

Economics 2700
Development Economics

University of Toronto
Department of Economics

Fall 2015

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Office hrs: Monday: 2:30-4:00

Course Description:

This course examines important issues in economic development. Although we will cover some macro issues, a major focus will be on the behavior of individuals and households, and their interactions with local markets and institutions. Our emphasis will be on the application of economic theory, and empirical analysis to a host of questions that have potentially important policy implications for these countries. The course will illustrate how economic models can provide valuable insight into this behavior, and how the empirical content of these models can be used through the use of appropriate data and empirical methods.

Every week three or four readings will be assigned that you will need to go through before class.

Evaluation:

The course requirements are two assignments, each of which will be worth 20% of your grade, one class presentation, and a final exam worth 40%. The final exam will be given during the exam period. The core of the empirical assignments will be the analysis of development-related data sets in the context of course readings.

Course Readings:

The reading list is fairly extensive, and every week you will be required to read (and be prepared to discuss) three to four readings. We will discuss each of them in class. Almost all of the readings can be accessed through the course website on Blackboard. Over the course of the semester, there may be several additional readings added.

Background texts and readings:

- * Pranab Bardhan and Chris Udry (2000). *Development Microeconomics*, Oxford University Press.
- * Debraj Ray (1998), *Development Economics*.
- * Angus Deaton (1997). *The Analysis of Household Surveys: A Microeconometric Approach*. Johns Hopkins University Press.

Methodological:

- * Ester Duflo, Rachel Glennerster and Michael Kremer (2007). "Using Randomization in Development Economics Research: A Toolkit", in T. P. Schultz and J. Strauss (eds). *Handbook of Development Economics*.
- * Angus Deaton (2009). "Instruments of Development: Randomization in the Tropics and the Search for the Elusive Keys to Economic Development". Keynes Lectures: Princeton University.
- * Meyer, Bruce (1995). "Natural and Quasi-Experiments in Economics." *Journal of Business and Economic Statistics*, 13 (2), pp. 151-161.

1. The Big Picture: Global Patterns (Week 1)

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

Pritchett, Lant (1997). "Divergence, Big Time," *The Journal of Economic Perspectives*, Vol. 11, No. 3 (Summer, 1997), pp. 3-17

Ravallion, Martin (2010). "The Developing World is Poorer than We Thought, But No Less Successful in the Fight against Poverty," *Quarterly Journal of Economics*, 125(4), pp. 1577-1625.

2. Geography, History, Institutions and Growth (Week 2)

Acemoglu, Daron, Simon Johnson and James Robinson (2005). "Institutions as a Cause of Long-run Economic Growth", *Handbook of Development Economics*, Chapter 6.

Acemoglu, Daron, Simon Johnson, and James Robinson. (2001). "Colonial Origins of

Comparative Development: An Empirical Investigation," *American Economic Review*, 91 (5), 1369-1401.

Bloom, David and Jeffrey Sachs, 1998, "Geography, Demography and Economic Growth in Africa", *Brookings Papers on Economic Activity*, 29:2, pp 207-296, 1998.

Dell, Melissa (2010). "The Persistent Effects of Peru's Mining *Mita*", *Econometrica*, 78.6 (November), pp. 1863-1903.

Eastery, William, "Solow's Surprise: Investment is not the Key to Economic Growth", Chapter 3, *The Elusive Quest for Growth*, pp. 47-69.

Michalopoulos, Stelios and Elias Paapioannou (2013). "Pre-Colonial Ethnic Institutions and Contemporary African Development". *Econometrica*, 81.1 (January), pp 113-152.

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

Spoloaore, Enrioco and Romain Wacziarg (2013). "How Deep are the Roots of Economic Development". *Journal of Economic Literature*". 51(2), pp. 325-369.

3. Agriculture Organization and Productivity in Developing Countries (Weeks 3-5)

3.1 The Productivity Gap: (Week 3)

Restuccia, Diego, Dennis Yang, and Xiaodong Zhu (2008). "Agriculture and Aggregate Productivity: A Quantitative Cross-Country Analysis," *Journal of Monetary Economics* 55 (2), pp. 234-50.

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

Aker, Jenny C. (2010). "Information from Markets Near and Far: The Impact of Mobile Phones on Grain Markets in Niger". *American Economic Journal: Applied Economics* 2(3), pp. 46-59.

Duflo, Esther, Michael Kremer and Jonathan Robinson (2011), "Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya" *American Economic Review* 101 (6): 2350-2390.

Aparajita Goyal (2010). "Information, Direct Access to Farmers, and Rural Market Performance in Central India" *American Economic Journal: Applied Economics* 2(3): 22-45.

Background:

Bruce F. Johnston and John W. Mellor, The Role of Agriculture in Economic Development, *The American Economic Review*, Vol. 51, No. 4 (Sep., 1961), pp. 566-593.

3.2 Labor Markets, Agriculture and Household Models (Week 4)

Pranab Barhan and Chris Udry, *Development Microeconomics*, Chapter 2, "Household Economics", pp. 7-19.

