

# ECO 2701H

## DEVELOPMENT ECONOMICS I

University of Toronto  
Department of Economics

Winter 2013

**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. Introduction and Foreign Aid
2. Institutions
3. Nutrition
4. Health
5. Education 1
6. Education 2
7. Demography
8. Risk and shocks
9. Microfinance
10. Entrepreneurship and firms
11. Social Networks
12. Politics and governance

### 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) Eleven short summaries (2 percent each, due in class): to incentivize reading and improve the quality of class discussion, you are required to write a **SHORT** (less than one page) summary of one of the two weekly readings. In the case of a journal article, your summary should describe (a) a narrowly defined question, (b) the data and method used to answer the question, (c) the main contribution (what makes this paper distinct/different than previous ones) and (d) the main finding. For a textbook chapter, your summary should list and summarize three central “facts” from the chapter, their source (country and/or study author), how/whether they differ from conventional wisdom and economic orthodoxy, and implications for policy.

(2) Two assignments (14 percent each), due

February 5<sup>th</sup> (Week 5) (Human Capital)

March 19<sup>th</sup> (Week 10) (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 February 26<sup>th</sup> (Week 7) (20 percent):

The referee report will be based on working papers 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.

(4) Presentation/proposal (30 percent) during Week 11 and 12 (time/location TBA):

**MA students:** we will schedule a series of short (30 minute) presentations that give you the opportunity to research and discuss a topic of your choosing. The centerpiece of the presentation will be the summary and evaluation of an academic paper – much like the referee report – but you may choose to supplement this with additional papers or some original data and research.

**PhD students:** we will schedule a short (30 minute) presentation, but the focus will be on proposing a research project. The literature/review and background will be similar but instead of critiquing and discussing other research in detail, you should focus more on motivating your question (why it is important and/or original) and discussing the proposed methods (data, research design, modeling approach). You are also expected to hand in a hard-copy of the proposal (which should be 3-4 pages).

**For PhD students the research proposal will count for half of the presentation grade. All students must meet with me (during office hours) to discuss the research proposal by March 12<sup>th</sup> (Week 9).**

## **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.

\*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/](http://www.utoronto.ca/ic/softdist/)).

## **TEXTBOOK:**

**BANERJEE, ABHIJIT AND ESTHER DUFLO. POOR ECONOMICS. PUBLIC AFFAIRS: NEW YORK. 2011.**

## **USEFUL REFERENCES:**

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

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

The Banerjee and Duflo book is an easy, non-technical overview of the recent empirical literature (particularly RCTs and behavioural economics). The Deaton book is a classic for analyzing cross-sectional data and has a 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.

Each week will consist of two starred, required readings (one of which will typically be an easy textbook chapter). The other papers are optional though they may be briefly discussed in class or on problem sets. I will post the non-textbook 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. Introduction and Foreign Aid

#### Tool: Ordinary Least Squares (interactions, polynomials, dummies)

\*Poor Economics Chapter 1

\*Radelet, Steven (2006). "A Primer on Foreign Aid." *Center for Global Development Working Paper 92*.

Clemens, Michael A., Steven Radelet, Rikhil Bhavnani and Samuel Bazzi. (2004) "Counting Chickens Before They Hatch: Timing and the Effects of Aid on Growth." *Center for Global Development Working Paper 44*.

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*.

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.

### 2. Institutions

#### Tool: Instrumental Variables

\*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 Importance of History for Economic Development", *Annual Review of Economics*, 1(1), 65-92.

### 3. Nutrition

#### Tool: Randomization

\*Poor Economics Chapter 2

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

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

#### **4. Health**

##### **Tool: Randomization with spillovers, non-compliance**

\*Poor Economics Chapter 3

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

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

#### **5. Education 1: Returns to Schooling**

##### **Tool: Difference-in-difference, measurement error**

\*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.

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

[PhD students] \*Card, David (2001). “Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems.” *Econometrica*. Vol. 69(5), 1127-1160.

#### **6. Education 2: Promoting Schooling**

##### **Tool: Regression Discontinuity**

\*Poor Economics Chapter 4

\*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).

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

#### **7. Demography**

##### **Tool: Triple-difference, clustering**

\*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.

\*Poor Economics Chapter 5

Duflo, Esther. “Gender Equality in Development” *Working Paper*

## **8. Risk and shocks**

### **Tool: General equilibrium**

\*Poor Economics Chapter 6

\*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 (2009): “Can Openness Mitigate the Effects of Weather Shocks? Evidence from India's Famine Era.” *Working Paper*.

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

## **9. Microfinance**

### **Tool: Simple credit models, matching estimators**

\*Poor Economics Chapter 7

\*Poor Economics Chapter 8

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

Karlan, 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>)

Deininger, Klaus and Yanyan Liu (2009). “Economic and Social Impacts of Self-Help Groups in India” World Bank Policy Research Working Paper 4884.

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.

## **10. Entrepreneurs and Firms**

### **Tool: Structural estimation**

\*Poor Economics Chapter 9

\*Akerberg, Daniel A., Kevin Caves and Garth Frazer (2006). “Structural Identification of Production Functions” *Working Paper*.

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

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

## **11. 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.

## **12. Politics and governance**

\*Poor Economics Chapter 10

\*Besley, Timothy and Robin Burgess (2002). "The Political Economy of Government Responsiveness: Theory and Evidence from India." *Quarterly Journal of Economics*. 117(4), 1415-1452.

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.