

ECO 2700

DEVELOPMENT ECONOMICS

University of Toronto
Department of Economics

Fall 2017

Lectures: Thursday 4:00 pm - 7:00 pm, Max Gluskin House (150 St. George St.), Room 100

Professor Gustavo J. Bobonis
Department of Economics
Max Gluskin House, 150 St. George St., 304
Office hours: Tuesday 4:30p-6:00p (preliminary)

Phone: 416-946-5299
E-mail: gustavo.bobonis@utoronto.ca
Web: <http://chass.utoronto.ca/~bobonis>

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.

OUTLINE OF TOPICS

1. Global Patterns of Economic Growth, Poverty, and Development
2. Geography, History, Institutions, and Growth
3. Human Resources, Productivity, and Development
 - 3.1 Health, Nutrition, and Incomes
 - 3.2 Schooling and Economic Growth
 - 3.3 Agriculture, Labor Markets, and Household Models
4. Risk, Insurance, Savings, and Credit
5. Democracy and Development
6. Institutions, State Capacity, and Conflict

COURSE WEBSITE

Lectures will be held regularly during the Thursday 4p–7p time slot. Course materials will be posted on the Blackboard course website.

EVALUATION

The course requirements are:

- (1) Three (3) assignments (24 percent; 8 percent each), see preliminary schedule (below).

October 12 (Week 7) (Human Capital)

November 2 (Week 9) (Credit)

November 16 (Week 11) (Political Agency)

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 not be accepted.

(2) Presentation and Research Proposal in empirical development (36 percent):
[Presentations: November 30 (Week 13); Proposal: December 8 (Friday), 5:00p]

Students will hand in a research proposal that will:

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

All students must meet with me to discuss the research proposal by November 16th (Week 11).

(3) Final examination (40 percent): The final exam will be offered during the Final Exam period.

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

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/).

OFFICE HOURS

Tuesday 4:30p – 6:00p (preliminary)

CLASS SCHEDULE – FALL 2017 (PRELIMINARY)

1	Sept 14	Global Patterns of Economic Growth, Poverty, and Development
2	Sept 21	Geography, History, Institutions, and Growth
3	Sept 28	Health, Nutrition, and Incomes
4	Sept 29 (F)	Schooling and Economic Growth <i>Assignment 1 (Education) Distributed</i>
5	Oct 5	Agriculture, Labor Markets, and Household Models / <i>Presentation of Research Ideas</i>
6	Oct 12	Risk, Insurance, and Savings <i>Assignment 1 Due</i>
7	Oct 19	Seminar Presentation: Professor Tim Besley (LSE)
8	Oct 26	Credit <i>Assignment 2 (Credit) Distributed</i>

9	Nov 2	Democracy and Development <i>Assignment 2 Due</i> <i>Assignment 3 (Political Agency) Distributed</i> <i>Presentation of Research Ideas (TBD)</i>
10	Nov 9	<i>No Class – Fall Break</i>
11	Nov 16	Political Economy of Development (continued) <i>Meetings – Development of Research Proposals</i> <i>Assignment 3 Due</i>
12	Nov 23	Institutions, State Capacity, and Conflict
13	Nov 30	Presentations of Research Proposals

RECOMMENDED REFERENCE TEXTS

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

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

Ray, Debraj. Development Economics. Princeton, NJ: Princeton University Press. 1998.

Reference on Empirical Methods

Angrist, J., and J. S. Pischke. Mostly Harmless Econometrics. Princeton, NJ: Princeton University Press. 2008.

As well, there are a number of journal articles and book chapters (listed in the Course Outline and Readings Section below). Some of these are available online (through the university library, for example).

COURSE READINGS

Week 1. Global patterns of economic growth, poverty, and development

*Sala-i-Martin, Xavier (2006). “The World Distribution of Income: Falling Poverty and ... Convergence, Period.” *Quarterly Journal of Economics*, 121(2), 351-397.

*Deaton, Angus (1997). “Welfare, poverty, and distribution,” Section 3.1, The Analysis of Household Surveys. The World Bank, Washington D.C.

*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.

*Chen, Shaohua, and Martin Ravallion (2010). “[The Developing World is Poorer than We Thought. But No Less Successful in the Fight Against Poverty.](#)” *Quarterly Journal of Economics*, 125(4), 1577-625.

Week 2. Geography, History, Institutions, and Growth

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

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

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

*Dell, Melissa (2010). "The Persistent Effects of Peru's Mining *Mita*", *Econometrica*, 78(6), 1863-1903.

Background/Other

Engerman, Stanley L. and Kenneth L. Sokoloff (2000). "Institutions, Factor Endowments, and Paths of Development in the New World", *Journal of Economic Perspectives*, 14(3), pp. 217-232.

