

**Test Bank for Development Economics Theory Empirical
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Test Bank, Chapter 2: Well-being

1. There are many factors that limit households' success in their pursuit of well-being. We group these "Determinants of well-being" into following categories *except*:

- a. assets
- b. needs
- c. family
- d. market conditions and institutions

Answer: c

Heading: Well-being – introduction

Level: Easy

2. In studying the well-being, it is most common to focus on:

- a. households
- b. individuals
- c. entrepreneurs
- d. the Macro economy

Answer: a

Heading: Well-being – introduction

Level: Easy

3. What is the normal interest rate charged on a howlats loan?

- a. 0%

- b. 3.5%
- c. 5%
- d. 10%

Answer: a

Heading: Life among the Poor in Bangladesh

Level: Medium

4. Howlats loans are loans that citizens borrow from:

- a. the federal and local government
- b. friends, relatives and neighbors
- c. the central bank
- d. private companies

Answer: b

Heading: Life among the Poor in Bangladesh

Level: Medium

5. The textbook's definition of well-being is a summary assessment of all of the following *except*:

- a. how good or bad her life circumstances are, quantities and quality of goods and services she consumes
- b. how happy she is
- c. the activities to which she allocates her time
- d. hopes and fears regarding the future

Answer: b

Heading: a Working Definition of Well-being

Level: Difficult

6. Amanda and Bill consume the exact same quantities of every consumption item, but Amanda gets to make her consumption choice decisions on how to spend her income while Bill's consumption levels are dictated by the government. According to economist-philosophers like Amartya Sen, which of the following statement is true?

- a. Amanda has a higher well-being
- b. Bill has a higher well-being
- c. Amanda and Bill have the same well-being since the utility from the consumption choices is the same for both of them.
- d. There is no way we can compare Amanda and Bill's well-being.

Answer: a

Heading: A working definition of well-being

Level: Difficult

7. To identify the features of life circumstances that matter to developing country households, and then to identify the factors that constrain their pursuit of well-being, the author suggests it is useful to describe four sets of activities which are:

- a. Increasing wealth, improving life expectancy, decreasing infant mortality and gaining freedom
- b. Increasing wealth, fetching fresh water, improving environmental quality and building future through savings
- c. Earning Income, gaining access to stable healthcare, Increasing wealth, improving life expectancy
- d. Earning income, coping with fluctuations, building future through investment and acquiring goods and services

Answer: d

Heading: How Households in Developing Countries Pursue Well-being

Level: Medium

8. By the World Bank definition, with income per capita of \$350, Malawi is classified as a _____.

- a. Low Income Country
- b. Lower Middle Income Country
- c. Upper Middle Income Country
- d. High Income Country

Answer: a

Heading: How households in developing countries earn income

Level: Medium

9. By the World Bank definition, with income per capita of \$8,890, Mexico is example of _____.

- a. Low Income Country
- b. Lower Middle Income Country
- c. Upper Middle Income Country
- d. High Income Country

Answer: c

Heading: How households in developing countries earn income

Level: Easy

10. Typically, which of the following sectors has a much larger share of the labor force in developing countries compared to developed countries?

- a. Manufacturing, Construction and Utilities
- b. Wholesale and Retail Trade and Transport
- c. Agriculture and Mining sector
- d. Business and Personal Services

Answer: c

Heading: How households in developing countries earn income

Level: Medium

11. Among these four countries, one would expect that the percentage of workers who are self employed, employers and family workers is:

- a. highest in Indonesia
- b. highest in Malawi
- c. highest in Mexico
- d. highest in the United States

Answer: b

Heading: How households in developing countries earn income

Level: Medium

12. Basic foods are very important in the budgets of low income households. According to the study of Banerjee and Duflo (2007), it is common for the low income households to spend _____ of their total consumption budget on food.

- a. <10%
- b. 10% - 50%
- c. 50% - 90%
- d. >90%

Answer: c

Heading: How households in developing countries spend income and acquire goods and services

Level: Easy

13. As income levels rise, per capita food expenditure tends to _____ while the percentage of total expenditure on food tends to _____.

- a. rise; rise
- b. rise; fall
- c. fall; rise
- d. fall; fall

Answer: b

Heading: How households in developing countries spend income and acquire goods and services

Level: Medium

14. An empirical pattern known as Engel's Law states that as income levels rise, per person food expenditure

- a. falls, but its share in total consumption expenditure rises
- b. falls, and its share in total consumption expenditure falls
- c. rises, but its share in total consumption expenditure falls
- d. rises, and its share in total consumption expenditure rises

Answer: c

Heading: How households in developing countries spend income and acquire goods and services

Level: Medium

15. From the study of Filmer, et al. (2000), in Zimbabwe, among women who had given birth in a rural health center, what percentage reported being hit by a nurse during delivery?

- a. 1%
- b. 5%
- c. 13%
- d. 50%

Answer: c

Heading: How households in developing countries spend income and acquire goods and services

Level: Medium

16. Households in developing countries face lots of fluctuations and shocks. Seasonal fluctuations in agriculture means that in off-seasons farmers tend to demand less labor and supply less food which _____wages and_____food prices.

