

Topics in Development Economics

2nd module, AY2013-14

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Course information

Course Website: <http://my.nes.ru/>

Instructor's Office Hours: Office 1901, Office hours TBA

Class Time: TBA

Room Number: TBA

TAs: TBA

Course description

Why are some countries rich and other countries poor? Why have some poor countries managed to catch up with rich countries within one generation's lifetime, and others lag behind for centuries? Which policies promote growth and development around the world? As Nobel Prize winner Robert Lucas put it: "The consequences for human welfare involved in questions like these are simply staggering: Once one starts to think about them, it is hard to think about anything else."

This course takes a largely positive approach to study topics in development economics with a special emphasis on microeconomic aspects of economic development and, particularly, empirical methods used in modern research in development. The course topics have been chosen to highlight the empirical issues of measurement and identification. While the bulk of the current research on development addresses similar empirical problems to what we will discuss, a course on development economics would not be complete without addressing some of the theoretical debates within the field. As such, we will devote a few topics to understanding these debates and how they shape the field.

Course requirements, grading, and attendance policies

The course grade will be based on two problem sets (30%) and one essay (70%). There will be two home assignments, the first due at the end of the 3rd week and the second due at the end of the 5th week.

The paper should consist of no more than five pages of text (12 point font, double spaced). Figures and tables illustrating the argument should be put in appendix with each table and graph on a separate sheet. The essay should be an in-depth study of an economic development policy episode in a particular country. The essay should contain a critical analysis of the applicability of development economics research to this particular development episode in the respective country. Students should obtain the professor's approval of the essay topic by the end of the third week of the course. (Note that this means that you should start thinking about the topic right away.) A good initial source of topics is Rodrik D., ed. *In Search of Prosperity: Analytic Narratives on Economic Growth*. Princeton: Princeton University Press, 2003 or the country studies in the Global Development Network's Global Research Projects <http://www.gdnet.org/middle.php?oid=75>. In addition, papers listed by the Bureau for Research and Economic Analysis of Development (<http://ipl.econ.duke.edu/bread/>) are nice sources of inspiration. Both Easterly's books will also be very helpful in search for topics.

The essay is due in class on the last day of exam week. No late essays will be accepted. Essay deliverables are comprised of two things: 1) one half page summary/abstract due on Friday of the 4th week (which is either deemed acceptable or not, and, if not, students will have a week to revise or find a new topic); and 2) the essay itself due at the end of the exam week. Essays based on unacceptable abstracts may still be submitted but this is a strong signal that the topic does not meet the requirements of the assignment. Essays and abstracts should be uploaded to my.nes.ru.

Course contents

The number of lectures assigned to each topic is variable and may be adjusted during the course of the semester.

Topic 1: Basic facts and theories about development and underdevelopment.

Ray, Ch. 1-2

Easterly, Ch. 1

*Banerjee and Duflo (2004) "Growth Theory through the Lens of Development Economics"

* Banerjee, Abhijit, and Esther Duflo "The Economic Lives of the Poor," *Journal of Economic Perspectives*. Volume 21, Number 1, Winter 2007, pp. 141–167.

Easterly, William and Ross Levine, [It's Not Factor Accumulation: Stylized Facts and Growth Models](#), *World Bank Economic Review*, 15, no. 2, (2001).

Mankiw, N. Gregory, David Romer, and David Weil. (1992). "A Contribution to the Empirics of Economic Growth", *Quarterly Journal of Economics*, 107, 407-438.

Levine, Ross, and David Renelt. (1992). "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review*, 82, 942-963.

Kremer, M., "Population Growth and Technological Change: 1,000,000 B.C. to 1990," Quarterly Journal of Economics, 108 (3), pp. 681-716. August 1993.

Kremer, M., "The O-Ring Theory of Economic Development" Quarterly Journal of Economics, 108 (3), pp. 551-575, 1993.

Caselli, Francesco, "Accounting for Cross-Country Income Differences," in Philippe Aghion & Steven Durlauf (ed.), *Handbook of Economic Growth*, edition 1, volume 1, chapter 9, pages 679-741, Elsevier.

Topic 2. Poverty traps

*Banerjee, Abhijit and Andrew Newmann (1993), "Occupational Choice and the Process of Development," Journal of Political Economy, 101(2), pp. 274-298.