Banerjee, Abhijit, V. and Esther Duflo (2014). "Under the Thumb of History? Political Institutions and the Scope for Action", *Annual Review of Economics*, 6(1), pp. 951-71.

Acemoglu, Daron, et al (2008). "Income and Democracy." *American Economic Review*, 98(3), 808-842.

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

Glaeser, Edward, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer (2004). "Do Institutions Cause Growth?," *Journal of Economic Growth*, 9(3), 271-303.

Mankiw, N. Gregory, David Romer, and David N. Weil. (1992). "A Contribution to the Empirics of Economic Growth." *Quarterly Journal of Economics*, 107(2), 407-437

Week 3. Health, Nutrition, and Incomes

*Dupas, Pascaline, and Edward A. Miguel (2017). "Impacts and Determinants of Health Levels in Low-Income Countries." *Handbook of Field Experiments*, Chapter 6.

*Thomas, Duncan, et al (2006). "Causal Effect of Health on Labor Market Outcomes: Experimental Evidence." Unpublished manuscript, UCLA.

*Baird, Sarah, Joan Hamory Hicks, Michael Kremer, and Edward Miguel. (2016). "Worms at Work: Long-run Impacts of a Child Health Investment." *Quarterly Journal of Economics*, 131(4), 1637-1680.

*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.

Background/Other

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

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

Acemoglu, Daron and Simon Johnson. (2014). "Disease and Development: A Reply to Bloom, Canning, and Fink." *Journal of Political Economy*, 122(6), 1367-75.

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

Week 4. Schooling and Economic Growth

- *Glewwe, Paul, and Karthik Muralidharan (2016). “Improving Education Outcomes in Developing Countries: Evidence, Knowledge Gaps, and Policy Implications.” Chapter 10 in Hanushek, Eric A., Stephen Machin, and Lugder Woessmann (eds), Handbook of the Economics of Education, Volume 5, 653-743.
- *Duflo, Esther (2001). “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 (2011). “Peer Effects, Teacher Incentives, and the Impact of Tracking: Evidence from a Randomized Evaluation in Kenya”, *American Economic Review*, 101(5), 1739-74.
- *Muralidharan, Karthik, and Venkatesh Sundararaman (2015). “The Aggregate Effect of School Choice: Evidence from a Two-Stage Experiment in India”. *Quarterly Journal of Economics*, 130(3), 1011-66.

Background/Other

- Card, David (1999). “The Causal Effect of Education on Earnings.” Chapter 30 in Ashenfelter, Orley, and David Card (eds.), Handbook of Labor Economics, Volume 3, 1801-61.
- Krueger, Alan and Mikael Lindahl (2001). “Education and growth: Why and for whom?” *Journal of Economic Literature*, 39(4), 1101-1136.
- Dupas, Pascaline, Esther Duflo, and Michael Kremer (2017). “The Impact of Free Secondary Education: Experimental Evidence from Ghana.” [Working paper](#), Stanford University.
- Jensen, Robert (2010). “The (Perceived) Returns to Education and the Demand for Schooling.” *Quarterly Journal of Economics*, 125(2). 515-548.
- Bobonis, Gustavo J., and Frederico Finan (2009). "Neighborhood Peer Effects in Secondary School Enrollment Decisions." *Review of Economics and Statistics*, 91(4), 695-716.

Week 5. Agriculture, Labor Markets, and Household Models

- *Bardhan, Pranab, and Chris Udry (2000). *Development Microeconomics*, Chapter 2, “Household Economics”, 7-19.
- *Benjamin, Dwayne (1992). “Household Composition, Labor Markets, and Labor Demand: Testing for Separation in Agricultural Household Models”. *Econometrica*, 60(2), 287- 322.
- *LaFave, Daniel, and Duncan Thomas (2016). “Farms, Families, and Markets: New Evidence on Completeness of Markets in Agricultural Settings.” *Econometrica*, [84\(5\)](#), 1917-60.

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

Background/Other

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.

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

Week 6. Risk, Insurance, and Savings

6.1 Risk and Insurance

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

6.2 The Role of Savings and Credit

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

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

6.3 Implications

*Maccini, Sharon and Dean Yang (2009). "Under the Weather: Health, Schooling and Economic Consequences of Early Life Rainfall," *American Economic Review*, 99(3), 1006-36.

Background/Other

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

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

Jacoby, Hanan, and Emmanuel Skoufias (1998). "Risk, Financial Markets, and Human Capital in a Developing Country." *Review of Economic Studies*, 64(3), 311-335.

Week 8. Credit

8.1 Market Failures

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

*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>)

8.2 Returns to Capital

*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.

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.

