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Development Economics (LV 31504)

Course Objective:

This course will deal with the current topics in development economics such as infant mortality, disease environment and inequality. All are problems we should have been able to solve. However, economists disagree on potential solutions to these problems, i.e. is foreign aid actually good or bad as has been discussed between Jeffrey Sachs and William Easterly (and Dambisa Moyo). The debate remains ongoing.

This course consists to 50% of theory – we expect you to understand the models, your ability to derive the most important results and discuss their implications. The other half consists of empirical papers – we expect that you understand how the results are obtained, that you can assess their identification strategy and discuss the implication for their results. Techniques discussed in class include (1) Randomization, (2) Instrumental variables, (3) Panel data etc. During the semester, you are expected to give a presentation. Depending on the attendance, it will be either a group presentation or a single presentation.

Your final grade comprises of:

- A research paper (100%)
- A presentation of 20 minutes
- An attendance of at least 75% of the course (attendance will be tracked)

As this course is interdisciplinary, it requires knowledge of basic economic concepts, which will also be conveyed in an accessible way to regional studies students. Moreover, suitable background literature will be provided to catch-up.

1. Introduction

- Galor, Oded (2005). "From Stagnation to Growth: Unified Growth Theory." In Handbook of Economic Growth, Vol. 1, edited by Philippe Aghion and Steven N. Durlauf, Chapter 4, pp. 171–293. Elsevier
- Banerjee, A. V., and Duflo, E. (2007). The Economic Lives of the Poor. *Journal of Economic Perspectives*, 21(1), 141–167.
- Morduch, Jonathan. 1995. "Income smoothing and Consumption Smoothing." *Journal of Economic Perspectives*, 9(3): 103-114.
- Chaudhury, Nazmul, Jeffrey Hammer, Michael Kremer, Karthik Muralidharan, and F. Halsey Rogers. 2006. "Missing in Action: Teacher and Health Worker Absence in Developing Countries." *Journal of Economic Perspectives*, 20(1): 91-116.
- Pratham's Read India Program. Taking Small Steps Toward Learning At Scale. Center for Universal Education at Brookings. (Several issues)
- Banerjee, Abhijit, Angus Deaton, and Esther Duflo. 2004. "Wealth, Health, and Health Services in Rural Rajasthan." *American Economic Review*, 94(2): 326-330.

2. Traditional growth models:

- Ray, Debray. (1998). *Development Economics*. Princeton, NJ: Princeton Univ. Press. (Chapter 2)
- Sachs, J. & McArthur, J. W. & Schmidt-Traub, G. & Kruk, M. & Bahadur, C. & Faye, M. & McCord, G. "Ending Africa's Poverty Trap." *Brookings Papers on Economic Activity*, vol. 2004 no. 1, 2004, pp. 117-240. *Project MUSE*.
- Mankiw, N. Gregory, David Romer, and David N. Weil. "A contribution to the empirics of economic growth." *The Quarterly Journal of Economics* 107.2 (1992): 407-437.
- De Long, J. Bradford. "Productivity growth, convergence, and welfare: comment." *The American Economic Review* 78.5 (1988): 1138-1154.
- Baumol, William J. "Productivity growth, convergence, and welfare: what the long-run data show." *The American Economic Review* (1986): 1072-1085.
- McKenzie, David J., and Christopher Woodruff. "Do entry costs provide an empirical basis for poverty traps? Evidence from Mexican microenterprises." *Economic development and cultural change* 55.1 (2006): 3-42.

- De Mel, Suresh, David McKenzie, and Christopher Woodruff. "Returns to capital in microenterprises: evidence from a field experiment." *The Quarterly Journal of Economics* 123.4 (2008): 1329-1372.
- Schularick, Moritz. "A tale of two 'globalizations': capital flows from rich to poor in two eras of global finance." *International Journal of Finance & Economics* 11.4 (2006): 339-354.

