

# ECO 2701H

## DEVELOPMENT ECONOMICS I

University of Toronto  
Department of Economics

Winter 2015

**Lectures:** Tuesday 9:00 am - 11:00 am, Sidney Smith Room 2120

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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 econometrics and economic theory, to demonstrate how the analytic techniques used in growth and 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. Measuring Development
2. Institutions (IV)
3. Human Capital 1 (RCT)
4. Human Capital 2 (DiD)
5. Human Capital 3 (RD)
6. Demography (s.e.)
7. Risk, shocks and openness
8. Physical Capital
9. Firms
10. Farms
11. Politics and governance

### COURSE WEBSITE

Lectures will be held regularly during the Tuesday 9am–11pm time slot. Course materials will be posted on the Blackboard course website.

## EVALUATION

The course requirements are:

- (1) Ten short summaries (1 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.

If you choose to do a journal article, your summary should describe (a) a narrowly defined question, (b) the data and econometric method used to answer the question, (c) what makes this paper distinct/different than previous ones, and (d) the main finding.

If you choose to do a textbook chapter, your summary should list a piece of “conventional wisdom” on development, discuss at least two studies/pieces of evidence that throw this into question, and discuss a policy recommendation based on this.

- (2) Two data assignments (20 percent each), due

February 3rd (Week 5)

March 17<sup>th</sup> (Week 10)

The centerpiece of the assignments will be the analysis of 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. You are welcome to work in groups for this assignment.

- (3) Referee report (critical evaluation of an article), 2-4 double-spaced pages, due February 24<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) Presentations (30 percent): last six weeks (in-class) or mini-conference at the end of semester time/location TBA:

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 critical 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. You may either elect to present in-class during the last six weeks of class, or you will be required to attend and present at a mini-conference scheduled at the end of the semester.

**All students must meet with me (during office hours) to discuss the presentations by March 17<sup>th</sup> (Week 10).**

## **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 presentation) 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: Joshua Angrist and X Pischke. Mostly Harmless Econometrics

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, as well as consumer/household behavior. The Bardhan and Udry book covers classic microeconomic theory models from development economics.

Each week has two starred, required readings (one of which will typically be a summary or textbook). 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. Measurement

\*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. Human Capital 1: Nutrition and Health

#### Tool: Randomization

\*Poor Economics Chapter 2

\*Poor Economics Chapter 3

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

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

### 4. Human Capital 2: Education

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

\*Poor Economics Chapter 4

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

## **5. Human Capital 3: Externalities**

### **Tool: Regression Discontinuity**

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

\*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.

## **6. Demography**

### **Tool: Standard errors**

\*Poor Economics Chapter 5

\*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.

Duflo, Esther. "Gender Equality in Development" *Working Paper*

## **7. Risk, shocks and trade**

\*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*.

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.

## **8. Physical Capital**

\*Poor Economics Chapter 7 (credit)

\*Poor Economics Chapter 8 (savings)

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>)

## **9. Firms**

\*Poor Economics Chapter 9

\*Restuccia, Diego. “Factor Misallocation and Development”

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*.

## **10. Farms**

\*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.

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

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

Adamopolous, Tasso and Diego Restuccia. (2013) "The Size Distribution of Farms and International Productivity Differences" Forthcoming *American Economic Review*.

## **11. 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.