

ECO 2701H

DEVELOPMENT ECONOMICS I

University of Toronto
Department of Economics

Winter 2016

Lectures: Tuesday 4pm-6pm, GE100

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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. 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. Consumption
3. Institutions (IV)
4. Human Capital 1 (RCT)
5. Human Capital 2 (DiD)
6. Human Capital 3 (s.e.)
7. Externalities (RD)
8. Risk, shocks and openness
9. Capital
10. Firms
11. Farms

COURSE WEBSITE

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. Once during the term you can do two readings in the same week (in case you have to miss a class or are particularly interested in a topic).

If you choose to do a journal article, your summary should describe (a) the precise question the author is trying to answer, (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 9th (Week 5)

March 22nd (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 March 8th (Week 8) (20 percent):

The referee report will be based on working papers by Development Economics job market candidates from the last two years. 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. There are limited slots available for presenting during the normal scheduled class, available first-come first-serve – the remainder of the presentations will be scheduled during a mini-conference during the last week or so of term.

All students must meet with me (during office hours) to discuss the presentations by March 22nd (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/).

TEXTBOOK:

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

USEFUL REFERENCES:

Econometrics: Joshua Angrist and Steve Pischke. Mostly Harmless Econometrics. 2008

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 (with particular emphasis on 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. Angrist and Pischke provides a much more in-depth treatment of applied (micro) econometrics including instrumental variables, panel data methods and RD. 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. Measuring Development

*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. Consumption

*Poor Economics Chapter 2

*Hausman, Jerry (2003) "Sources of Bias and Solutions to Bias in the Consumer Price Index." *The Journal of Economic Perspectives* 17(1): 23-44.

Almås, Ingvild (2012) "International Income Inequality: Measuring PPP Bias by Estimating Engel Curves for Food." *American Economic Review*, 102(2): 1093-1117.

Bils, Mark and Pete Klenow (2001) "Quantifying Quality Growth." *American Economic Review*. 91(4): 1006-1030.

Feenstra, Robert (1994). "New Product Varieties and the Measurement of International Prices." *American Economic Review*. 84(1): 157-177.

Hurst, Erik (2008). "The Retirement of a Consumption Puzzle." NBER Working Paper.

3. 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.

Deaton, Angus (2009). "Instruments of development: Randomization in the tropics, and the search for the elusive keys to economic development."

4. Human Capital 1: Health

Tool: RCTs

*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.

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*.

5. Human Capital 2: Education

Tool: Difference-in-difference, 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.

6. Human Capital 3:

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. Human Capital 3: Externalities

Tool: Regression Discontinuity

*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.

8. 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.

9. 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>)

10. Firms

*Poor Economics Chapter 9

*Restuccia, Diego. "Factor Misallocation and Development"

Hsieh, Chang-Tai and Peter Klenow. (2009) "Misallocation and Manufacturing TFP in China and India." *Quarterly Journal of Economics*. 124(4): 1403-1448.

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. 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.

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

Lagakos, David, and Michael E. Waugh. 2013. "Selection, Agriculture, and Cross-Country Productivity Differences." *American Economic Review*, 103(2): 948-80.