

Syllabus: Development Economics (MA)
Julia Schwenkenberg

Description: This course covers macro and micro development models and issues. Starting from an overview of growth theories and their empirical evaluation we move to institutional explanations of slow growth and underdevelopment. Next, we discuss theories of market failure in credit and insurance markets, and how the lack of financial markets affects households and firms in developing countries. The Microfinance “revolution” is covered subsequently. Before people can trade, invest and be productive workers they need to have enough to eat, be free of disease and be sufficiently educated: we move on to problems of providing adequate nutrition, health services and education. And I provide an introduction to the econometric evaluation of development programs. Finally, we will discuss foreign aid and the controversy surrounding it.

The course provides an overview of the field for students planning to enter PhD programs and it gives a well-rounded coverage of issues in economic development for students on their way to public and private sector employment.

Grading: Class Participation: 20%, Homeworks: 20%, Short Paper: 20%, Final Exam: 40%
There will be two homework assignments: one on macro-development models (growth) and the other on micro-development models (informal institutions, financial markets).
Short Paper (10 pages): choose a specific subtopic/problem

Overview: Growth
(detailed course outline below)

- Convergence, neoclassical theory, growth accounting
- Technology, and population
- Divergence, poverty traps

Institutions

- Colonial origins
- Formal institutions
- Informal institutions

Financial markets

- Credit, savings and insurance markets in developing countries
- Micro-credit

Issues of Econometric Evaluation

Human Development

- Nutrition, health
- Education

Foreign Aid

**Books:
(background
reading)**

Assigned Readings are *starred in the course outline; all assigned papers are either made available or are available online. Material taken from the books will be covered in the lectures. You do not need to purchase any of the books for required readings. The Course Outline gives additional literature for background and further reading, which could also be used in your short paper.

Textbooks:

Beatriz Armendáriz , Jonathan Morduch , The Economics of Microfinance, The MIT Press 2007

Philippe Aghion and Peter Howitt , The Economics of Growth , The MIT Press, 2009

Deaton, Angus. The Analysis of Household Surveys. Washington: World Bank, International Bank for Reconstruction and Development, 1997

Fafchamps, Marcel, Market Institutions in Sub-Saharan Africa, MIT Press, 2004

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

Further Readings on Development:

Amartya Sen, Development as Freedom, Oxford University Press, 2001/Anchor; Reprint edition (August 15, 2000)

David Landes The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor

Easterly, William. The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics. Cambridge, MA: MIT Press, 2002

William Easterly, The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill, and So Little Good, Penguin Press: New York, 2006

Jeffrey Sachs , The End of Poverty: Economic Possibilities for Our Time

Muhammad Yunus, Banker To The Poor: Micro-Lending and the Battle Against World Poverty

Banerjee, Abhijit V., Roland Benabou, and Dilip Mookherjee, eds. Understanding Poverty. New York, NY: Oxford University Press, 2006

Handbook of Development Economics, Vol. 1-4, 1988-2008

Course Outline:

Week

Description and Readings (* required)

1

Introduction and Overview

world income distribution, trends
human development report (UN)
<http://hdr.undp.org/en/statistics/data/>

Banerjee, Abhijit, and Esther Duflo. "The Economic Lives of the Poor." *The Journal of Economic Perspectives* 21, no. 1 (Winter, 2007): 141-167.

2

Growth I : Convergence (neoclassical growth theory, convergence)

Chapter 1 and 5, Philippe Aghion and Peter Howitt , *The Economics of Growth*

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

Easterly, William and Ross Levine, "It's not factor accumulation: stylized facts and growth models", *World Bank Economic Review*, Volume 15, Number 2, 2001

Robert G. King, Ross Levine , Capital fundamentalism, economic development, and economic growth *Carnegie-Rochester Conference Series on Public Policy*, Volume 40, June 1994, Pages 259-292

Hsieh, Chang Tai, What Explains the Industrial Revolution in East Asia? Evidence from the Factor Markets, *American Economic Review*, June 2002

Robert E. Lucas, Jr. Why Doesn't Capital Flow from Rich to Poor Countries? *The American Economic Review*, Vol. 80, No. 2, Papers and Proceedings of the Hundred and Second Annual Meeting of the American Economic Association (May, 1990), pp. 92-96

3

Growth II : Technology, Population

Chapter 3,4, 7, 10 Philippe Aghion and Peter Howitt , *The Economics of Growth*

Nelson and Phelps, 1966. Richard Nelson and Edmund Phelps , Investment in humans, technological diffusion, and economic growth. *American Economic Review: Papers and Proceedings* 61 (1966), pp. 69–75.

