

## DEVELOPMENT ECONOMICS (EC307)

**Course duration:** 54 hours lecture and class time (Over three weeks)

**LSE Teaching Department:** Department of Economics

**Lead Faculty:** Dr Gharad Bryan and Dr Greg Fischer (Dept. of Economics)

**Pre-requisites:** Intermediate microeconomics and macroeconomics.

### Course Description:

In a world composed of similar people, why is it that we live in relative comfort while about 1.4 billion people live on less than \$1 a day? And, more importantly, what can be done about it?

This course will use all the skills you have developed as an economist to try and answer these questions. Providing an answer is hard because solving the problem of world poverty is not as simple as reallocating income. It would take \$511 billion a year to increase the incomes of the poorest to just \$2 a day, but calculated in 2003 the G7 countries aspire to give (but do not quite) just \$142 billion a year in aid.

In short, solving world poverty requires finding places where an intervention can generate more in income than it costs. Fortunately the economic theory you already know tells us how to find such places. The economic model you have learned says that if some conditions (X) are met then nothing can be done about poverty without making other people worse off. But we can flip this conclusion on its head: if X is not true, then it is possible to make someone better off without making anyone worse off, and the theory tells us how – make the world more like X. Making progress on poverty means finding out where X does not hold – i.e. where do markets fail?

The course then is detective work. Theory tells us when markets will fail and we use econometrics analysis to find these places in the real world. Finally, we use rigorous impact evaluation to find out whether the intervention implied by theory works. We will teach you all the tools you need to apply this thinking, and we hope you will use it to make a difference in the developing world.

### Topics to be covered include:

- The Neo-classical Model and Convergence of Income
- Coordination and Persistent Poverty
- Credit, Inequality in the Divergence of Incomes
- The Psychology of Poverty
- Health and Nutrition

- The Role of Institutions in Development
- Political Economy and Corruption
- Property Rights and Investment Incentives
- International Aid and Economic Growth
- Microfinance
- Credit, Saving and Insurance
- Land Redistribution
- Role of Media and Policy in Development
- Social Networks and Social Capital
- Role Regulation in Development
- Intrahousehold Allocations and Gender
- Technology Adoption and Learning

Each lecture will be structured to provide the necessary theory to understand the topic as well as an empirical assessment of its relevance. Each class focuses on a particular journal article and is designed to help you to explore the topic in greater detail.

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## Text

The main reference text for the course:

D. Ray, *Development Economics*, Princeton University Press (1998).

**Lectures:** 36 hours **Classes:** 18 hours **Assessment:** Two written examinations

## PART I: Gharad Bryan

### Topic 1: Poverty, Development and Growth: Overview

- Ray, D. (1998) "Development Economics" Chapter 2
- Besley.T. and Burgess R. (2003) "Halving Global Poverty", *Journal of Economic Perspectives* 17: 3-22.
- Deaton.A.S (2007) Income, Aging, Health and Wellbeing Around the World: Evidence from the Gallup World Poll NBER Working Paper No. 13317.
- Chen, S and Ravallion, M 'The developing World is Poorer than We Thought, But No Less Successful in the Fight Against Poverty' *Quarterly Journal of Economics*, 125(4) 1577-1625

- Stevenson, B and Wolfers, J 'Economic Growth and Subjective Well-Being: Reassessing the Easterlin Paradox' *Brookings Papers on Economics Activity*
- \*Dollar, D. and Kraay, A. "Growth Is Good for the Poor," *Journal of Economic Growth*, vol. 7(3), pages 195-225

## **Topic 2: Growth Theories I: Factor Accumulation** \* Ray, D. (1998) Chapter 3

- \*Young, A. (1995) "The Tyranny of Numbers: Confronting the Reality of the East Asian Growth Experience", *Quarterly Journal of Economics* 110: 641-80.
- Rodrik, D. (2011) "Unconditional Convergence" (on his website)
- \*Mankiw N.G., Romer D. and D. Weil (1992): "A contribution to the Empirics of Economic Growth" *Quarterly Journal of Economics*.

## **Topic 3: Growth Theories II: Human Capital, Technical Progress and Endogenous Growth**

- Ray, D. (1998) Chapter 4
- Hsieh, C-T and Klenow, P (2010) "Development Accounting" *American Economic Journal: Macroeconomics*, 2(1), 207-223.
- Aghion, P. and P. Howitt (2005) "Growth with Quality-Improving Innovations: An Integrated Framework" *Handbook of Economic Growth*, Vol 1 part A, 67-11
- Durlauf, Steven N. & Johnson, Paul A. & Temple, Jonathan R.W., 2005. "Growth Econometrics," *Handbook of Economic Growth*, Vol 1, Ch 8, 555
- \*Aghion, P., Howitt, P. and Mayer Foulkes, D (2005) "The Effect of Financial Development on Convergence: Theory and Evidence", *Quarterly Journal of Economics*

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## **Topic 4: Growth Theories III: Inequality and Growth** \* Ray, D. (1998) Chapter 6, 7(pp 220-241)

