

ECO 2701H DEVELOPMENT ECONOMICS I

University of Toronto
Department of Economics

Winter 2012

Lectures: Tuesday 2:00 pm - 4:00 pm, Max Gluskin House (150 St. George St.), Room 100

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COURSE DESCRIPTION

This provides a partial survey of current economic issues faced by less developed countries. The focus is on the application of economic theory and econometrics, to demonstrate how the analytic techniques used in applied microeconomics can be used to inform economic problems and public policy in these countries.

The material covered draws on (calculus-based) microeconomic theory and econometrics; it is suitable for both M.A. and Ph.D. students. That said, the emphasis of the course is on the *interpretation* and *evaluation* of empirical evidence relevant for the conduct of public policy in developing countries.

OUTLINE OF TOPICS

1. Growth and development
2. Identification and the returns to education
3. Schooling
4. Health
5. Credit
6. Social networks
7. Corruption and politics
8. Endowments, history, institutions
9. Firms
10. Farms
11. Trade
12. Consumption (time permitting)

COURSE WEBSITE

Lectures will be held regularly during the Tuesday 2p–4p time slot. Course materials will be posted on the Blackboard course website.

EVALUATION

The course requirements are:

(1) Two assignments (20 percent), due

February 7th (Week 5) (Human Capital)

February 28th (Week 8) (Credit and social networks)

The centerpiece of the assignments will be the analysis of certain questions related to those covered in class and the empirical analysis of development related data sets in the context of the course readings. Late assignments will be penalized as discussed below.

(2) Referee report (critical evaluation of an article), 2-4 double-spaced pages, due March 20th (Week 10) (20 percent):

The referee report will be based on a working paper by Development Economics job market candidates, TBA. Instructions on how to prepare a referee report will be posted on the course website at the time the papers are announced. Late referee reports will be penalized as discussed below.

(3) Research proposal (MA/MFE) / Research paper (PhD) in empirical development, due April 3rd (Week 12) (25 percent):

Students will hand in a research proposal which will:

- (i) establish a research question;
- (ii) briefly survey an existing literature in Development Economics which addresses this question;
- (iii) describe a planned research project to address the question (data; research design).
- (iv) conduct a preliminary data analysis section [PhD only].

All students must meet with me (during office hours) to discuss the research proposal by March 13th (Week 9).

(4) Final examination (30 percent): The final exam will be offered during the Final Exam period.

(5) Class participation (5 percent): Based on the quality of classroom comments.

POLICIES

*Late Assignments will be penalized at 10% per day unless excused in advance.

*To appeal a grade you must meet me in office hours to discuss – you will get a complete re-grade.

*The final exam is governed by the university final exam policies.

*Academic misconduct – don't plagiarize. It is acceptable to work together on assignments (but not the referee report or proposal/paper) but please write up your answers separately.

SOFTWARE

As part of the course (assignments), the students will learn to use STATA, a statistical package

widely used in the social sciences. STATA is installed on the network computers. You can also purchase your own copy of STATA for use on your personal computer. STATA can be purchased at the Software Licensing Office in the Information Commons of Robarts Library (www.utoronto.ca/ic/softdist/).

RECOMMENDED REFERENCE TEXTS

Angus Deaton, The Analysis of Household Surveys: A Microeconomic Approach to Development Policy. Johns Hopkins University Press: Baltimore, Maryland. 1997.

Bardhan, Pranab and Christopher Udry. Development Microeconomics. Oxford University Press: New York. 2000.

Banerjee, Abhijit and Esther Duflo. Poor Economics. Public Affairs: New York. 2011.

There is no real graduate development textbook. The Deaton book is a classic for analyzing cross-sectional data and has lot on welfare measurement, sampling and survey design, and consumer/household behavior. The Bardhan and Udry book covers classic microeconomic theory models from development economics. The Banerjee and Duflo book is an easy, non-technical overview of the recent empirical literature (particularly RCTs). None of these are necessary for the course but they may be useful references.

We will mainly be focusing on the journal articles below. There are three required readings each week, denoted with a star (*). The other papers are optional though they may be briefly discussed in class. I will post the readings on the blackboard site as necessary but all should be available electronically through the library or author web-sites.

COURSE OUTLINE AND READINGS (LISTED LECTURES APPROXIMATE)

1. Growth and development

*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.

*Hsieh, Chang-Tai and Peter J. Klenow (2010). "Development Accounting", *American Economic Journal: Macroeconomics*, 2:1, 207-223.

*Jones, Charles I. and Peter J. Klenow (2011). "Beyond GDP? Welfare across Countries and Time." *Working Paper*.

Banerjee, Abhijit and Esther Duflo (2005). "Growth Theory through the Lens of Development Economics." *Handbook of Economic Growth Volume 1A*, 473-552.

2. Identification and randomization

*Card, David (2001). "Estimating the Return to Schooling: Progress on Some Persistent

Econometric Problems.” *Econometrica*. Vol. 69(5), 1127-1160.