3. Modern growth models

- Ray, Debray. (1998). *Development Economics*. Princeton, NJ: Princeton Univ. Press. (Chapter 2)
- Lucas, Robert E. "On the mechanics of economic development." *Econometric Society Monographs* 29 (1998): 61-70.
- Miguel, Edward, and Gerard Roland. "The long-run impact of bombing Vietnam." *Journal of Development Economics* 96.1 (2011): 1-15.
- Romer, Paul M. "Endogenous technological change." *Journal of Political Economy* 98.5, Part 2 (1990): S71-S102.
- Banerjee, Abhijit V., and Esther Duflo. "Growth theory through the lens of development economics." *Handbook of economic growth* 1 (2005): 473-552.
- Psacharopoulos, George. "Returns to investment in education: A global update." *World development* 22.9 (1994): 1325-1343.

4. Poverty

- Todaro, Michael P., and Stephen C. Smith. "Population growth and economic development: causes, consequences, and controversies." *Economic development (11th ed., pp. 285-290)*. Boston: Pearson Addison Wesley (2012).
- Sen, Amartya. "Missing women." *BMJ: British Medical Journal* 304.6827 (1992): 587.
- Banerjee, Abhijit, et al. "Labor market discrimination in Delhi: Evidence from a field experiment." *Journal of Comparative Economics* 37.1 (2009): 14-27.
- Fershtman, Chaim, and Uri Gneezy. "Discrimination in a segmented society: An experimental approach." *The Quarterly Journal of Economics* 116.1 (2001): 351-377.

5. Institutions (5 – 8)

- Hall, Robert E., and Charles I. Jones. "Why do some countries produce so much more output per worker than others?" *The Quarterly Journal of economics* 114.1 (1999): 83-116.

- Sokoloff, Kenneth L., and Stanley L. Engerman. "History lessons: Institutions, factors endowments, and paths of development in the new world." *The Journal of Economic Perspectives* 14.3 (2000): 217-232.
- Acemoglu, Daron, Simon Johnson, and James A. Robinson. "The colonial origins of comparative development: An empirical investigation." No. w7771. National bureau of economic research, 2000.
- Acemoglu, Daron, Simon Johnson, and James A. Robinson. "Reversal of fortune: Geography and institutions in the making of the modern world income distribution." *The Quarterly Journal of Economics* 117.4 (2002): 1231-1294.
- Glaeser, Edward L., et al. "Do institutions cause growth?." *Journal of economic Growth* 9.3 (2004): 271-303.
- Nunn, Nathan. "The long-term effects of Africa's slave trades." *The Quarterly Journal of Economics* 123.1 (2008): 139-176.

9. Democracy (9 – 10)

- Acemoglu, Daron, et al. *Democracy does cause growth*. No. w20004. National Bureau of Economic Research, 2014.
- Finan, Frederico, and Claudio Ferraz. "Electoral accountability and corruption in local governments: Evidence from audit reports." *American Economic Review* 101 (2011): 1274-1311.
- Bo, Pedro Dal, Andrew Foster, and Louis Putterman. "Institutions and behavior: Experimental evidence on the effects of democracy." *The American economic review* 100.5 (2010): 2205-2229.
- Casey, Katherine, Rachel Glennerster, and Edward Miguel. "Reshaping institutions: Evidence on aid impacts using a preanalysis plan." *The Quarterly Journal of Economics* 127.4 (2012): 1755-1812.

11. Corruption

- Fisman, Raymond. "Estimating the value of Political connections." *The American economic review* 91.4 (2001): 1095-1102.
- Khwaja, Asim Ijaz, and Atif Mian. "Do lenders favor politically connected firms? Rent provision in an emerging financial market." *The Quarterly Journal of Economics* 120.4 (2005): 1371-1411.