Gene M. Grossman, Elhanan Helpman, Endogenous Innovation in the Theory of Growth, *The Journal of Economic Perspectives*, Vol. 8, No. 1 (Winter, 1994), pp. 23-44 Stable URL: <http://www.jstor.org/stable/2138149>

Robert J. Barro and Xavier Sala-i-Martin, Technological Diffusion, Convergence, and Growth, *Journal of Economic Growth* , Volume 2, Number 1 / March, 1997

Galor, Oded, "From Stagnation to Growth: Unified Growth Theory," *Handbook of Economic Growth*, 2005, pp.171-293

4

assignment 1

Growth III: Divergence

(Traps, Complementarities, Multiple Equilibria and the Big Bush)

P. N. Rosenstein-Rodan, Problems of Industrialisation of Eastern and South-Eastern Europe, *The Economic Journal*, Vol. 53, No. 210/211 (Jun. - Sep., 1943), pp. 202-211, Stable URL: <http://www.jstor.org/stable/2226317>

Kevin M. Murphy, Andrei Shleifer and Robert W. Vishny, Industrialization and the Big Push, *The Journal of Political Economy*, Vol. 97, No. 5 (Oct., 1989), pp. 1003-1026

Chapter 11, Philippe Aghion and Peter Howitt , *The Economics of Growth*

C Azariadis, J Stachurski, Poverty traps, *Handbook of Economic Growth*, 2005

Quah, Danny, Empirics for Growth and Distribution: Stratification, Polarization, and Convergence Clubs, *Journal of Economic Growth*, 1997

JD Sachs, JW McArthur, G Schmidt-Traub, M Kruk, .. Ending Africa's poverty trap, *Brookings papers on economic activity*, 2004

William Easterly , Reliving the '50s: The Big Push, Poverty Traps, and Takeoffs in Economic Development, *Journal of Economic Growth*. Vol. 11, No. 4, December 2006

5

Institutions I: Colonial Origins

(the role of history)

*Kenneth L. Sokoloff and Stanley L. Engerman, History Lessons: Institutions, Factors Endowments, and Paths of Development in the New World, *The Journal of Economic Perspectives*, Vol. 14, No. 3 (Summer, 2000), pp. 217-232

*Daron Acemoglu , James A. Robinson, Simon Johnson: The Colonial Origins of Comparative Development: An Empirical Investigation *American Economic Review*, 91, pp. 1369-1401 December 2001

Albouy, David, "The Colonial Origins of Comparative Development: A Reinvestigation of the Settler Mortality Data", NBER Working Paper 14130, June 2008, <http://www-personal.umich.edu/~albouy/AJRreinvestigation/AJRrev.pdf>

Stanley L. Engerman, Kenneth L. Sokoloff, Miguel Urquiola and Daron Acemoglu ,Factor Endowments, Inequality, and Paths of Development among New World Economies,

Economía, Vol. 3, No. 1 (Fall, 2002), pp. 41-109

La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, "The Economic Consequences of Legal Origins," *Journal of Economic Literature*, 46 (2008), 285–332.

Nunn, Nathan, "The Long-Term Effects of Africa's Slave Trades," *Quarterly Journal of Economics*, 123 (2008), 139–176.

Nunn, Nathan, "The Importance of History for Economic Development", October 2008, http://www.economics.harvard.edu/faculty/nunn/files/Annual_Review_of_Economics.pdf

Banerjee, David and Lakshmi Iyer, 2005, "History Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India", *American Economic Review*, Vol. 95(4), pp. 1190-1213.

Bockstette, Valerie, Areendam Chanda, and Louis Putterman, 2002, States and Markets: the Advantage of an Early Start, *Journal of Economic Growth*, 7, 347-369

Dell, Melissa, "The Mining Mita: Explaining Institutional Persistence", March 30th, 2008, http://www.stanford.edu/group/peg/april_2008_conference/080330mita.pdf

Easterly, W. and R. Levine, "Tropics, germs, and crops: the role of endowments in economic development", *Journal of Monetary Economics*, 50(1), January 2003.

Feyrer, James D., and Bruce Sacerdote, "Colonialism and Modern Income: Islands as Natural Experiments," *Review of Economics and Statistics*, 2009, forthcoming.