*Duflo, Esther, Rachel Glennerster and Michael Kremer (2008). “Using Randomization in Development Economics Research: A Toolkit.” *Handbook of Development Economics Vol. 4*.

*Deaton, Angus (2010). “Instruments, Randomization, and Learning about Development.” *Journal of Economic Literature*. Vol.48, 424-455.

Imbens, Guido W. (2010). “Better LATE Than Nothing: Some Comments on Deaton (2009) and Heckman and Urzua (2009).” *Journal of Economic Literature*, 48(2): 399-423.

Banerjee and Duflo Chapter 1.

3. Schooling

*Duflo, Esther (2000). “Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment”, *American Economic Review*, 91(4), 795-813.

*Duflo, Esther, Pascaline Dupas, and Michael Kremer (2010). “Peer Effects, Teacher Incentives, and the Impact of Tracking: Evidence from a Randomized Evaluation in Kenya”, *American Economic Review* (forthcoming).

*Krueger, Alan and Mikael Lindahl (2001). “Education and growth: Why and for whom?” *Journal of Economic Literature*, 39(4), 1101-1136.

Bobonis, Gustavo, and Frederico Finan. (2009). “Neighborhood Peer Effects in Secondary School Enrollment Decisions.” *Review of Economics and Statistics*. 91(4), 695-716.

Jensen, Robert (2010). “The (Perceived) Returns to Education and the Demand for Schooling.” *Quarterly Journal of Economics*, 125(2). 515-548.

Rosenzweig, Mark R. (2010). "Microeconomic Approaches to Development: Schooling, Learning, and Growth." *Journal of Economic Perspectives*, 24(3): 81–96.

Banerjee and Duflo Chapter 4.

4. Health

*Jayachandran, Seema and Adriana Lleras-Muney. (2009). “Life Expectancy and Human Capital Investments: Evidence from Maternal Mortality Declines.” *Quarterly Journal of Economics*. Vol 124(1), p. 349-397.

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

*Strauss, John and Duncan Thomas (2008). "Health over the Life Course." *Handbook of Development Economics Volume 4*. 3375-3474.

Banerjee, Abhijit, Esther Duflo, Rachel Glennerster and Dhruva Kothari. (2010). "Improving Immunization Coverage in Rural India: A Clustered Randomized Controlled Evaluation of Immunization Campaigns with and without Incentives." *Working Paper*.

Banerjee and Duflo Chapter 3.

5. Credit

*Banerjee, Abhijit V., and Esther Duflo (2010). "Giving Credit Where It Is Due." *Journal of Economic Perspectives*, 24(3), 61-80.

*Karlán, Dean, and Jonathan Zinman (2009). "Observing Unobservables: Identifying Information Assymetries with a Consumer Credit Field Experiment." *Econometrica*, 77(6), 1993-2008. (Longer version: <http://karlan.yale.edu/p/ObservingUnobservables-long.pdf>)

*Khwaja, Asim Ijaz and Atif Mian (2005). "Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market." *Quarterly Journal of Economics*. Vol. 120(4).

Fisman, Raymond, Daniel Paravisini and Vikrant Vig (2011). "Social Proximity and Loan Outcomes: Evidence from an Indian Bank." *Working Paper*.
<http://sticerd.lse.ac.uk/seminarpapers/dg31102011.pdf>

Bardhan and Udry Chapters 7, 8.

Banerjee and Duflo Chapters 6, 7, 8.

6. Social Networks

*Conley, Timothy, and Christopher Udry (2010). "Learning about a New Technology: Pineapple in Ghana." *American Economic Review*, 100(1), 35-69.

*Munshi, Kaivan (2003). "Networks in the Modern Economy: Mexican Migrants in the U.S. Labor Market", *Quarterly Journal of Economics*, 118:2, pp. 549-597.

*Munshi, Kaivan, and Mark R. Rosenzweig (2006). "Traditional Institutions Meet the Modern World: Caste, Gender, and Schooling Choice in a Globalizing Economy." *American Economic Review*, 96(4), 1225-1252.

Kremer, Michael, and Edward Miguel (2007). "The Illusion of Sustainability", *Quarterly Journal of Economics*, 112(3), 1007-65.

Bardhan and Udry Chapter 12.

7. Governance and corruption

*Ferraz, Claudio, and Frederico Finan (2008). "Exposing Corrupt Politicians: The Effect of Brazil's Publicly Released Audits on Electoral Outcomes." *Quarterly Journal of Economics*, 123(2), 703-745.

*Olken, Benjamin (2007). "Monitoring Corruption: Evidence from a Field Experiment in Indonesia," *Journal of Political Economy*, 115(2), 200-249.

*Svensson, Jakob (2005). "Eight Questions about Corruption," *Journal of Economic Perspectives*, 19(3), 19-42.

Ferraz, Claudio and Frederico Finan (2011). "Electoral Accountability and Corruption in Local Governments: Evidence from Audit Reports." *American Economic Review*. Vol. 101, 1274-1311.