- Banerjee, Abhijit V. "A theory of misgovernance." *The Quarterly Journal of Economics* 112.4 (1997): 1289-1332.
- Ferraz, Claudio, Frederico Finan, and Diana B. Moreira. "Corrupting learning: Evidence from missing federal education funds in Brazil." *Journal of Public Economics* 96.9 (2012): 712-726.
- Olken, Benjamin A., and Patrick Barron. "The simple economics of extortion: evidence from trucking in Aceh." *Journal of Political Economy* 117.3 (2009): 417-452.

12. Health and Nutrition

- Jensen, Robert T., and Nolan H. Miller. "Giffen behavior and subsistence consumption." *The American economic review* 98.4 (2008): 1553-1577.
- Ulrich, Dave, Michael Kremer, and Sylvie Moulin. "Many children left behind? Textbooks and test scores in Kenya." *American Economic Journal: Applied Economics* 1.1 (2009): 112-135.
- Banerjee, Abhijit, and Esther Duflo. "Addressing absence." *The Journal of Economic Perspectives* 20.1 (2006): 117-132.
- Jensen, Robert. "The (perceived) returns to education and the demand for schooling." *The Quarterly Journal of Economics* 125.2 (2010): 515-548.
- Hoff, Karla, and Priyanka Pandey. "Discrimination, social identity, and durable inequalities." *The American economic review* 96.2 (2006): 206-211.

13. Credit and Microfinance

- De Mel, Suresh, et al. "Returns to Capital in Microenterprises: Evidence from a Field Experiment." *The Quarterly Journal of Economics*, vol. 123, no. 4, 2008, pp. 1329–1372. JSTOR, JSTOR, www.jstor.org/stable/40506211.
- Morduch, Jonathan. 1999. "The Microfinance Promise." *Journal of Economic Literature* 37 (4): 1569–1614.
- Karlan, Dean, and Jonathan Morduch. 2010. "Chapter 71 – Access to Finance." In *Handbook of Development Economics*, 5:4703–84.
- Banerjee, Abhijit, Dean Karlan, and Jonathan Zinman. 2015. "Six Randomized Evaluations of Microcredit: Introduction and Further Steps." *American Economic Journal: Applied Economics* 7 (1).

14. Aid

- Burnside, Craig, and David Dollar. "Aid, policies, and growth." *American economic review* (2000): 847-868.
- Galiani, Sebastian, et al. "The effect of aid on growth: Evidence from a quasi-experiment." *Journal of Economic Growth* 22.1 (2017): 1-33.
- Eisesen, Thomas, and David Strömberg. "News droughts, news floods, and US disaster relief." *The Quarterly Journal of Economics* 122.2 (2007): 693-728.
- Nunn, Nathan, and Nancy Qian. "US food aid and civil conflict." *The American Economic Review* 104.6 (2014): 1630-1666.

15. War

- Powell, Robert. "War as a commitment problem." *International organization* 60.1 (2006): 169-203.
- Miguel, Edward, Shanker Satyanath, and Ernest Sergenti. "Economic shocks and civil conflict: An instrumental variables approach." *Journal of Political Economy* 112.4 (2004): 725-753.
- Davis, Donald R., and David E. Weinstein. 2002. "Bones, Bombs, and Break Points: The Geography of Economic Activity." *American Economic Review* 92 (5): 1269–89.
- Blattman, Christopher, and Edward Miguel. 2010. "Civil War." *Journal of Economic Literature* 48 (1): 3–57.

Background literature

- Angrist, Joshua D., and Jörn-Steffen Pischke. 2009. *Mostly Harmless Econometrics: An Empiricist's Companion*. Princeton University Press.
- Angrist, Joshua D., and Jörn-Steffen Pischke. 2014. *Mastering 'Metrics: The Path from Cause to Effect*. Princeton University Press.
- Stock, James H, and Mark W Watson. 2012. *Introduction to Econometrics*. BOOK. The Pearson Series in Economics. 3. ed., Gl. Boston [u.a.]
- Duflo, Esther, and Abhijit Banerjee. 2012. *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. PublicAffairs.
- Acemoglu, Daron, and James A. Robinson. 2012. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. BOOK. 1. ed. New York: Crown Business.