*Easterly, W. Reliving the 50s: the Big Push, Poverty Traps, and Takeoffs in Economic Development, *Journal of Economic Growth*, 11, no.2, (December 2006): 289-318.

Kraay, Aart and Claudio Raddatz (2007). «Poverty Traps, Aid and Growth.» *Journal of Development Economics*, vol. 82(2), pages 315-347.

McKenzie, David and Christopher Woodruff (2006). "Do Entry Costs Provide an Empirical Basis for Poverty Traps? Evidence from Mexican Microenterprises." *Economic Development and Cultural Change*

Ray, Debraj and A. Adsera. History and Coordination Failure *Journal of Economic Growth* 3, 267--276 (1998).

Ray, Debraj. Aspirations, Poverty and Economic Change, in A. Banerjee, R. Bénabou and D. Mookherjee (eds), *What Have We Learnt About Poverty*, Oxford University Press (2006).

Topic 3. Institutions and growth

Ray, Ch. 3-5

Easterly, Ch. 2-3, 8-9

*Acemoglu, D., Johnson, S., Robinson, J., (2001). "The colonial origins of comparative development: An empirical investigation", *American Economic Review*, 91:1369-1401.

Bloom, David, and Jeffrey Sachs. (1998). "Geography, Demography, and Economic Growth in Africa," *Brookings Papers on Economic Activity*, 2, 207-295.

Albouy, David (2005). "The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data," NBER WP No. 14130.

Banerjee, A., Iyer, L. (2002). "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review*, Vol. 95(4), pp. 1190-1213.

Glaeser, E., La Porta, R., Lopez-de-Silanes, F., and Shleifer, A. (2004). "Do Institutions Cause Growth?" *Journal of Economic Growth*, 9:271-303.

Knack, S., Keefer, P. (1995). "Institutions and Economic Performance: Cross-Country Tests Using Alternative Measures," *Economics and Politics*, 7:207-227.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R. (1999). "The Quality of Government", *Journal of Law, Economics and Organization*, 15:222-279.

Topic 4: Poverty measures.

* Deaton, Angus. (2005). "Measuring Poverty in a Growing World (or Measuring Growth in a Poor World)," *Review of Economics and Statistics*, 87(1), 1-19.

Deaton, Angus. 2004. "Measuring poverty." In *Understanding Poverty*, (ed.) Abhijit Banerjee, Roland Benabou, and Dilip Mookherjee. Oxford University Press.

Kamanou, Gisele and Jonathan Morduch. (2002). "Measuring Vulnerability to Poverty," NYU Wagner Working Paper No. WP1012. New York: New York University.

Topic 5: Informality.

Rafael La Porta and Andrei Shleifer, "The Unofficial Economy and Economic Development" *Brookings Papers on Economic Activity*, Fall 2008

Friedman, E., S. Johnson, D. Kaufmann, and P. Zoido-Lobaton. 2000. "Dodging the Grabbing Hand: The Determinants of Unofficial Activity in 69 Countries." *Journal of Public Economics* 76: 459-93.

Thomas, J. J. 1999. "Quantifying the Black Economy: 'Measurement Without Theory' Yet Again?" *Economic Journal* 109 (456): 381-89.

Reinikka, R. and J. Svensson (2006), "Using Micro-Surveys to Measure and Explain Corruption", *World Development*, 34(2):359-370.

Topic 6: Is Africa different?

William Easterly, "How the Millennium Development Goals are Unfair to Africa" *World Development* Vol. 37, No. 1, pp. 26-35, 2009

Michael Lipton "Income from Work: The Food-Population-Resource Crisis in the 'Short Africa'" Leontief Prize lecture, Tufts University, Medford, MA, 3 April 2012

Jeffrey D. Sachs and Andrew M. Warner "Sources of Slow Growth in African Economies" *Journal of African Economies*, December 1997, Volume 6, Number 3, pp. 335-376

*Nathan Nunn. "Historical legacies: A model linking Africa's past to its current underdevelopment" *Journal of Development Economics* 83 (2007) 157-175.

Paul Collier and Jan Gunning, "Explaining African Economic Performance," *Journal of Economic Literature* (1999).