Besley, Timothy. "Ch.1: Competing Views of Government" in *Principled Agents? The Political Economy of Good Government*. New York: Oxford University Press, 2006.

Banerjee and Duflo Chapter 9.

8. The Long-Run – History, Institutions, Geography

*Acemoglu, Daron, Simon Johnson, and James A. Robinson (2001). "Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91(5), 1369-1401. [JSTOR]

*Banerjee, Abhijit, and Lakshmi Iyer (2005). "History, Institutions and Economic Performance: the Legacy of Colonial Land Tenure Systems in India." *American Economic Review*, 95(4), 1190-1213.

*Nunn, Nathan. (2008). "The long-term effects of Africa's slave trades", *Quarterly Journal of Economics*, 123(1), 139-176.

Nunn, Nathan (2008). "The Importance of History for Economic Development", *Annual Review of Economics*, 1(1), 65-92.

9. Firms

*Bloom, Nicholas, Benn Eifert, Aprajit Mahajan, David McKenzie and John Roberts. (2011). "Does Management Matter? Evidence from India." *Working Paper*.

*de Mel, Suresh, David McKenzie, and Christopher Woodruff (2008). "Returns to Capital in Microenterprises: Evidence from a Field Experiment", *Quarterly Journal of Economics*, 123(4), 1329-72.

*Hsieh, Chang-Tai and Peter J. Klenow (2009). "Misallocation and Manufacturing TFP in China and India." *Quarterly Journal of Economics* Vo.124(4), 1403-1447.

Bloom, Nicholas, Raffaella Sadun and John Van Reenen (2011). "The Organization of Firms Across Countries." *Working Paper*.

Lagakos, David. "Superstores or Mom and Pops? Technology Adoption and Productivity Differences in Retail Trade." *Working Paper*.

Restuccia, Diego and Richard Rogerson (2008). "Policy Distortions and Aggregate Productivity with Heterogeneous Establishments." *Review of Economic Dynamics*. Vol. 11(4), 707-720.

Samphantharak, Krislert and Robert M. Townsend (2011). "Measuring the return on household enterprise: What matters most for whom." *Journal of Development Economics (in press)*.

10. Farms

*Bardhan, Pranab and Dilip Mookherjee. (2011). "Subsidized Farm Input Programs and Agricultural Performance: A Farm-level Analysis of West Bengal's Green Revolution 1982-95." *American Economic Journal: Applied Economics*. Vol. 3(4), 186-214.

*Goldstein, Markus and Christopher Udry. (2008) "The Profits of Power: Land Rights and Agricultural Investment in Ghana." *Journal of Political Economy*. 116(6), 981-1022.

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

Bardhan, Pranab, M. Luca, Dilip Mookherjee and F. Pino. (2010). "Evolution of Land Distribution in West Bengal 1967-2004: Role of Land Reform," *Working Paper*.

Restuccia, Diego and Tasso Adamopoulos. (2011). "The Size Distribution of Farms and International Productivity Differences." *Working Paper*.

Restuccia, Diego, Dennis T. Yang and Xiadong Zhu. (2008). "Agriculture and Aggregate Productivity: A Quantitative Cross-Country Analysis." *Journal of Monetary Economics*, Vol 55(2), 234-250.

Udry, Christopher. "The Economics of Agriculture in Africa: Notes on a Research Program." Forthcoming in *African Journal of Agricultural and Resource Economics*.

11. Trade

*Donaldson, Dave (2010). "Railroads of the Raj: Estimating the Impact of Transportation Infrastructure." *Working Paper*.

*Jayachandran, Seema (2006). "Selling Labor Low: Wage Responses to Productivity Shocks in Developing Countries." *Journal of Political Economy*. Vol.114(3), 538-575.

*Jayachandran, Seema, Jesse M. Cunha and Giacomo De Giorgi (2011). "The Price Effects of Cash Versus In-Kind Transfers." *Working Paper*.

Burgess, Robin and Dave Donaldson (2011). "Can Openness Mitigate the Effects of Weather Shocks? Evidence from India's Famine Era." *American Economic Review Papers and Proceedings*.

12. Consumption and nutrition (time permitting)

*Atkin, David (2011). "Trade, Tastes and Nutrition in India," *Working Paper*.

*Deaton, Angus (2010). "Understanding the Mechanisms of Development." *Journal of Economic Perspectives*. Vol. 24:3, 3-16.

*Hurst, Erik (2008). "The retirement of a consumption puzzle." *NBER Working Paper No. 13789*.

Deaton, Angus. *Analysis of Household Surveys*, Chapters 4 and 5.

Deaton, Angus and Jean Dreze (2009). "Food and Nutrition in India: Facts and Interpretations." *Economic and Political Weekly*. Vol. 44(7), 42-65.

Deaton, Angus and Christine Paxson (1998). "Economies of Scale, Household Size, and the Demand for Food." *Journal of Political Economy* vol. 106(5), 897-930.

Banerjee and Duflo Chapter 2.