

Study Questions
(*with Answers*)

Lecture 21
International Policies for
Economic Development: Aid

Part 1: Multiple Choice

Select the **best** answer of those given.

1. What is the Millennium Challenge Account?
 - a. A global fund for providing medical assistance to victims of AIDS, tuberculosis, and malaria.
 - b. A new source of international reserves set up by the International Monetary Fund to be used by central banks of developing countries.
 - c. A pot of money provided by Bill Gates and George Soros, to be used as matching grants for promoting political reform in developing countries.
 - d. A performance-based aid program that would provide assistance only to countries with a proven record of good policies.
 - e. A proposed new name for the current account.

Ans: d (See Roberts "Foreign Aid: Congress Should Shift USAID Funds to the Millennium Challenge Account")

2. Which of the following is a valid reason why the United States should seek to reduce poverty in developing countries?
 - a. Poor foreign workers are undernourished and cannot produce profitably in American-owned factories abroad.
 - b. As incomes in developing countries rise, their people will contribute more to the causes championed by US nongovernmental organizations.
 - c. Poor countries can be breeding grounds for terrorists and extremists.
 - d. Poor people would rather enjoy leisure than buy US-made goods.
 - e. As incomes of developing countries rise, they are more likely to start wars with each other, and this provides a market for US-made armaments.

Ans: c (See Rice, "We Must Put More on the Plate to Fight Global Poverty")

3. What country, in 2005, gave the largest amount of official development assistance in proportion to its Gross National Income?

- a. Austria
- b. Japan
- c. Norway
- d. France
- e. United States

Ans: c

4. What is missing, in measures of official development assistance, that may make figures like those cited in question 3 misleading?

- a. Aid provided by private individuals and foundations
- b. Aid the governments give for humanitarian assistance
- c. Aid that countries give to individual other countries, rather than through multilateral institutions
- d. Foreign direct investment
- e. Aid that is given for political purposes

Ans: a (See Schaefer, on American Generosity)

5. How much aid, as a fraction of their incomes, did the people behind the "Live 8" concerts want the G8 to commit to?

- a. 0.07%
- b. 0.20%
- c. 0.70%
- d. 1.20%
- e. 1.70%

Ans: c

6. According to the Economist article, "Size Matters," which of the following types of countries tend to get the most aid per capita?

- a. Countries with large populations.
- b. Countries with small populations.
- c. Poor countries.
- d. Countries with few natural resources.
- e. Countries with good governance.

Ans: b

7. Suppose that USAID (the United States Agency for International Development) in Washington were to fund an infrastructure project in, say, Ghana, paying a US construction firm to build a road there. Which of the following are among Eberstadt and Adelman's "characteristics for success" that are violated by this project?
- Local ownership and initiative, since local government is not involved.
 - Partnership, since the USAID alone initiates the project.
 - Leverage, since USAID pays for it itself.
 - All of the above.
 - None of the above.

Ans: d

8. Why is it hard to discern statistically whether aid causes an increase in economic growth?
- Reliable data on aid flows are hard to get.
 - We only have data on GDPs of countries, not on other measures of economic success.
 - There could be causation going from growth to aid.
 - Measured GDP includes aid, and therefore the two cannot be distinguished.
 - Economic growth is measured for countries, but foreign aid goes to individuals.

Ans: c (*see The Economist 2014, "Aid to the Rescue"*)

9. How do Levinsohn and McMillan determine who gains and who loses from food aid?
- They ask the US Department of Agriculture how much food aid each country gets in comparison to their incomes.
 - They survey households in a developing country to find which buy more than they sell of the food products provided as aid.
 - They use data from the Food and Agriculture Organization (FAO) on the exports and imports of food by developing countries.
 - They calculate the nutritional value of different foods in comparison to their costs.
 - They analyze satellite maps of the world to determine where various crops are produced.

Ans: b

10. The World Bank's "Doing Business" indicators

- a. Record the industries in which countries have comparative advantage.
- b. Rank countries by the size of their foreign direct investment as host countries.
- c. Rank countries by the size of their foreign direct investment as source countries.
- d. Measure the ease of starting and running a business in many countries.
- e. Are a hindrance to economic development because they deter investment in poor countries.

Ans: *d*

11. How do the Millennium Development Goals (MDG) and the Sustainable Development Goals (SDG) differ:

- a. The MDG were to be completed by 2015 while the SDG began in 2016.
- b. The SDG include more than twice as many goals as the MDG.
- c. The MDG were to be completed in ten years, while 15 years are allowed for the SDG.
- d. The MDG include a single goal of eradicating extreme poverty and hunger, while the SDG include "zero poverty" and "zero hunger" as two separate goals.
- e. All of the above.

Ans: *e*

Part II: Short Answer

Answer in the space provided.

1. Define and explain:

- a. Tied aid

Ans: Aid that is required to be spent on the donating country's goods and services

- b. MCA and MCC

Ans: MCA = Millennium Challenge Account; MCC = Millennium Challenge Corporation. MCA is the money Congress has appropriated for this purpose. MCC is the organization that allocates the money. (See Roberts)

- c. DAC

Ans: DAC = "Development Assistance Committee" = Group of richer countries within the OECD who confer on providing aid.

2. Go to the Doing Business website, and answer the following from its rankings for 2016. The website is at <http://www.doingbusiness.org/rankings>

- a. What country ranked No. 1 in terms of overall Ease of Doing Business

Ans: New Zealand

- b. How many countries (and other units, such as Hong Kong) are included in the rankings?

Ans: 190

- c. In what category does the US rank highest, and in what does it rank lowest?

Ans: Getting credit #2; Starting a business #51.

- d. Is China in the top half of the rankings or in the bottom half?

Ans: At #78 of 190 countries, it's in the top half.

- e. Does Mexico rank higher or lower than China?

Ans: At #47, it's higher than China.

- f. What country in the Western Hemisphere ranks lowest?

Ans: Venezuela, at #187.

- g. What country in the Western Hemisphere does not appear in the rankings?

Ans: Cuba.