Pierre Englebert, "Solving the Mystery of the AFRICA Dummy," *World Development*, Vol. 28, No. 10 (2000).

Topic 7: Health.

Ray, Ch. 8

Easterly, Ch. 5

Deaton, Ch. 4.1

Duflo, Esther, Abhijit Banerjee and Angus Deaton (2004) "Wealth, health, and health services in rural Rajasthan," forthcoming in the American Economic Review Papers and Proceedings, 2004

Subramanian, Shankar and Angus Deaton (1996), "The Demand for Food and Calories," *Journal of Political Economy*, Vol. 104 (1), pp 133-62.

* Miguel, Edward and Michael Kremer (2004) "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities", *Econometrica*, 72 (1), 159-217

Douglas Almond, "Is the 1918 Influenza Pandemic Over? Long-term Effects of In Utero Influenza Exposure in the Post-1940 U.S. Population," <http://www.nber.org/~almond/jmp3.pdf>

Gustavo J. Bobonis, Edward Miguel, and Charu Puri Sharma, "Iron Deficiency Anemia and School Participation," http://emlab.berkeley.edu/users/emiguel/miguel_anemia.pdf

Michael Kremer, "Pharmaceuticals and the Developing World," *Journal of Economic Perspectives* 16(4), Fall 2002.

Young, Alwyn. (2005). "The Gift of Dying: The Tragedy of AIDS and the Welfare of Future African Generations", *Quarterly Journal of Economics*, 120(2), 423-466.

Acemoglu, Daron and Simon Johnson (2006), "Disease and Development: The Effect of Life Expectancy on Economic Growth," mimeo, MIT.

Kaspar Richter (2006), "The Well-Being of the Elderly and Wage Arrears in Russia," Journal of European Economic Association, Vol. 4, No. 1, Pages 116-152.

Paul J. Gertler and Simone Boyce, "An Experiment in Incentive-Based Welfare: The Impact of PROGRESA on Health in Mexico," http://faculty.haas.berkeley.edu/gertler/working_papers/PROGRESA%204-01.pdf

Topic 8. Education.

Ray, Ch. 3-5

Easterly, Ch. 4

Krueger, Alan and Mikael Lindahl. (2001). "Education for Growth: Why and For Whom?" *Journal of Economic Literature*, 39 (4), 1101-1136.

Banerjee, Abhijit, Shawn Cole, Esther Duflo and Leigh Linden (2003) "Remedying Education: Evidence from Two Randomized Experiments in India," mimeo, MIT

* Duflo, Esther (2001), "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment" *American Economic Review*, Vol. 91 (4), pp 795-813.

Angrist, Joshua and Victor Lavy (1999), "Using Maimonides' Rule to Estimate the Effect of Class Size on Scholastic Achievement," *Quarterly Journal of Economics*, Vol 114 (2), pp. 533-575.

Topic 9. Land reform.

Ray, Ch. 10-12

Shaban, Radwan (1987) "Testing between Competing Models of Sharecropping," *Journal of Political Economy*, Vol. 95 (5), pp. 893-920.

* Banerjee, Abhijit, Paul Gertler and Maitresh Ghatak (2002), "Empowerment and Efficiency: Tenancy Reform in West Bengal," *Journal of Political Economy*, Vol. 110 (2), pp 239-280.

Field, Erica (2003), "Entitled to Work: Urban Property Rights and Labor Supply in Peru," Mimeo, Harvard, July.

Goldstein, Marcus and Chris Udry (2004), "Gender, Power and Agricultural Investment in Ghana", mimeo, Yale University.

Banerjee, Abhijit (2000) "Prospects and Strategies for Land Reforms," in B. Pleskovic and J. Stiglitz (eds), Annual World Bank Conference on Development Economics 1999. Washington, DC: World Bank, pp. 253-284.

Besley T. and Burgess R. (2000) "LAND REFORM, POVERTY REDUCTION, AND GROWTH: EVIDENCE FROM INDIA." *The Quarterly Journal of Economics*.

Besley, T. (1995). "Property rights and investment incentives: Theory and evidence from Ghana." *Journal of Political Economy*, vol. 103, 903—937.

Topic 10. Credit, Savings and Insurance.

Ray, Ch. 14

Aleem, Irfan (1990), "Imperfect Information, Screening and the Costs of Informal lending: A Study of a Rural Credit Market in Pakistan", *World Bank Economic Review*, 4 (3), 329-349.