- Banerjee, Abhijit V & Duflo, Esther, 2003. "Inequality and Growth: What Can the Data Say?," *Journal of Economic Growth*, Springer, vol. 8(3), pages 267-99, September.
- Galor O. and J. Zeira (1993): "Income Distribution and Macroeconomics" *Review of Economic Studies*
- Easterly, W. (2007) "Inequality does cause under development: Insights from a new instrument" *Journal of Development Economics*

## **Topic 5: Growth Theories IV: Coordination Failures** \* Ray, D. (1998) Chapter 5

- Munshi, Kaivan & Myaux, Jacques, 2006. "Social norms and the fertility transition," *Journal of Development Economics*, Elsevier, vol. 80(1), pages 1-38, June.

- Murphy K, A.Shleifer and R.Vishny (1989): "Industrialisation and the Big Push" *Journal of Political Economy*
- \*Bandiera,O and Rasul,I, (2006) "Social Networks and Technology Adoption in Northern Mozambique" *Economic Journal*

#### **Topic 6: Domestic Policies and Efficient Resource Allocation**

- Hall, R. and C. Jones (1999), "Why Do Some Countries Produce So Much More Output per Worker than Others?", *Quarterly Journal of Economics*
- \*Isham, J. and D.Kaufman (1999), "The Forgotten Rationale for Policy Reform: The Productivity of Investment Projects", *Quarterly Journal of Economics*
- \*Khwaja, A. and Mian, A. (2005) "Do Lenders Favor Politically Connected Firms?" *Quarterly Journal of Economics*

#### **Topic 7: Institutions and Property Rights: Macro Evidence**

- Acemoglu.D, S.Johnson, and J.A.Robinson (2001) "The Colonial Origins of Comparative Development: An Empirical Investigation", *American Economic Review* 91: 1369-401.
- Glaeser.E, R.LaPorta, F.Lopez-de-Silanes, and A.Shleifer (2004) "Do Institutions Cause Growth?," *Journal of Economic Growth*, Springer, vol. 9(3), pages 271-303,
- \*B.Jones and B.Olken (2005) "Do Leaders Matter? National Leadership and Growth since WW2" *Quarterly Journal of Economics*

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#### **Topic 8: Property Rights: Micro Evidence**

- \*Field.E (2007) "Entitled to Work: Urban Property Rights and Labor Supply in Peru", *Quarterly Journal of Economics* 122: 1561-1602.
- \*Johnson.S, John.McMillan, and C.Woodruff (2002) "Property Rights and Finance", *American Economic Review* 92: 1335-56.
- \*Besley.T (1995) "Property Rights and Investment Incentives: Theory and Evidence from Ghana", *Journal of Political Economy* 103: 903-37.

#### **Topic 9: Raising Revenues in Developing Countries**

- \*de Mel, Suresh, McKenzie, David and Chris Woodruff (2010) "What is the Cost of Formality? Experimentally estimating the demand for formalization" Working paper, University of Warwick
- \*Gordon Roger and Wei Li (2009) "Tax Structures in Developing Countries: Many Puzzles and a Possible Explanation" *Journal of Public Economics* Volume 93, Issues 7-8, Pages 855-866

- Olken Ben and Monica Singhal (2009) "Informal Taxation", NBER working paper 15221
- \*Fisman Ray and Shang-Jin Wei (2004) "Tax Rates and Tax Evasion: Evidence from Missing Imports in China", *Journal of Political Economy*, vol. 112(2), pages 471-500

## Topic 10: International Aid

- \*Burnside C. and Dollar D. (2000) "Aid, Policies, and Growth," *American Economic Review*.
- Easterly, W., Levine, R. and Roodman, D. (2004) "New Data, New Doubts: A Comment on Burnside and Dollar's "Aid, Policies, and Growth" *American Economic Review*, June
- \*Kuziemko I and E. Werker (2006) "How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations," *Journal of Political Economy* 114: 905-30
- \*Hsieh, C and Moretti, E. (2006), "Did Iraq Cheat the United Nations? Underpricing, Bribes, and the Oil for Food Program". *The Quarterly Journal of Economics*, vol. 121, Issue 4, pages 1211-1248

## Part II: Greg Fischer

### Topic 1: Introduction: Facts about Development

- \*\*A Quiet Violence: View from a Bangladesh Village Ch: 12, The Trials of a Poor Peasant Family: Hartmann (1983)
- \*\*Banerjee, Abhijit V. and Esther Duflo (2006), "Economic Lives of the Poor, *Journal of Economic Perspectives*, Vol. 21 (1), pp. 141-167.
- \*Besley, Timothy and Robin Burgess (2003). "Halving Global Poverty." *Journal of Economic Perspectives* 17, no. 3: 3-22.
- World Bank (2000). "World Development Report 2000/2001: Attacking Poverty." Overview, pp. 1-12. <http://siteresources.worldbank.org/INTPOVERTY/Resources/WDR/overview.pdf>
- Ray, D.: Chapter 2.
- Rosling, Hans (2007). "New Insights on Poverty and Life Around the World." TED Talks. [http://www.ted.com/index.php/talks/hans\\_rosling\\_reveals\\_new\\_insights\\_on\\_poverty.html](http://www.ted.com/index.php/talks/hans_rosling_reveals_new_insights_on_poverty.html) *Although this is not required you should really watch this. It's amazing!*