Dwayne Benjamin (1992). "Household Composition, Labor Markets, and Labor Demand: Testing for Separation in Agricultural Household Models". *Econometrica*, 60.2, pp. 287-322.

S. Jayachandran (2006). "Selling Labor Low: Wage Responses to Productivity Shocks in Developing Countries." *Journal of Political Economy*. 114(3), pp. 537-575.

Background:

Schultz, Theodore W. "The Doctrine of Agricultural Labor of Zero Value." Chapter 4 in *Transforming Traditional Agriculture*. Chicago: University of Chicago Press, 1964.

3.3 Land, Property Rights and the Organization of Agriculture (Week 5)

Timothy Besley (1995): "Property Rights and Investment Incentives: Theory and Evidence from Ghana", in *Journal of Political Economy*, 103.3, pp. 903-937.

Tasso Adamopoulos, Loren Brandt, Jessica Leight and Diego Restuccia, (2015). "Misallocation, Selection and Productivity: A Quantitative Analysis with Micro Data from China."

Eric Fields (2008). "Entitled to Work: Urban Property Rights and Labor Supply in Peru." *Quarterly Journal of Economics*.

Horbeck, Richard (2009). "Barbed Wire: Property Rights and Agricultural Development," *Quarterly Journal of Economics*.

Chris Udry and Marcus Goldstein (2009). "The Profits of Power: Land Rights and Agricultural Investment in Ghana." *Journal of Political Economy*.

Background:

Christopher Woodruff, "Review of de Soto's *The Mystery of Capital*," *Journal of Economic Literature*, December 2001, 1215-1223

4. Human Resources, Development and Productivity (Weeks 6 and 7)

4.1 Health, Nutrition and Incomes (Week 6)

Acemoglu, Daron and Simon Johnson. (2007). "Disease and Development: The Effect of Life Expectancy on Economic Growth", *Journal of Political Economy*, 115(6), 925-985.

Baird, Sarah, Joan Hamory Hicks, Michael Kremer, and Edward Miguel. (2014). "Worms at Work: Long-run Impacts of Child Health Gains", unpublished working paper. [<http://www.econ.berkeley.edu/~emiguel/workingpapers.shtml>]

Bloom, David, David Canning and Gunther Fink (2014). "Disease and Development Revisited," *Journal of Political Economy*, 122(6), pp. 1355-1366.

Case, Anne and Christina Paxson (2008). "Stature and Status: Height, Ability and Labor Market Outcomes", *Journal of Political Economy*.

Dupas, Pascaline (2014). "Short-run Subsidies and Long-run Adoption of New Health Products: Evidence from a Field Experiment". *Econometrica*, 82.1(January), pp. 197-228.

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

John Strauss (1986): "Does Better Nutrition Raise Farm Productivity", in *Journal of Political Economy*, 94(2), pp. 297-320.

Background:

Strauss, John and Duncan Thomas (1998), "Health, Nutrition, and Economic Development", *Journal of Economic Literature*, 36.2, pp. 766-817.

Angus Deaton (2003). "Health, Inequality and Economic Development." *Journal of Economic Literature*. 41.1, pp. 113-158.

Dasgupta, Partha and Debraj Ray (1986), "Inequality as a Determinant of Malnutrition and Unemployment Theory", *Economic Journal*, 96(384), pp. 1011-34.

4.2 Schooling and Economic Growth (Week 7)

4.2.1 Determinants

Baird, Sarah, Craig McIntosh, and Berk Ozler.(2011). “Cash or condition? Evidence from a Randomized Cash Transfer Program”, *Quarterly Journal of Economics*, 126(4), 1709-1753.

Kremer, Michael, Rebecca Thornton, and Edward Miguel. (2009). “Incentives to Learn”, *Review of Economics and Statistics*, 91(3), 437-456.

Muralidharan, Karthik and Venkatesh Sundararaman. (2011). “Teacher Performance Pay: Experimental Evidence from India”, *Journal of Political Economy*, 119(1), 39-77.

T. Paul Schultz (2004). “School Subsidies for the Poor: Evaluating the Mexican Progressa Poverty Program”, *Journal of Development Economics*, 74(1), pp. 199-250.

4.2.2 Impact>Returns of Schooling

Ester Duflo (2001). “Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment”, *American Economic Review* 91(4), pp. 795-814.

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

Background:

Paul Glewwe (2002). “Schools and Skills in Developing Countries: Education Policies and Socio-Economic Outcomes.” *Journal of Economic Literature*, 40(2), pp. 843-64.

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

5. Gender (Week 8)

Ester Duflo (2003): “Grandmothers and Granddaughters: Old Age Pension and Intra-Household Allocation in South Africa”, *World Bank Economic Review*, vol 17(1), pp. 1-25.

Chris Udry (1996): “Gender, Agricultural Production, and the Theory of the Household”, in *Journal of Political Economy*, 104(5), pp. 1010-1046.

Kuziemko, Iliyana, and Seema Jayachandran. (2011). “Why Do Mothers Breastfeed Girls Less than Boys: Evidence and Implications for Child Health in India”, *Quarterly Journal of Economics*, 126(3), 1485-1538.