- a. raises ; increases
- b. raises; decreases
- c. reduces; decreases
- d. reduces; increases

Answer: d

Heading: How households in developing countries cope with fluctuations and shocks

Level: Difficult

17. In countries like Gambia, seasonal fluctuations are so profound that the last few months before the new harvest are called the:

- a. “dead season”
- b. “hungry season”
- c. “famished season”
- d. “starving season”

Answer: b

Heading: How households in developing countries cope with fluctuations and shocks

Level: Easy

18. One of the issue facing households in developing countries is how they cope with fluctuations or shocks which can arise from all of the following *except*:

- a. seasonal changes in weather
- b. life cycle event such as marriage and old age
- c. market Prices
- d. consumption smoothing

Answer: d

Heading: How households in developing countries cope with fluctuations and shocks

Level: Medium

19. All of the following are considered as consumption smoothing *except*:

- a. eating two good meals every day rather than having several three-meal days followed by several one-meal days
- b. spending less on daily basis to save for dowries for daughters or bride prices for sons
- c. if households have fewer or smaller fluctuations, they are willing to accept lower average consumption
- d. households take out a loan to spend more than their current income even if it means they have to consume much less in the future

Answer: d

Heading: How households in developing countries cope with fluctuations and shocks

Level: difficult

20. Which of the following cost saving activities is referred to as ex post responses to fluctuations?

- a. Households spend less than earnings in an effort to “Save up”
- b. Keep extra money in a mud bank
- c. Take out a loan, promising to repay it with interest out of future income
- d. Purchase a formal insurance

Answer: c

Heading: How households in developing countries cope with fluctuations and shocks

Level: Medium

21. The following are examples of income smoothing *except*:

- a. Farmers producing crops that harvest at different times during the year
- b. Farmers working for neighbor’s farm producing the same crops as at home
- c. Famers working part time in a non agriculture job
- d. Farmers using different soil qualities or farming plots of land at different latitudes

Answer: b

Heading: How households in developing countries cope with fluctuations and shocks

Level: Medium

22. The magnitude of household's needs can be affected by all of the following *except*:

- a. Households with members that are disabled or sick
- b. Cultural norms regarding celebrations and other obligations
- c. Income
- d. Number of dependants in the household

Answer: c

Heading: How households in developing countries cope with fluctuations and shocks

Level: Easy

23. Developing country households make many kinds of investment. All of the following are considered as investment *except*:

- a. purchase physical assets such as farm land, wells for clean drinking water, or tools for repairing rickshaws.
- b. purchase stocks or government bonds
- c. purchase working capital such as fertilizer
- d. spend money or time to acquire human assets such as acquiring education or training

Answer: b

Heading: How households in developing countries build better futures through investment

Level: Medium

24. Households' well-being levels are determined not only by the assets, but also by the nature and magnitude of their needs. Households' needs depend on all of the following *except*:

- a. the number of dependents
- b. the incidence of illness, injury and disability
- c. cultural norms
- d. households' income

Answer: d

Heading: Needs

Level: Medium

25. Changing market conditions can alter a household's well-being, _____ prices for output and _____ prices for inputs raises potential profits.

- a. higher; lower
- b. higher; higher
- c. lower; higher

d. lower; lower

Answer: a

Heading: Market conditions

Level: Medium

26. What is the ultimate goal in development policy making?

- a. Higher Incomes
- b. Higher GDP
- c. Higher Well Being
- d. More consumption choices

Answer: c

Heading: Empirical Study of Well-being

Level: Medium

27. Since we cannot measure well-being directly, people often turn to the most common measure of standards living which is:

- a. nominal income
- b. real income
- c. nominal income per capita
- d. real income per capita

Answer: d

Heading: Real household per capita income

Level: Easy

28. Other than income, what is the next most common measure of a household's living standard?

- a. Land
- b. Real per capita consumption expenditure
- c. Investment opportunities
- d. Level of education of the head of the household

Answer: b

Heading: Real per capita consumption expenditure

Level: Easy

29. Which of the following shows the impact of road improvement projects on well-being in Bangladesh?

- a. These projects raised per capita consumption expenditure on average 7.5 and 10.8 percent.
- b. These projects raised consumption expenditure at the bottom of the income distribution by more than they raised incomes higher up the distribution.
- c. Estimates show that these projects reduced the time it takes for people to get to market and raised enrollment in secondary schools.
- d. All of the above.

Answer: d

Heading: Empirical Study of Well-being

Level: Medium

30. Changing market conditions can affect household's well-being in many ways, if money is not available in financial markets for example, small firms may not be able to invest in key parts causing a _____ of goods and the price of goods to _____.

- a. Surplus; increase
- b. Surplus; decrease
- c. Shortage; Increase
- d. Shortage; decrease

Answer: c

Heading: Market conditions

Level: Medium

31. Which of the following constitutes a non-market interaction?

- a. Jim Borrows money from a bank to purchase a plow
- b. Shuman buys rice for his family
- c. Jane works for Rob at his farm and earns a wage
- d. Jim and Shuman cooperate to build a road together

Answer: d

Heading: Institutions

Level: Medium