6

Institutions II: Formal Institutions

(Property rights, Governance, Corruption)

Acemoglu, Daron, Simon Johnson and James Robinson, "Institutions as the Fundamental Cause of Long-Run Growth", in Aghion and Durlauf, *Handbook of Economic Growth*, <http://elsa.berkeley.edu/~chad/handbook9sj.pdf>

Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer The Regulation of Entry , *The Quarterly Journal of Economics*, Vol. 117, No. 1 (Feb., 2002), pp. 1-37

La Porta, Rafael, Florencio Lopez-de-Silanes Andrei Shleifer, and Robert Vishny. "Law and Finance." *Journal of Political Economy* 106, no. 6 (1998): 1113-1155.

P Mauro, Corruption and growth, *The Quarterly Journal of Economics*, 1995

Shleifer, Andrei, and Robert W. Vishny. "Corruption." *The Quarterly Journal of Economics* 1993

Markus Goldstein and Christopher Udry, *The Profits of Power: Land Rights and Agricultural*

Investment in Ghana, *Journal of Political Economy* 2008 116:6, 981-1022

Hernando de Soto. *The other path: the invisible revolution in the Third World*. Perennial Library, 1990

Banerjee, Abhijit V., Paul Gertler, and Maitreesh Ghatak. "Empowerment and Efficiency: Tenancy Reform in West Bengal." *Journal of Political Economy* 110, no. 2 (2002): 239–280.

Abhijit Banerjee, Dilip Mookherjee, Kaivan Munshi, and Debraj Ray, *Inequality, Control Rights, and Rent Seeking: Sugar Cooperatives in Maharashtra*
Journal of Political Economy 2001 109:1, 138-190

Banerjee, Abhijit, and Esther Duflo. "Reputation Effects and the Limits of Contracting: A study of the Indian Software Industry."

7

Institutions III: Informal Institutions

(contract enforcement through networks and social capital)

*Fafchamps, Marcel, "Networks, Communities, and Markets in Sub-Saharan Africa: Implications for Firm Growth and Investment", *Journal of African Economies*
<http://www.economics.ox.ac.uk/members/marcel.fafchamps/homepage/netcom.pdf>

*Greif, Avner, "History Lessons: The Birth of Impersonal Exchange: The Community Responsibility System and Impartial Justice", *The Journal of Economic Perspectives*, Vol. 20, No. 2, Spring 2006, pp. 221-236

Fafchamps, Marcel (2004) *Market Institutions in Sub-Saharan Africa*, MIT Press, chapters 1-2, 8, 14

Fafchamps, Marcel, "Spontaneous Markets, Networks, and Social Capital: Lessons from Africa", in *The Microeconomics of Institutions*, Tim Besley and Raji Jayaraman (eds.), MIT Press (forthcoming)
<http://www.economics.ox.ac.uk/members/marcel.fafchamps/homepage/venicexb.pdf>

Greif, Avner. "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition."

8

Financial Markets I

(theories why markets fail in implications in the developing world)

Debraj Ray, *Credit Chapter 14, Insurance 15, Development Economics*

Armendariz de Aghion, Beatriz, and Jonathan Morduch. "Why Intervene in Credit Markets?" Chapter 2, "Savings and Insurance" Chapter 6, *The Economics of Microfinance*.

Morduch, Jonathan, (1994), "Poverty and Vulnerability," *American Economic Review* 84, May: 221 – 225.

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

Paxson, Christina H. "Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand." *American Economic Review* 82, no. 1 (1992): 15–33.

Jensen, Robert. "Agricultural Volatility and Investments in Children." *American Economic Review* 90, no. 2 (2000): 399–405.

Udry, Christopher. "Credit Markets in Northern Nigeria: Credit as Insurance in a Rural Economy." *World Bank Economic Review* 4, no. 3 (1990): 251–69.

Townsend, Robert. "Financial Systems in Northern Thai Villages." *Quarterly Journal of Economics* 110, no. 4 (1995): 1011–1046.

9
assignment 2

Financial Markets II: Microfinance

Armendariz de Aghion, Beatriz, and Jonathan Morduch. "Roots of Microfinance: ROSCAs and Credit Cooperatives." Chapter 3 in *The Economics of Microfinance*.

Armendariz de Aghion, Beatriz, and Jonathan Morduch. "Group lending" Chapter 5 in *The Economics of Microfinance*.

Besley, Timothy, Stephen Coate, and Glenn Loury (1993). "The Economics of Rotating Savings and Credit Associations," *American Economic Review* 83: 792-810.