Banerjee, Abhijit (2004) "Contracting Constraints, Credit Markets, and Economic Development," in M. Dewatripoint, L. Hansen and S. Turnovsky, eds. *Advances in Economics and Econometrics: Theory and Applications*, Eight World Congress of the Econometric Society, Volume III. Cambridge University Press, pp. 1-46. [click here for pre-published version](#)

Banerjee, Abhijit and Kaivan Munshi (2004), "How Efficiently is Capital Allocated? Evidence from the Knitted Garment Industry in Tirupur," *Review of Economic Studies*, Vol. 71(1), 19-42.

* Burgess, Robin And Rohini Pande(2003), "[Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment](#)," mimeo, Yale.

Morduch, Jonathan (1999), "The Microfinance Promise," *Journal of Economic Literature*, Vol. 37 (4), pp. 1569-1614.

Karlan, Dean (2002), "[Social Capital and Group Banking](#)," mimeo, Princeton

[Pitt, Mark M. and Shahidur R. Khandker \(1998\) "The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?" *Journal of Political Economy*](#)

*[Morduch, Jonathan \(1998\) "Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh"](#), mimeo.

[Banerjee, Abhijit V., and Esther Duflo \(2004\) "Do Firms Want to Borrow More? Testing Credit Constraints Using a Directed Lending Program"](#), mimeo.

[Besley, Timothy, Stephen Coate, and Glenn Loury "Rotating Savings and Credit Associations, Credit Markets and Efficiency", *Review of Economic Studies*, 61\(4\), 701-719.](#)

Sample tasks for course evaluation

Development Economics
Home Assignment #1 Due Wednesday, Nov. 21st, 2012

Problem 1: The Big Question in Development Economics

Write a short essay (300 words or less) on what you consider to be one of the most pressing questions in development economics. Questions should be specific and coherent. You should state your question and then argue for its relative importance appealing to theory or empirical evidence. You will not be graded on how feasible the question is to answer.

Problem 2: Referee Report

Write a referee report on one of the recent papers in the Journal of Development Economics (2010-2012). If you have trouble accessing this journal and/or you are not sure how to write a referee report, there is a nice document written by Alain de Janvry posted on my.nes.ru .

Problem 3: Human Capital Accumulation.

Read the following paper: "Threshold Externalities in Economic Development" by Costas Azariadis and Allan Drazen in *The Quarterly Journal of Economics*, Vol. 105, No. 2 (May, 1990), pp. 501-526 (posted on my.nes.ru).

Consider an overlapping generations model with human capital accumulation (as in Azariadis and Drazen (1990)). Assume $A_t = 1$, $F(K, N) = \sqrt{KN}$. Here N is the effective (i.e. skill-adjusted) labor available in the economy. There is no depreciation. The consumer's utility function is $u(c_t, c_{t+1}) = \ln c_t + \ln c_{t+1}$. The human capital is accumulated according to $x_{t+1}^i = x_t h(\tau_t^i, x_t)$. Here τ is the share of time invested in labor quality improvement in the previous period. The initial capital stock is k_0 and initial human capital is x_0 . Find the steady state(s) in the following cases and give an interpretation for the form of $h(\cdot)$:

(a) $h(\tau, x) = \sqrt{\tau}$

(b) $h(\tau, x) = 1 + \tau \gamma \min\{x, 1\}$

Course materials

The course topics and course readings are listed above. Starred papers should be read before class. The remaining papers serve as a reference list and should be read if you are interested in a particular topic.

There is no textbook in this course. There are four books, however, which help putting the papers (taught in class) in perspective:

- Ray, Debraj. *Development Economics*, Princeton University Press 1998.
- Easterly, William. *Elusive Quest for Growth. Economists Adventures and Misadventures in the Tropics*. MIT Press 2001.
- Easterly, William. *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. Penguin Press 2006.
- Ch. 2-3 in: Deaton, Angus. *The Analysis of Household Surveys*. John Hopkins, 1997.

Ray is a textbook focusing on the theory of economic development. Easterly's books provide a rich-with-concrete-examples complement to Ray. Deaton's is necessary for understanding empirical methods used in papers that we will study.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.

