UNIVERSITY OF ESWATINI

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

RE-SIT/ SUPPLEMENTARY EXAMINATION PAPER, JANUARY 2019

Title of paper	:	**Development Theory**
Course Code	:	**ECO 303 / ECON 306**
Time allowed	:	**Two (2) hours**
Instructions	:	**1. Answer Three (3) questions.**

Question One (1) is compulsory, choose any two from the remaining three questions provided.

2. Question one (1) carries forty (40) marks and the remaining questions carry equal marks of thirty (30) each.

Do not open this paper until the invigilator has granted permission.

Question 1 (Compulsory)   [40 marks]

a) Describe three core values of economic development?   (9 marks)

b) Identify how the Ranis-Fei Model differs from the Lewis Model.

(8 marks)

c) Explain why the Neoclassical (Solow Growth model) suggests that without technological progress continuous growth of per capita income is not possible.

(15 marks)

d) Outline four main challenges usually tackled under the International Dependency Theory.   (8 marks)

Answer any two questions from the following:

Question 2   [30 marks]

a) Describe fully the nature of the Human Development Index (HDI) introduced by the United Nations Development Programme (UNDP).   (15 marks)

b) Describe five (5) important themes under the New Growth Theory.

(15 Marks)

Question 3   [30 marks]

a) What are the key assumptions of the Lewis Labour Surplus Model that give rise to its conclusions?   (12 marks)

b) How would the Lewis Labour Surplus theory's conclusions differ if these assumptions do not hold? Explain fully your reasoning.   (18 marks)

Question 4   [30 marks]

a) Outline the Neoclassical Counter-Revolution model of economic growth, and explain the differences in sources of growth between developed and developing countries.   (20 marks)

b) Explain the meaning of coordination failure and how it might cause underdevelopment.   (10 marks)

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RE-SIT/SUPPLEMENTARY EXAMINATION PAPER: JANUARY 2019

TITLE OF PAPER: PROJECT DEVELOPMENT AND FINANCIAL ANALYSIS
COURSE CODE: ECO305
TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

1. Answer Question 1 and any other Two questions.
2. Question 1 is marked out of 50 marks whilst the rest of the questions are marked out of 25 marks each.
3. The Relevant Annuity tables are provided

DO NOT OPEN THIS QUESTION PAPER UNTIL THE INVIGILATOR HAS GRANTED PERMISSION.

Question 1

a) Write explanatory notes on any five of the following concepts

i)   The multiple root problem
ii)   Dependent projects and mutually exclusive projects
iii)   The four elements necessary for judging the desirability of any
        investment.

iv)   Sacred cow model and operating necessity model
v)   The concept of discounting
vi)   The major drawbacks of the IRR method

[5 marks each]

b) Define a project and hence explain how projects arise?   [5 marks]

c) "Cost Benefit Analysis entails comparing two or more alternative projects. Therefore if there is only one project, there is no need to undertake CBA". Assess the above statement and support your answer.   [5 marks]

d) When selecting among mutually exclusive alternatives the Net Present Value (NPV) and the Internal Rate of Return (IRR) could often lead to conflicting recommendation. Why is that so and which recommendation should you take and why?   [10 marks]

Question 2

a) The project evaluation process is "cyclic", explain the meaning of the statement and hence list without discussing the various phases of the project life cycle.   [7 marks]

b) Assume you have two mutually exclusive projects, Projects A and B having the same cash outlay amounting to E35000 and the same life span. The net inflows for project A are E20,000; E15,000; E10,000; and E10,000. Project B has the net cash inflows of E10,000; E10,000; E15,000; and E20,000.

Using the IRR trial and error method, determine the viability of these projects and do the appropriate selection, stating clearly your decision criterion.   [18 marks]

Question 3

a) Define the concepts of risk and uncertainty. Outline the main differences between the two concepts.   [6 marks]

b) Discuss any four factors to which projects are most sensitive. Why would sensitivity analysis not be used to decide on the acceptability or otherwise of a project?

[10 marks]

c) Explain the relevance and importance of Scenario Planning. Highlight the main stages of this technique.   [9 marks]

Question 4

a) Mrs Lomasontfo of Nhlanguyavuka wishes to invest and operate a homemade soap factory after her retirement, next year. She has no idea how to assess the project's viability. Assume you are her consultant. Using the net present value (NPV) criteria for project selection, advise her on whether or not to undertake the project basing your decision on the following information that has been made available to you.

The building and machinery will cost her E24000 and annual operating expenses for the first four years are E8500, E8000, E6000, and E5000. The following three years they are E4500 per annum. The annual sales are estimated to be E6000 in the first three years following the initial investment, rising to E8000 in the next two years and finally to E10000 in the last two years of the project. Assuming a rate of return of 15% advise, Mrs.Lomasontfo on the viability of the project.

[20 marks]

b) What are the weaknesses of the NPV method?   [5 marks]