

Comment 172619: Weak A

Discuss the effect of development aid on the economies of poor countries. How can we identify the impacts of aid?

The candidate describes the topic well in the introduction; some economists such as Jeffery Sachs believe that aid can help a poor country escape from a poverty trap. Here the candidate should also have mentioned those whose opinion is the opposite. Furthermore, a possible mechanism for how aid can affect the economy is mentioned. The Big Push is such a mechanism. However, the candidate does not explain the Big Push in detail. To give an A we required some explanation of potential mechanisms; but in this case, other factors ensured that the candidate kept the A. The lack of thorough explanations of a mechanism, in which aid can have an effect on the economy in a poor country, is the reason why this candidate got a weak A (A/B). In this exam, many students elaborated on different types of aid and the amount of aid that is given today, but did not directly relate this to the exam question. This candidate, on the other hand, directly relates the descriptive part to the question at hand.

In the next section, the candidate critically assesses the challenges associated with measuring the effect of development aid. This relates directly to the exam question. A correlation between for example aid and growth is difficult to interpret as we might expect reverse causality; countries with low growth rates receive more aid than those with high growth rates. The candidate mentions that instrumental variables could be used to solve this issue of endogeneity, but does not fully reveal an understanding of how exactly an IV-regression can solve the above-mentioned issue.

Clemens et al. (2011) is very relevant in this context as it is a critical review of previous work on the effect of aid on growth as well as it offers a novel approach to measure this relationship. The candidate demonstrates a good understanding of how the authors of the article claim to have solved some issues in the literature. However, the possibility of “granger causality” is mentioned, without actually explaining what it is. In general, all concepts, both economic and econometrical ones, should be explained thoroughly if they are at all mentioned. In addition, one might ask whether growth is the main goal of development aid.

In the section on donations conditions and procedures, some relevant arguments are elaborated upon such as potential political effects of aid and how aid can be seen as Western paternalism. The latter point should have been mentioned in relation to William Easterly whose opinions on aid was discussed in class. He is mentioned briefly in the conclusion.

In general, this candidate demonstrates a high degree of independent thinking, but perhaps sometimes without demonstrating a high degree of understanding of the economic mechanisms at stake. The discussion on measurement problems is excellent. In addition, the exam is organized in such a way that the candidate’s ideas are all directly related to the exam question.