

# Midterm feedback

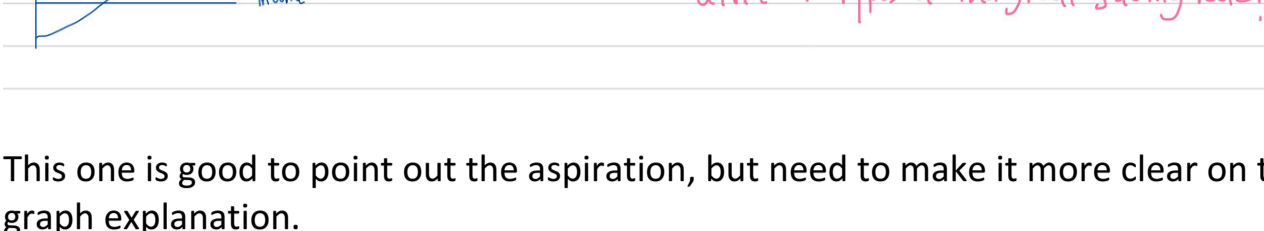
Tuesday, 15 March BE 2565 09:49

Q1.1  
Refer to Lecture 2-2 topics on marginal saving rate + aspiration + saving behavior + redistribution policy

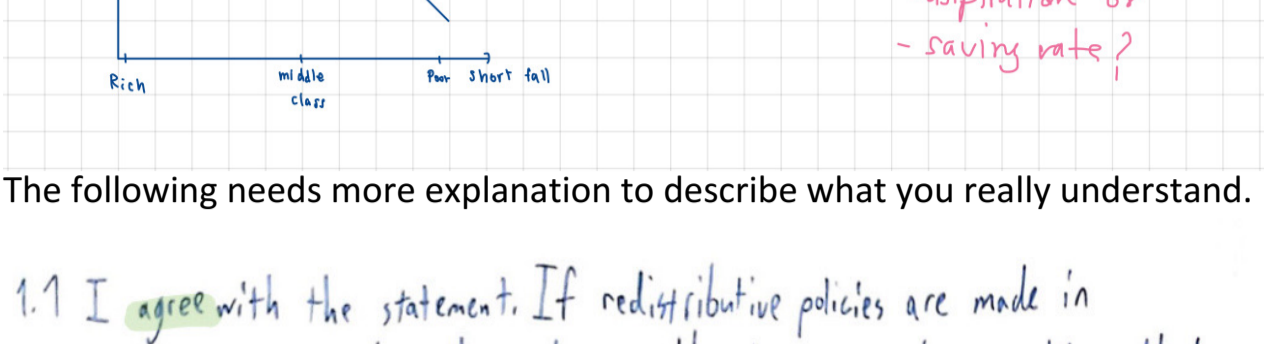
\*Main answer is in slide 10 of lecture 2-2, but need to combine the whole story together with aspiration.

Here are some comments:

I'm not totally agree in this statement. It is true that if we redistribute policies in poor country, the country will experience lower total rate of saving and that will affect the growth of the country in the long-run. Due to the fact that savings behaviour depends on income and aspirations, so if the shortfall continues to increase, the poor may find it too costly to save; the they may have to strive which lead for their health. However, the government can tax wealthy rich person since they already in the point of decreasing marginal saving rate because 'the aspiration effect wears thin on the already rich'.



This one is good to point out the aspiration, but need to make it more clear on the graph explanation.



The following needs more explanation to describe what you really understand.

1.1 I agree with the statement. If redistributive policies are made in poorer countries then those who are able to accumulate wealth would decrease their willingness to save and the redistribution would discourage people from trying to get out of their poverty trap. Without aspiration they wouldn't save.

This one is good answer, but still need a bit more to clarify.

Q1) I agree to the statement. This is because the inverse marginal saving rate. Lack of the slope, the marginal saving rate of the rich tends to be higher than that of the poor. Therefore, if we employ redistribution policies from rich to poor, we will face lower saving rate in that country. This is because even though we tax the rich people in the poor countries but they would be considered relatively poor if compared to other countries. This aspiration can be too costly in poor countries which suppress the middle class to grow. However, there is no need to completely remove the redistribution policy. This is because government can carefully assess and identify the group of people who are extremely rich where they are near the inflection point in becoming decreasing marginal saving rate. With this small group of extremely rich people, redistribution policy may be useful in poor countries, which would potentially lead to less inequality and long-term growth.

Q1.2  
Lecture 3-2 aims to use the science of scarcity to explain that it's not irrational in the context of being in scarcity.

1.2) There has been done a lot of research on the IQ of poor people versus rich people. This shows that poor people make generally worse decisions than rich people and they also score lower on IQ tests. Still, this does not mean that they are poor because they make bad decisions.

