

ECO 2700

DEVELOPMENT ECONOMICS

University of Toronto
Department of Economics

Winter 2019

Lectures: Tuesday 3:00 pm - 5:00 pm, Max Gluskin House (150 St. George St.), Room 100

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COURSE DESCRIPTION

This course examines seminal topics 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 through local markets and other 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 developing countries. The course will illustrate how economic models can provide valuable insight into 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 Social Welfare
2. Households, Production and Consumption Decisions, and Labor Markets
3. Credit, Savings, and Insurance
4. Human Resources and Productivity: Education, Health, Nutrition
5. Political Economy of Development, Conflict, and the State
6. Geography, History, and Institutions

COURSE WEBSITE

Lectures will be held regularly during the Tuesday 3p–5p time slot. Course materials will be posted on the Quercus course website.

EVALUATION

The course requirements are:

- (1) Three (3) assignments (23 percent; approx. 7.5 percent each), see preliminary schedule (below).

January 29 (Week 4) (Credit)

February 26 (Week 8) (Education)

March 12 (Week 10) (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. These are due at the beginning of class; late assignments will not be accepted.

- (2) Presentation and Research Proposal in empirical development (35 percent):

[Presentations: April 2nd (Week 13); Proposal: April 9th (Tuesday), 5:00p]

Students will present to class and 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 analysis of data to answer this question.

All students must meet with me to discuss the research proposal by March 12th (Week 10).

(3) Submission of Research Ideas (7 percent; 1 percent each), see schedule below.

The weekly ideas will be of two paragraphs (one page) max. These will:

- (i) establish a research question;
- (ii) describe a hypothetical project to address the question (data; research design).

(4) Final examination (35 percent): The final exam will be offered during the Final Exam period.

(5) 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

Thursday 4:00p – 5:30p (preliminary)

CLASS SCHEDULE – WINTER 2019 (PRELIMINARY)

<u>Week</u>	<u>Date</u>	<u>Topic</u>
1	Jan 8	Overview: Global Patterns of Economic Growth, Poverty, and Social Welfare
2	Jan 15	Households, Production and Consumption Decisions, and Labor Markets <i>Research Idea 1 Due</i>
3	Jan 22	Investment and Credit <i>Research Ideas 2 & 3 Due</i> <i>Assignment 1 (Credit) Distributed</i>
4	Jan 29	Risk, Savings, and Insurance <i>Research Idea 4 Due</i> <i>Assignment 1 (Credit) Due</i>
5	Feb 5	Education <i>Research Idea 5 Due</i> <i>Assignment 2 (Education) Distributed</i>

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| 6 | Feb 12 | NO CLASS
<i>Presentation of Research Ideas – during Office Hours (OH)</i> |
| 7 | Feb 19 | NO CLASS – READING WEEK |
| 8 | Feb 26 | Health, Nutrition, and Incomes
<i>Research Idea 6 Due</i>
<i>Assignment 2 (Education) Due</i> |
| 9 | Mar 5 | Political Economy of Development I: Representation, Responsiveness, and Accountability
<i>Research Idea 7 Due</i>
<i>Assignment 3 (Political Agency) Distributed</i> |
| 10 | Mar 12 | Political Economy of Development II: Clientelism, Ethnic Salience, Autocracy
<i>Presentation of Research Ideas / Meetings – Development of Proposals – during OH</i>
<i>Assignment 3 (Political Agency) Due</i> |
| 11 | Mar 19 | Conflict and the State |
| 12 | Mar 26 | Geography, History, Institutions |
| 13 | Apr 2 | <i>Presentations of Research Proposals</i> |

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 social welfare

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

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

*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.

Background/Other

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. Households, Production and Consumption Decisions, and Labor Markets

*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

Benjamin, Dwayne (1992). “Household Composition, Labor Markets, and Labor Demand: Testing for Separation in Agricultural Household Models”, *Econometrica*, 60(2), 287- 322.

Bardhan, Pranab, and Chris Udry (2000). *Development Microeconomics*, Chapter 2, “Household Economics”, 7-19.

Week 3. Investment and Credit

Returns to Capital Investment

*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.

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 Asymmetries with a Consumer Credit Field Experiment”, *Econometrica*, 77(6), 1993-2008.
(Longer version: <http://karlan.yale.edu/p/ObservingUnobservables-long.pdf>)

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

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

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 4. Risk, Savings, and Insurance

Risk and Insurance

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

The Role of Savings and Credit

*Paxson, Christina (1992). “Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand”, *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*.

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

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

Rose, Elaina (1998). “Consumption Smoothing and Excess Female Mortality in Rural India”, *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 5. Education

*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.

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.
- 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.
- 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 8. 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.
- *Miguel, Edward, and Michael Kremer (2004). "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities", *Econometrica*, 72(1), 159-217.
- *Thomas, Duncan, et al (2006). "Causal Effect of Health on Labor Market Outcomes: Experimental Evidence", unpublished manuscript, UCLA.
- *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

- 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.
- Strauss, John, and Duncan Thomas (1998). "Health, Nutrition, and Economic Development", *Journal of Economic Literature*, 36(2), 766-817.
- Deaton, Angus (2003). "Health, Inequality and Economic Development", *Journal of Economic Literature*. 41(1), 113-158.

Week 9. Political Economy of Development I: Representation, Responsiveness, and Accountability

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

Week 10. Political Economy of Development II: Clientelism, Ethnic Salience, Autocracy

- *Casey, Katherine (2015). "Crossing Party Lines: The Effects of Information on Redistributive Politics", *American Economic Review*, 105(8), 2410-48.

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

*Martinez-Bravo, Monica, Priya Mukherjee, and Andreas Stegmann (2017). "The Non-Democratic Roots of Elite Capture: Evidence from Soeharto Mayors in Indonesia", *Econometrica*, 85(6), 1991-2010.

Background/Other

Dixit, Avinash, and John Londregan (1996). "The determinants of success of special interests in redistributive politics", *Journal of Politics*, 58(4), 1132-55.

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.

Francois, Patrick, Ilia Rainer, and Francesco Trebbi (2015). "How is Power Shared in Africa?", *Econometrica*, 83(2), 465-503.

Week 11. Conflict and the State

*Besley, Timothy, and Torsten Persson (2011). "The Logic of Political Violence", *Quarterly Journal of Economics*, 126(3), 1411-45.

*Dube, Oeindrila, and Juan Vargas (2013). "Commodity Price Shocks and Civil Conflict: Evidence from Colombia", *Review of Economic Studies*, 80(4), 1384-1421.

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

Background/Other

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.

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.

Week 12. Geography, History, Institutions

*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.

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

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

Background/Other

- Acemoglu, Daron, Simon Johnson and James A. Robinson (2005). "Institutions as a Cause of Long-run Economic Growth", *Handbook of Development Economics*, Chapter 6.
- Nunn, Nathan (2008). "The long-term effects of Africa's slave trades", *Quarterly Journal of Economics*, 123(1), 139-176.
- 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), 951-71.
- 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.