fragmentation?
c) **(10 Points)** Analyze the regression table below and draw conclusions on the importance of a good policy environment and donor fragmentation for economic growth.

	IV FE (6)	IV FE (7)	IV FE (8)
Aid	7.41**	4.41**	8.05**
	(2.17)	(2.28)	(2.28)
aid*donfrag	-10.06**	-6.78**	-10.54**
	(-2.12)	(-2.17)	(-2.08)
donfrag	22.9**		26.09**
	(2.17)		(2.30)
Lngdp	-2.63	-5.29	-1.00
	(-1.04)	(-1.95)	(-0.37)
Assass	-0.97	-0.75	-1.10**
	(-1.79)	(-1.56)	(-2.02)
Ethfrag*assass	1.28	1.01	1.44
	(1.04)	(0.90)	(1.14)
Icrge	0.31	0.49	0.27
	(1.05)	(1.61)	(0.87)
M2lag	0.14	0.07	0.18
	(1.80)	(1.50)	(1.89)
Policy	0.79***	0.76***	0.16
	(2.72)	(2.80)	(0.13)
Policy*aid			0.28
			(0.52)
Time periods	Yes	Yes	Yes
Constant	-2.13	37.64	-18.40
	(-0.09)	(1.71)	(-0.78)
N	355	355	355

Source: Djankov, Montalvo, Reynal-Querol (2009)

Notes:
- t-values in parentheses.
- *** denotes significance at the 1% level; ** significance at the 5% level

Variable	Description
donfrag	One minus the Herfidahl index. Donfrag measures the probability that if we take two dollars of foreign aid each dollar would come from a different donor. Source: Authors' calculations.
aid	The share of official development assistance in GDP. Aid includes grants and concessional loans, whose grant element is at least 25%. Source: OECD.
growth	The growth rate of real GDP per capita for the 5-year period. Source: World bank
lngdp0	The log of real GDP per capita of the initial period (1985 international prices). Source: GDNGD.
ethfrag	Ethnolingustoc fragmentaion. Source: Montalvo and Reynal-Querol (2005).
assass	Assassination per capita, Banks 2001. Taken from Roodman (2004)
icrg	Institutional quality from ICRG. Revised version from Roodman (2004).
m2lag	Money velocity. Source: Roodman (2004)
policy	1.28+6.85BB-1.40*inf+2.16*open. Formula taken from Burnside and Dollar (2000). See definition and source of each variable below.

Q2) (30 Points)

Critics allege that the World Bank has fallen short of its goals of improving living standards and reducing poverty and claim that the Bank is abused as a tool of foreign policy. Dreher, Sturm and Vreeland (2009) analyze whether membership on the UN Security Council has an impact on World Bank decisions.

    a) **(10 Points)** What might be the motivations of the World Bank and the recipient countries to engage in horse trading between World Bank loans and voting behavior in the United Nations Security Council?

    b) **(10 Points)** According to the results of the empirical analysis presented below, is there any evidence that temporary UNSC members receive more World Bank projects than non-members?

    c) **(10 Points)** Which other factors are statistically significant determinants of the allocation of World Bank programs? Interpret the results highlighting the economic intuition behind these variables.

Table 2
The impact of UN Security Council membership on new World Bank projects under different statistical models, extended model

	Poisson		Negative Binomial	
	(1)	(2)	(3)	(4)
	Fixed effects	Only country effects	Fixed effects	Only country effects
Temporary UNSC member	0.09	0.10	0.09	0.09
	(1.74)*	(1.95)*	(1.69)*	(1.74)*
IMF program	0.25	0.24	0.25	0.25
	(6.66)***	(6.64)***	(6.30)***	(6.31)***
Debt service (in percent of GDP)	0.01	0.01	0.01	0.01
	(3.73)***	(3.81)***	(3.70)***	(3.67)***
Investment (in percent of GDP)	0.02	0.02	0.02	0.02
	(4.18)***	(4.56)***	(4.25)***	(4.83)***
GDP per capita (log)	−0.59	−0.46	−0.62	−0.58
	(5.05)***	(4.40)***	(5.46)***	(5.50)***
Population (log)	−0.75	−0.11	−0.10	−0.04
	(2.48)**	(1.03)	(0.53)	(0.39)
Lagged election	−0.09	−0.08	−0.09	−0.08
	(2.31)**	(2.05)**	(2.31)**	(2.07)**
Country effects	Fixed	Fixed	Fixed	Fixed
Country effects — p-value	0.00	0.00	0.00	0.00
Year effects	Fixed		Fixed	
Year effects — p-value	0.20		0.58	
Log likelihood	−3086.85	−3105.04	−3083.31	−3097.25
LR-test w.r.t. Poisson model — Chi2			7.08	15.57
LR-test w.r.t. Poisson model — p-value			0.01	0.00

Absolute value of z statistics in parentheses.
*Significant at 10%; **significant at 5%; ***significant at 1%.
All regressions contain 2135 observations covering 113 countries and 31 years.

Source: Dreher, Sturm and Vreeland (2009)

Variable	Description	Source
World Bank projects	Number of new World Bank projects starting in a particular year.	www.worldbank.org
World Bank projects, IDA	Number of new IDA projects starting in a particular year.	www.worldbank.org
World Bank projects, IBRD	Number of new IBRD projects starting in a particular year.	www.worldbank.org
World Bank disbursements	IBRD and IDA net disbursements as a share of GDP.	World Bank (2006a)
World Bank comittments	IBRD and IDA comittments as a share of GDP.	World Bank (2006a)
Temp.UNSC member	Dummy coded 1 if a country is a non-permanent member of the United Nations Security Council, and 0 otherwise.	www.un.org
IMF program	Dummy coded 1 if a country participates in an IMF program during part of the year under Stand-by, Extended Fund Facility, Structural Adjustment Facility, and Extended Structural Adjustment Facility/Poverty Reduction and Growth Facility, and 0 otherwise.	IMF Annual Report (various years)
Debt service (% of GDP)	Total debt service outstanding in percent of GNI.	World Bank (2006b)
Investment (% of GDP)	Private and public gross national investment as a share of gross domestic product (GDP).	Przeworski et al. (2000), extended by Cheibub et al.
GDP per capita (log)	Measured in constant 2000 US dollars.	Przeworski et al. (2000), extended by Cheibub et al.
Population (log)	A countries' (log) population.	World Bank (2006b)
Lagged election	Dummy variable coded 1 if elections were held the previous year and 0 otherwise.	Beck et al. (2001)

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

Q1) (15 Points)
What are the Millennium Development Goals? Comment on these policy targets highlighting Easterly's and Sachs' routes for development.

Q2) (15 Points)
What are the objectives and drawbacks of conditionality in IMF and World Bank programs? Is there evidence that political factors might influence the severity of conditionality?

Q3) (15 Points)
Outline a policy agenda how bilateral aid allocation should be improved.