

# **Tutorial letter 201/2/2015**

## **Development Economics ECS3707**

### **Semester 2**

### **Department of Economics**

**IMPORTANT INFORMATION:**

This tutorial letter contains important information  
about the examination.

BAR CODE

## Dear Student

If you have adhered to the study programme in Tutorial Letter 101, you should by now have covered most of the study material. We are sure that you will have realised that we do not ask difficult questions, but rather expect of you to develop a thorough knowledge of the study material.

This tutorial letter contains guidelines on the content required in all the questions of the two compulsory assignments. You should take note of these question guidelines and compare them with your answers once you have received your marked assignments. The answers provided are not the only correct answers to these questions and yours may have differed significantly while still earning marks.

### I. ANSWERS FOR THE COMPULSORY ASSIGNMENT 01

1.	[4]	6.	[5]	11.	[2]	16.	[4]	21.	[5]	26.	[4]
2.	[1]	7.	[5]	12.	[1]	17.	[2]	22.	[5]	27.	[1]
3.	[3]	8.	[1]	13.	[3]	18.	[2]	23.	[1]	28.	[3]
4.	[3]	9.	[5]	14.	[2]	19.	[3]	24.	[1]	29.	[3]
5.	[3]	10.	[2]	15.	[4]	20.	[3]	25.	[3]	30.	[1]

### II. ANSWERS FOR COMPULSORY ASSIGNMENT 03

1.	[4]	6.	[1]	11.	[3]	16.	[5]
2.	[5]	7.	[1]	12.	[1]	17.	[5]
3.	[3]	8.	[1]	13.	[4]	18.	[4]
4.	[4]	9.	[1]	14.	[4]	19.	[4]
5.	[2]	10.	[4]	15.	[5]	20.	[1]

### III. GUIDELINES TO ASSIGNMENT 02 and 04

It was not required of you to submit these assignments for formal evaluation. These assignments were included to assist you in order to prepare for the examination.

### IV. THE EXAMINATION

There are two sections in the examination. Section A is compulsory. Section B consists of four elective questions of which you have to do three. You can select any three (3) questions to answer Section B. PLEASE NOTE THAT THERE IS NO MULTIPLE CHOICE QUESTIONS IN THE EXAMINATION.

See two examples below from two previous examination questions.

**Example 1:**

**Explain the apparent paradox that people having the most children can least afford them and those who can afford them most have the fewest number of children.**

See Todaro and Smith (2014:303-305)

A good answer and discussion should include *The Microeconomic Household Theory of Fertility* and the demand for children in developing countries.

The Microeconomic household theory of fertility provides an explanation to the illogicality that family size decreases with an increase in family income and increases in families with low incomes. All factors remaining equal the number of children that a family can have is supposed to increase with an increase in family income because they can afford to support them. In practice this does not happen normally. The theory explains the paradox as follows:

As income increases, parents may spend more on each child on care and welfare preferring a smaller number of children each of higher, quality for example healthier and better educated children. Increase in income is also at times accompanied by factors which raise the cost of having more children. When the cost of raising children rises as a result for instance, increased employment and educational opportunities for women, or the rise of school fees, parents will demand fewer children.

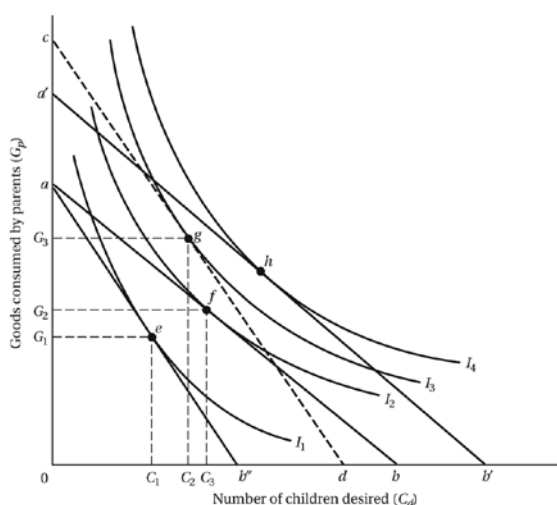
An increase in the price of children relative to other goods will cause households to substitute commodities for children. As children become more expensive relative to goods, families are likely to buy more goods and have fewer children.

**Demand for children in poor families**

The microeconomic theory of fertility assumes that households demand for children is determined by family preferences for a certain number of surviving children. Below are some determining factors:

- In regions of high mortality, parents may produce more than they actually desire in anticipation that some may not survive.
- Children in poor societies are partly seen as economic investment to provide returns in the form of child labour and provision of financial support in old age. Therefore publicly financed old-age security is likely to reduce demand for children in developing countries.
- In many developing countries large families are encouraged. Large families give status.

Figure 6.9: Microeconomic Theory of Fertility



**Example 2:**

**Although Progresa/Oportunidades has been successful in Mexico, why might a similar program not necessarily work in SA? (5)**

This problem is designed to get students to think about how development solutions in one country cannot necessarily be duplicated and be successful in another country. Answers should discuss the financial cost of implementing a similar program as well as the other necessary actions that would have to go hand-in-hand with such a program, i.e., the building of infrastructure, and national level investments in health care, among other things.

Progressa / Oportunidades is lauded not so much for its modest cost as for the fact that it works. Could a CCT (conditional cash transfer) program be introduced outside Latin America, in sub-Saharan Africa in particular? While the cost is manageable in middle to upper middle income countries, in low income countries, outside financial assistance would be needed, both for the payments themselves and to increase the number (and quality) of clinics and schools to be availed of in the program.

Poverty reduction would still need complementary improvements, such as better roads to poor areas, public health investments and local empowerment. Political will would be required to replace poorly performing but politically expedient programs with a more effective one. Administrative infrastructure would seem a major challenge, and disbursing funds to beneficiaries electronically might prove problematic.

Programs focusing on improving health, nutrition and education are a key component of a successful policy to end poverty; they need to be part of a broader strategy to be fully effective.

Best wishes with your studies

Regards

Ms R Bezuidenhout