The above statement is a bit strong claim. In the research, only under scarcity situation (when triggered) that the poor do worse cognitive score than the rich. If not under the triggered situation, they can do equally well.

This one below seems a bit confused on how reasoning (more of the way you put the sentence). First sentence support the statement in the exam, but the second sentence and so on infer to disagree. This need a conjunction like 'however', or may state at the beginning that you are partially agree.

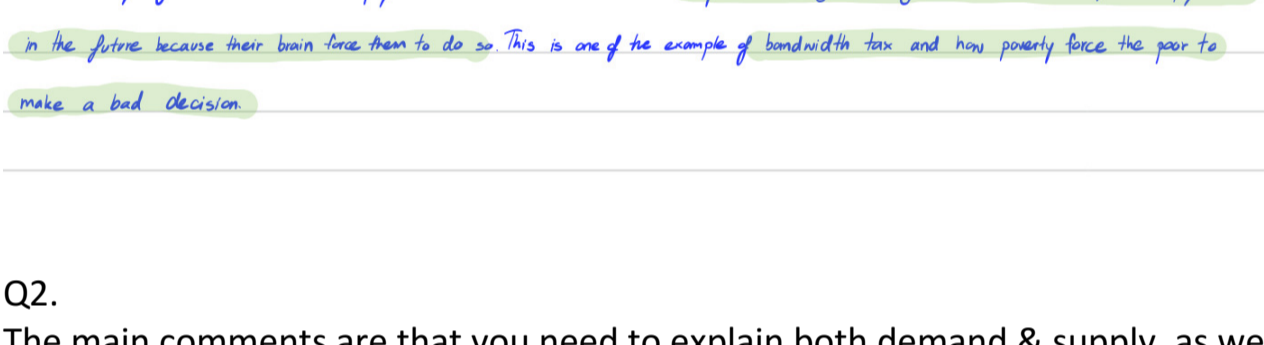
1.2) I agree with this statement because bad decision making can really lead to the poverty. It may be because of the limitation and scarcity. In this case, people who make a bad decision may have the limitation of the analyzing, comparing and remembering the data and information. Moreover, it is also because of the irrational decision making that they might be interested in maximizing but it does not the best interest in their long-run.

1.2 I partially agree with the statement. I agree that in certain cases people become poor because of poor decision making due to low mental bandwidth and such, however it is not always true and could also be due to circumstances. For example when there's scarcity and their bandwidth is taxed it is harder to make good decisions. A great example would be the circumstances due to COVID-19.

Another point in this statement is that it says about borrowing. So, the best way to give your reasons is to also explain regarding the borrowing situation. This one below is good example to give an explanation to counter the statement.

I partially agree with this statement. Yes, it is true that some can be poor because they had made a bad decision. But some can make a bad decision because they are poor. The science of scarcity tells us that when people are in the state of scarcity, assume to be scarce of money, the chemistry in the brain makes these people lose their bandwidth mind because they will only focus on the thing they scarce. For example, when parents unexpectedly lose their job and currently spending with their savings. About the day their savings is going to use up, their children asks them for a tuition fee which makes them think about only the ways to get their children tuition fee. They end up with borrowing student loans with a very high interest rate to pay for tuition fee. He can see that they seem to forget the high interest rate that they need to pay back in the future because their brain force them to do so. This is one of the example of bandwidth tax and how poverty force the poor to make a bad decision.

Q2.  
The main comments are that you need to explain both demand & supply, as well as equilibrium of case (a highly unequal) in our lecture. Some of you explain only demand; some only supply; some without clearly show the equilibrium or the graph. This one below has graph and explanation inconsistent. So, I don't know how you understand the model or note. The explanation is too short to help me understand as well.



\*Keep in mind that when you explain, it's for those who haven't learn this. So, you need to clearly explain to make the reader understand the context.

Q3.  
Many explain only the new poor, but not say anything regarding the current poor (before Covid).

Here I just show some good examples:

Q3) 3.1) People who get affected by the COVID-19, working on the irreplaceable one especially the ones with low savings, less secure income stream, low education, etc. This is proved by Figure 3. We can see that the country that got most impact on export and import job loss is Ethiopia. Ethiopia is considered to be one of least developed countries in the world. Therefore, even before Covid-19, their economic condition is already in a bad place, which got deteriorated by Covid-19. In Figure 2, non-farm businesses also experience more losses (compared to people who work in formal industries) because the ones that work in formal industries have benefits from formal working contract, e.g. fringe benefits. Therefore, COVID-19 business, especially for non-employees and etc., thus people in informal industries would face more impact than formal workers. Thus, informal workers are encouraged to be in cash-in-hand economy system in order to have for money to them.