8.3 Microfinance

*Banerjee, Abhijit, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan (2015). “The Miracle of Microfinance? Evidence from a Randomized Evaluation.” *American Economic Journal: Applied Economics*, 7(1), 22-53.

Background/Other

Besley, Timothy (1994). “How Do Market Failures Justify Interventions in Credit Markets”, *World Bank Economic Observer*, 9(1), 27-48.

Aleem, Irfan (1990). "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.

Ray, Chapter 14.3 (“Theories of informal credit markets”), Chapter 14.5.2 (“Microfinance”), pp. 420-445, 543-561, 578-584.

Banerjee, Abhijit, Dean Karlan, and Jonathan Zinman (2015). “Six Randomized Evaluations of Microcredit: Introduction and Further Steps.” *American Economic Journal: Applied Economics*, 7(1), 1-21.

Burgess, Robin, and Rohini Pande (2005). “Do Rural Banks Matter? Evidence from the Indian Social Baking Experiment.” *American Economic Review*, 95(3), 780-95.

Week 9(&11). Democracy and Development

*Besley, Timothy. 2006. Chapter 3 (“Political Agency and Accountability”) in Principled Agents? The Political Economy of Good Government. Oxford: Oxford University Press.

*Fujiwara, Thomas (2015). “Voting Technology, Political Responsiveness, and Infant Health: Evidence from Brazil.” *Econometrica*, 83(2), 423-64.

*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.

*Bobonis, Gustavo J., Luis R. Camara-Fuertes, and Rainer Schwabe (2016). “Monitoring Corruptible Politicians.” *American Economic Review*, 106(8), 2371-405.

*Acemoglu, Daron, et al (2008). “Income and Democracy.” *American Economic Review*, 98(3), 808-842.

*Anderson, Siwan, Patrick Francois, and Ashok Kotwal (2015). “Clientelism in Indian Villages.” *American Economic Review*, 105(6), 1780-1816.

*Bobonis, Gustavo J. et al (2017). “Vulnerability and Clientelism.” NBER Working Paper #23589.

*Martinez-Bravo, Monica, Priya Mukherjee, and Andreas Stegmann (2017). “The Non-Democratic Roots of Elite Capture: Evidence from Soeharto Mayors in Indonesia.” *Econometrica*, forthcoming.

Background/Other

Acemoglu, Daron, Suresh Naidu, Pascual Restrepo, and James A. Robinson (2014). “Democracy Does Cause Growth.” *Journal of Political Economy*, forthcoming.

Week 12. Institutions, State Capacity, and Conflict

*Besley, Timothy, and Torsten Persson (2014). “The Causes and Consequences of Development Clusters: State Capacity, Peace, and Income.” *Annual Review of Economics*, 6, 927-49.

*Nunn, Nathan, and Leonard Wantchekon (2011). “The Slave Trade and the Origins of Mistrust in Africa.” *American Economic Review*, 101(7), 3221-52.

*Finan, Frederico, Ernesto Dal Bó, and Martín A. Rossi (2013). Strengthening State Capabilities: The Role of Financial Incentives in the Call to Public Service.” *Quarterly Journal of Economics*, 128(3), 1169-1218.

*Muralidharan, Karthik, Paul Niehaus, and Sandip Sukhtankar (2016). “Building State Capacity: Evidence from Biometric Smartcards in India.” [*American Economic Review*](#), 106(10), 2895-2929.

Background/Other

Besley, Timothy and Torsten Persson (2011). Chapter 1 of *Pillars of Prosperity: The Political Economics of Development*. Princeton University Press.

Finan, Frederico, Benjamin A. Olken, and Rohini Pande (2017). “The Personnel Economics of the Developing State.” Chapter 6 in Banerjee, Abhijit V. and Esther Duflo (eds), Handbook of Economic Field Experiments, Volume 2.

Pomeranz, Dina (2015). “No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax.” *American Economic Review*, 105(8), 2539-69.

Ray, Debraj, and Joan Esteban (2017). “Conflict and Development.” *Annual Review of Economics*, 9, 263-93.

Fisman, Raymond and Edward Miguel. (2007). “Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets”, *Journal of Political Economy*, 115(6), 1020-1048.

Acemoglu, Daron, Camilo García-Jimeno, and James A. Robinson (2015). “State Capacity and Economic Development: A Network Approach.” *American Economic Review*, 105(8), 2364-2409.

Easterly, William, and Ross Levine (1998). “Africa’s Growth Tragedy: Ethnic Divisions,” *Quarterly Journal of Economics*, 112(4), 1203-1250. [JSTOR]

Dippel, Christian (2014). “Forced Coexistence and Economic Development: Evidence from Native American Reservations.” *Econometrica*, 82(6), 2131-65.