Background:

Sen, Amartya, "More Than 100 Million Women Are Missing", *New York Review of Books*, December 20, 1990, <http://www.nybooks.com/articles/archives/1990/dec/20/more-than-100-million-women-are-missing/>

6. Insurance, Risk and Savings (Week 9)

6.1 Risk and Insurance

Robert Townsend (1994): "Risk and Insurance in Village India" in *Econometrica*, 62(3), pp. 539-61.

6.2 The Role of Savings and Credit

Christina Paxson (1992): "Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand" in *American Economic Review*, 82(1), pp. 15-33.

Christina Paxson (1995): "Consumption and Income Seasonality in Thailand", in *Journal of Political Economy*, 101.1, pp. 39-72.

Chris Udry (1991), "Credit Markets in Northern Nigeria: Credit as Insurance in a Rural Economy", *World Bank Economic Review*.

6.3 Implications

Andrew Foster (1995): "Prices, Credit Markets and Child Growth in Low-Income Rural Areas," in *The Economic Journal*, 105 (May), pp. 551-570.

Maccini, Sharon and Dennis Yang (2009). "Under the Weather: Health, Schooling and Economic Consequences of Early Life Rainfall," *American Economic Review*, 99.3, pp. 1006-36.

Elaina Rose (1998): "Consumption Smoothing and Excess Female Mortality in Rural India", in *Review of Economics and Statistics*, 81(1), pp. 41-49.

Jensen, Robert. "Agricultural Volatility and Investments in Children." *American Economic Review*, Vol. 90, No. 2 (May 2000), pp. 399-404

Stefan Dercon and Pramila Krishnan (2000). "In Sickness and in Health: Risk Sharing within Households in Rural Ethiopia". *Journal of Political Economy*. 108(4). Pp. 688-727.

Background:

Jonathan Morduch (1995): "Income Smoothing and Consumption Smoothing" in *Journal of Economic Perspectives*, 9(3), pp. 103-114

7. Credit (Week 10)

7.1 Market Failures

Timothy Besley (1994): "How Do Market Failures Justify Interventions in Credit Markets", *World Bank Economic Observer*, 9.1, pp. 27-48.

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

Dean Karlan and Jonathan Zinman, "Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment," *Econometrica*, Nov, 2009.

Burgess, Robin and Rohini Panda (2005). "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment". *American Economic Review*, 95(3), pp. 780-795.

7.2. Returns to Capital

de Mel, Suresh, David McKenzie, and Christopher Woodruff, Returns to Capital in Micro-enterprise: Evidence from Field Experiments, *Quarterly Journal of Economics*, 123(4), 1329-1372.

Duflo Esther, Michael Kremer and Robinson J. How high are rates of return to fertilizer? Evidence from field experiments in Kenya. *American Economic Review*, May 2008, 482- 488

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

7.3 Microfinance

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

Armendariz de Aghion, Beatriz and Jonathan Morduch (2005). *The Economics of Microfinance*.

Banerjee, Abhijit; Duflo, Esther; Glennerster, Rachel; Kinnan, Cynthia, "The Miracle of Microfinance? Evidence from a Randomized Evaluation" <http://econ-www.mit.edu/files/4161>

Background:

Karlan, Dean and Morduch, Jonathan. 2010. "Access to Finance", *Handbook in Development Economics*, Volume 5, Chapter 2.

8. Public Goods, Government Accountability, and Corruption (Weeks 11 and 12)

8.1 Infrastructure (Week 11)

Dinkelman, Taryn. (2011). "The Effects of Rural Electrification on Employment: New Evidence from South Africa", *American Economic Review* 101(7):3078-3108.

Jensen, Robert (2008). "The Digital Divide: Information (Technology), Market Performance and Welfare in the South Indian Fisheries Sector." *Quarterly Journal of Economics* 122(3): 879-924.

Duflo, Esther, and Rohini Pande. (2007). "Dams", *Quarterly Journal of Economics*, 122(2), 601- 646.

Donaldson, David. (2010). "Railroads of the Raj: Estimating the Economic Impact of Transportation Infrastructure", forthcoming, *American Economic Review*.

Faber, Benjamin (2014). "Trade Integration, Market Size and Industrialization: Evidence from China's National Trunk Highway System." *Review of Economic Studies*, 81, pp. 1046-1070.

Galiani, S., P. Gertler and E. Schargrodsky (2005). "Water for Life: The Impact of Privatization of Water Services on Child Mortality", *Journal of Political Economy*, 113.1, pp. 83-120.

8.2 Government Accountability and Corruption (Week 12)

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.

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

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

Reinikka, Ritva, and Jakob Svensson. (2004). "Local Capture: Evidence from a Central Government Transfer Program in Uganda", *Quarterly Journal of Economics*, 119 (2).

Shleifer, Andrei, and Robert W. Vishny. "Corruption." *The Quarterly Journal of Economics*, MIT Press, vol. 108(3), pages 599-617, August 1997.

Background:

Besley, Tim (2006) *Principled Agents: Selection and Incentives in Politics*, Oxford University Press, chapter 4, pp.174 -226.