

ECO 2701H DEVELOPMENT ECONOMICS I

University of Toronto
Department of Economics

Winter 2011

Lectures: Tuesday 2:00 pm - 4:00 pm, Max Gluskin House (150 St. George St.), Room 100

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COURSE DESCRIPTION

This course is the first in a two-course sequence in development economics (along with ECO 2704). The courses provide a partial survey of current economic issues faced by less developed countries. The focus is on the application of economic theory and econometrics, to demonstrate how the analytic techniques used in 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. Global patterns of economic growth, poverty, and development
2. Human capital and income growth
3. Promoting schooling and human capital in less developed countries
4. Credit
5. Social networks
6. Economic inequality and growth
7. Democracy, government responsiveness, and accountability
8. Polarization, ethnic divisions, and conflict
9. Endowments, history, and institutions

COURSE WEBSITE

Lectures will be held regularly during the Tuesday 2p–4p time slot. Course materials will be posted on the Blackboard course website.

EVALUATION

The course requirements are:

(1) Three assignments (21 percent), due

February 1st (Week 4) (Human Capital)

February 15th (Week 6) (Credit)

March 15th (Week 9) (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) Referee report (critical evaluation of an article), 2-4 double-spaced pages, due March 22nd (Week 10) (19 percent):

The referee report will be based on a working paper 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.

(3) Presentation and Research proposal (MA/MFE) / Research paper (PhD) in empirical development, due April 5th (Week 12) (25 percent):

Students will hand in a research proposal which will:

- (i) establish a research question;
- (ii) briefly survey an existing literature in Development Economics which 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 (during office hours) to discuss the research proposal by March 16th (Week 9). The presentations of the research proposals and papers will be given in the last weeks of the term.

(4) Final examination (30 percent): The final exam will be offered during the Final Exam period.

(5) Class participation (5 percent): 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/).

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.

As well, there 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 OUTLINE AND READINGS (LISTED LECTURES APPROXIMATE)

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

*Jones, Charles I. (1997). "On the Evolution of the World Income Distribution", *Journal of Economic Perspectives*, 11(3), pp. 19-36. [JSTOR]

*Besley, Timothy and Robin Burgess (2003). "Halving Global Poverty", *Journal of Economic Perspectives*, 17(3): 3-22. [JSTOR]

*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.

Sen, Amartya. "Poverty as Capability Deprivation." Chapter 4 in Development as Freedom. Oxford: Oxford University Press. 1999.

2. Human capital investments and income

Rosenzweig, Mark (2010). "Microeconomic Approaches to Development: Schooling, Learning, and Growth." *Journal of Economic Perspectives*, 24(3), 81-96.

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 [JSTOR]

*Card, David (1995). "The causal effect of education on earnings", Chapter 30 in Ashenfelter, Orley and David Card, eds. Handbook of Labor Economics, Volume 3A, Amsterdam: Elsevier.

*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. [JSTOR]

*Krueger, Alan and Mikael Lindahl (2001). "Education and growth: Why and for whom?" *Journal of Economic Literature*, 39(4), 1101-1136. [JSTOR]

3. Promoting schooling and human capital in less developed countries

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

Angrist, Joshua, and Victor Lavy (1999). “Using Maimonides’ Rule to Estimate the Effect of Class Size on Scholastic Achievement”, *Quarterly Journal of Economics*, 114(2), 533-575. [JSTOR]

*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).

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

4. Credit

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

*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.

*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>)

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

5. Social Networks

Munshi, Kaivan. “Information Networks in Dynamic Agrarian Economies”, Chapter 2 in Handbook of Development Economics, Volume 4.

*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. [JSTOR]

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.

Kremer, Michael, and Edward Miguel (2007). “The Illusion of Sustainability”, *Quarterly Journal of Economics*, 112(3), 1007-65.

6. Economic inequality and growth

Galor, Oded, and Joseph Zeira (1993). “Income Distribution and Macroeconomics.” *The Review of Economic Studies*, 60(1), 35-52.

*Banerjee, Abhijit, and Esther Duflo (2003). “Inequality and Growth: What Can the Data Say?”, *Journal of Economic Growth*, 8(3), 267-299.

*Forbes, Kristin (2000). “A Reassessment of the Relationship Between Inequality and Growth,” *American Economic Review*, 90(4), 869-887. [JSTOR]

*Benjamin, Dwayne, Loren Brandt, and John Giles (2010). “Did Higher Inequality Impede Growth in Rural China?,” unpublished manuscript, University of Toronto.

7. Democracy, government responsiveness, and accountability

Acemoglu, Daron (2010). “Theory, General Equilibrium, and Political Economy in Development Economics” *Journal of Economic Perspectives*, 24(3), 17-32.

*Besley, Timothy. “Political agency and accountability.”, Chapter 3 in Principled Agents? The Political Economy of Good Government. Oxford: Oxford University Press. Pp. 98-123, 128-36.

Besley, Timothy, and Robin Burgess (2002). “The Political Economy of Government Responsiveness: Theory and Evidence from India”, *Quarterly Journal of Economics*, 117:4, pp. 1415-1451 [JSTOR]

Svensson, Jakob (2005). “Eight Questions about Corruption,” *Journal of Economic Perspectives*, 19(3), 19-42.

*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.

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

Pande, Rohini (2003). “Can Mandated Political Representation Provide Disadvantaged Minorities

Political Influence? Theory and Evidence from India”, *American Economic Review*, 93(4), pp. 1132-1151. [JSTOR]

8. Polarization, Ethnic Divisions, and Conflict

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

*Alesina, Alberto, Arnaud Devleeschauwer, William Easterly, Sergio Kurlat and Romain Wacziarg. 2003. “Fractionalization.” *Journal of Economic Growth*, 8(2): 155-194.

*Dippel, Christian (2010). “Forced Coexistence and Economic Development: Evidence from Native American Reservations” Unpublished manuscript, University of Toronto.

Besley, Timothy, and Torsten Persson (2010). “The Logic of Political Violence.” *Quarterly Journal of Economics* (forthcoming).

Alberto Alesina, William Easterly and Janina Matuszeski. “Artificial States.” *Journal of the European Economic Association* (forthcoming).

9. Endowments, history, and institutions

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

*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]

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.

*Engerman, Stanley L., and Kenneth L. Sokoloff. “Factor Endowments, Institutions, and Differential Paths of Growth Among New World Economies: A View from Economic Historians of the United States,” in Stephen Harber, ed., *How Latin America Fell Behind* (Stanford University Press, Stanford, 1997), 260–304.

*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 long-term effects of Africa’s slave trades”, *Quarterly Journal of Economics*, 123(1), 139-176.