Anderson, Siwan and Jean-Marie Baland (2002). "The Economics of ROSCAs and Intrahousehold Allocation," *Quarterly Journal of Economics*, August: 983-995.

10

Econometric Evaluation

Duflo, Esther, Rachel Glennerster, and Michael Kremer (2008) "Using Randomization in Development Economics Research: A Toolkit" in *Handbook of Development Economics*, Volume 4, North-Holland

Deaton, Angus, "Instruments of development? Randomization in the tropics, and the hunt for the keys to development", January 2009, Princeton University mimeo.
http://www.princeton.edu/~deaton/downloads/Instruments_of_Development.pdf

11

Human Development I: Health and Nutrition

Debraj Ray, chapter 8.

John Strauss and Duncan Thomas, "Health, Productivity, and Labor Supply," section 2.2 in ch. 34 of *Handbook of Development Economics* 3A, pp. 1908-17.

John Strauss and Duncan Thomas, "Nutrient Intakes and Income", section 2.1 in ch. 34 of *Handbook of Development Economics* 3A, pp. 1893 -- 1908.

Partha Dasgupta and Debraj Ray, *Inequality as a Determinant of Malnutrition and Unemployment: Policy* *The Economic Journal*, Vol. 97, No. 385 (Mar., 1987), pp. 177-188

Subramanian, Shankar, and Angus Deaton. "The Demand for Food and Calories." *Journal of Political Economy* 104, no. 1 (1996): 133–162.

Cutler, David, Angus Deaton, and Adriana Lleras-Muney. 2006. *The Determinants of Mortality*. *Journal of Economic Perspectives*, Vol. 20, No. 3, Summer.

Banerjee, Abhijit V., Angus Deaton, and Esther Duflo. "Wealth, Health and Health Services in Rural Rajasthan." *American Economic Review* 94, no. 2 (2004): 326-330.

Miguel, Edward, and Michael Kremer. "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities." *Econometrica* 72, no. 1 (2004): 159–218.

12

Human Development II: Education

Hanushek, Eric and Ludger Woessmann, "The Role of Cognitive Skills in Economic Development", *Journal of Economic Literature* 46(3), September 2008, pp. 607-668.

Banerjee, Abhijit, Shawn Cole, Esther Duflo, and Leigh Linden. "Remedying Education: Evidence from Two Randomized Experiments in India." *National Bureau of Economic Research Working Paper No. 11904*, December 2005, pp. 1-34.

Duflo, Esther. "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment." *American Economic Review* 91, no. 4 (2001): 795–813

Kremer, Michael and Alaka Holl (2008) "Pricing and Access: Lessons from Randomized Evaluations in Education and Health"

Glewwe, Paul, Michael Kremer, Sylvie Moulin and Eric Zitzewitz. "Retrospective vs. Prospective Analyses of School Inputs: The Case of Flip Charts in Kenya," *Journal of Development Economics* 74(1), June 2004, pp.251-268.

Chaudhury, Nazmul, Jeffrey Hammer, Michael Kremer, Karthik Muralidharan, and F. Halsey Rogers "Missing in Action: Teacher and Health Worker Absence in Developing Countries," *Journal of Economic Perspectives—Volume 20, Number 1, Winter 2006*, Pages 91–116

Foreign Aid:

UN Millennium Project, Jeffrey D. Sachs, Director, Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, January 2005 (<http://unmp.forumone.com/>)

William Easterly, Can the West Save Africa?, Journal of Economic Literature, September 2008

Dambisa Moyo, Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa

Alesina, A. and D. Dollar (2000). "Who Gives Foreign Aid to Whom and Why?" Journal of Economic Growth, 5, 33-64.

Barro, Robert and Jong-wha Lee, "IMF Lending: Who is chosen and what are the effects?," Journal of Monetary Economics (2005)

Rodrik, Dani. 2006. Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform, The Journal of Economic Literature, Vol. 44, No. 4,

Djankov, Simeon, Jose Montalvo and Marta Reynal-Querol, "The Curse of Aid", Journal of Economic Growth, June 2009.

Dicks-Mireaux, L., M. Mecagni, and S. Schadler (2000). "Evaluating the Effect of IMF Lending to Low-Income Countries," Journal of Development Economics, 61, 495-526.

Jakob Svensson, Why Conditional Aid Doesn't Work and What Can Be Done About It?", Journal of Development Economics, 2003, vol. 70 (2): 381-402.

William Easterly, What did structural adjustment adjust? The association of policies and growth with repeated IMF and World Bank adjustment loans, Journal of Development Economics, 2005.

Review