Econ 172: Issues in African Economic Development Problem Set 3 (Due in class Thursday April 20, 2006)

1. The Slave Trade and African Development [5 points]

In **at most two pages** (double spaced), discuss **three** ways that the slave trade may have affected subsequent economic development in Sub-Saharan Africa. In your view, which of these three is likely to have had the most lasting impact on African economic performance? Considering all of the evidence from the readings and lectures, do you think slavery has been a major cause of recent African underdevelopment, or a relatively minor one?

2. Agricultural Marketing Board Pricing Policies [5 points]

Consider the following figure, which depicts government pricing policies for a particular crop, say cocoa in Ghana:



Imagine that the utility of cocoa farmers increases with the price they receive for their crop, and that they are risk-averse (technically, at each level of consumption, they dislike a drop in consumption of amount Δc more than they like a gain in consumption of the same amount). Another way to think about this is that people prefer a certain outcome over a variable outcome that gives them the same expected (average) consumption. A utility function that fits this description is U = ln(p), for example.

(a) What marketing board price *p* maximizes farmer utility? (Assume that the marketing board price has to be budget balancing, i.e., the government can not systematically borrow money in order to pay cocoa farmers.) (**1 point**)

(b) Imagine that the marketing board price p is less than p^* , as depicted in the figure above. Does this policy increase or decrease farmer utility relative to the case of no marketing board? (In the case of no marketing board, assume farmers simply receive the world market price in all periods.) Or is there no general answer? Explain your reasoning. (**2 points**)

(c) In 2-3 paragraphs, describe typical agricultural marketing board pricing policies in postindependence Africa, as characterized by Bates (1981). Relate these policies to the above figure. In general does Bates believe that these policies have increased farmer utility relative to the case of no marketing board or not? (**2 points**)