

## **Growth and Development Economics**

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Homework 2, due 1pm Wed Feb 8

### **Question 1. Income risk in poor countries.**

1. Choose a panel dataset from a developing country to estimate an income process over the life cycle. Specifically, use a permanent-transitory model and the variance-covariance structure of your residuals to identify the variance of the transitory and permanent shocks over the life cycle.

Please, make sure that you carefully answer the following points:

- Introduce your survey data. Is it representative, how was it collected?
- Explain, what is the behavior of lifetime inequality in your dataset? And in that country?
- Discuss your measure of income (is it labor income, agricultural income, both?) For example, is it deseasonalized? Do you focus on urban or rural areas? Did you control for rain?
- Discuss carefully the computation of your residuals. What is the behavior of residual inequality over the life cycle?
- What trimming strategy are you using?
- What identification assumptions are you using to estimate the permanent and transitory variances?

Discuss your results.