This is especially true with informal workers in construction and manufacturing due to low location flexibility. This can be supported by Figure 3.4 and 3.5. In Figure 3, we can see people who get highly affected are in the construction IV. Typically, the type of jobs would not be considered as poor. However, as COVID hit, the new poor is created which makes them different from the current global poor who are typically live in rural areas. The new poor tends to be in the city and affected. We think because of the lockdown making in the big cities which causes the jobs that have high physical proximity and low location flexibility to be affected the most. This is in line with Figure 5. In the sense that many of new poor are coming in 'informal' industry and usually have middle income. We can see that people who get affected a lot earn more in Q1 to Q3. The impact on Q1 to Q3 quarters is 31% of the individuals in each quarter. Overall is higher than that of Q4 and Q6. Moreover, industries that get affected tend to be informal industries which represented in Figure 5, for example, construction accounts for 4.1% with high level of some informal accumulation and food services activities results high program. Not in full lockdown scenario. Eventually, this new poor tend to be in non-employment and more of manufacturing, services industry.

Another good one, but need to add more clear comparison/conclusion of current vs. new poor.

Q3) 3.1) In the current global poor before covid-19, data of the monetary and multidimensional poverty headcount illustrate that the region that faces the highest poverty rate of both monetary and multidimensional poverty is Sub-Saharan Africa region which is up to 38.5% and 38.2% while the least is Europe and Central Asia region. Moreover, the most indicator which the share of population in Sub-Saharan Africa region is deprived from is the sanitation (98%), followed by electricity (96.2%). From this, it shows the difference of poverty between the developed and developing countries. Moreover, most of the respondents who working wage job, of household in the top 80 less their income when the covid-19 involved (Figure 1). At the same time, COVID-19 mostly has high impact on the household who do the non-farm business in most survey countries especially in Mongolia which is around 80%. Experience losing income. Most of households with the surge income also face the less income due to the impact of covid-19; however, the least affected country is Vietnam which has only around 18% (Figure 2). Furthermore, covid-19 also has an impact in the labor force, according to the study of Thailand using Labor force survey. In Figure 3, it divided into 4 quadrants: Q1: mild impact; Q2: medium impact; Q3: medium impact; Q4: severe impact of covid-19. Most group of people who face the mild impact is the top wage sector, the most and people who live in Q2 (before the bottom who receive the lowest wage rate) faces the most kinetic impact which is around 36.2%. The most sector which experienced the severe impact is the accommodation and food service activities while 7% of professional, scientific and technical activities face the highest mild impact during covid-19 lockdown.

Then, conclusion?

This one isn't quite coherent in explaining your argument/analysis

Q3) Due to COVID-19 impacts, the harm of the spread affect some people greater than others. COVID-19 is changing our behavior to a new normal society where some specific labor is less demand than before thus, the unemployment rate rises mostly in unskilled labor area. This wave of economic recession set the poor standard to even poorer. According to figure 5, accommodation and food service related workers are the most depressed from COVID-19. Because of the lockdown, they rapidly lose their jobs and since they are mostly unskilled laborers, it is hard for them to switch to other industry. They are considered as low-income workers which is 'poor' but now they have no job at all which is even 'poorer'. The life quality decreases while the inequality increases. According to the infographic provided in slide 5 of Lecture Topic 2-3 from oxfam.org, the top richest men are two times richer while 99% of the population suffer from COVID-19. Middle-income households who never experience a low-life quality, can lose their income in the blink of an eye.

Another issue I gave to clarify. Well, selection bias that can be solved by RCT method is only for explaining causal effects (to evaluate) whether that policy can actually help improve the outcome we expect. However, when providing the policy in the shock, we can't purely randomly select people who are in needs to be in the treatment or control (not receiving any helps). This might raise the ethical issue (well, in some cases, we can randomly select the areas in the meantime, but still the application into the program need to be by voluntary or by program criteria). The problem of targeting group of people to received transfer has to solve in other ways.

3.2) The poverty reduction program involve a general targeting. We should try to make sure that there is least selection bias and the people who are really get impacted by COVID-19 is targeted by the program. The problems of Thailand's current programs that aims to help people who get affected by COVID-19 or before is sort of biased because some people who are middle class are somehow get included into the program. Thus, people who are the main target may not be fully benefited. Thus, the transfer of cash in hand program to help the poor should conduct RCT to prevent selection bias effect and really get the causal impact of the program that is least biased.

Q4.  
The situation I gave to you is not randomly assigning the scholarship. So, RCT is out of the answer. (Still, I gave you a way however.) The main methods could be Diff-in-diff or regression discontinuity if you have the criteria. No one answered correctly in applying DiD. Anyway, q4.2 is actually reduce the cost of household (pay less for additional years of education). So, it affects private rate of return (if you compare to the case where you need to pay the whole cost of high school degree).