### Topic 2: Land and Agricultural Labor

- \*\*Ray, D.: Chapters 11 and 12.
- \*Banerjee, Abhijit, Paul Gertler and Maitreesh Ghatak (2002), "Empowerment and Efficiency: Tenancy Reform in West Bengal," *Journal of Political Economy*, 110(2), 239-280.

- Field, Erica (2007). "Entitled to Work: Urban Property Rights and Labor Supply in Peru." *Quarterly Journal of Economics* 122, no. 4: 1561-1602. *Although not required, this is an excellent paper. If you did not read it during the Michaelmas Term, I encourage you to read at least the introduction now.*
- Banerjee, Abhijit (1999). "Land Reforms: Prospects and Strategies," MIT mimeo. *For those of you interested in the topic of land reform, this is an excellent place to continue your reading.*

### Topic 3: Education and Human Capital

- \*\*The Probe Report on Basic Education in India (1999).
- \*Duflo, Esther (2001) "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment" *American Economic Review* 91(4).
- Duflo, Esther and Rema Hanna (2005). "Monitoring works: getting teachers to come to school," mimeo, MIT.
- Duflo, Esther, Pascaline Dupas and Michael Kremer (2007). "Peer Effects, Pupil-Teacher Ratios, and Teacher Incentives: Evidence from a Randomized Evaluation in Kenya" mimeo Department of Economics, MIT.
- Banerjee, Abhijit V., Shawn Cole, Esther Duflo, and Leigh Linden (2007). "Remedying Education: Evidence from Two Randomized Experiments in India." *Quarterly Journal of Economics* 122, no. 3: 1235-1264.
- \*\*Kremer, Michael (2003). "Randomized Evaluations of Educational Programs in Developing Countries: Some Lessons". *American Economic Review Papers and Proceedings*, 93(2), 102-106

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### Topic 4: Health and Nutrition

- \*\*Ray, Chapter 8 (focus on pp. 272-272 for the theoretical model) and Chapter 13 (pp. 489-504).
- \*Deaton (1997): Chapter 4.
- \*Subramanian, S. and Angus Deaton (1996). "The Demand for Food and Calories" *Journal of Political Economy* 104 (1).
- Thomas, D., and et al. (2004). "Causal Effect of Health on Labor Market Outcomes: Evidence from a Random Assignment Iron Supplementation Intervention," California Center for Population Research, Working Paper 022-04.

### Topic 5: Credit

- \*\*Ray, Debraj (1998) Chapter 14.
- \*\*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*, 3, 329-349.

- Banerjee, Abhijit, Esther Duflo, Rachel Glennerster and Cynthia Kinnan (2010). "The Miracle of Microfinance," MIT mimeo.
- Karlan, Dean and Jonathan Zinman (2010). "Expanding Microenterprise Credit Access: Using Randomized Supply Decisions to Estimate the Impacts in Manila." Yale mimeo.
- Besley, Timothy (1995). "How do Market Failures Justify Interventions in Rural Credit Markets", *World Bank Research Observer*, 9 (1).
- Morduch, Jonathan (1999). "The Microfinance Promise", *Journal of Economic Literature*, 37(4), 1569-1614.
- Burgess, Robin, and Rohini Pande (2005). "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment." *American Economic Review* 95, no. 3: 780-795.

### Topic 6: Insurance

- \*\*Deaton (1997): Chapter 6.
- \*\*Ray, D. (1998): Chapter 15.
- \*Udry, Christopher (1990). "Credit Markets in Northern Nigeria: Credit as Insurance in a Rural Economy." *World Bank Economic Review* 4, no. 3: 251-269.
- Townsend, Robert (1995). "Financial Systems in Northern Thai Villages," *Quarterly Journal of Economics*, 110(4), 1011—1046.

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### Topic 7: Savings

- \*\*The Economist. "The Economics of Savings." *The Economist*. London: Apr 9, 2005. Vol. 375, Iss. 8421; pg. 61
- \*\*Karlan, Dean (2008). "The Impact of Savings." The Financial Access Initiative. Framing Note No. 1. [http://library.financialaccess.org/pdf/karlan\\_savings.PDF](http://library.financialaccess.org/pdf/karlan_savings.PDF)
- Aportela, Fernando (1998). "The Effects of Financial Access on Savings by Low-Income People," mimeo, MIT.
- Paxson, Christina H. (1992). "Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand." *American Economic Review* 82, no. 1: 15-33.
- \*Ashraf, Nava, Dean Karlan, and Wesley Yin (2006). "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines." *Quarterly Journal of Economics* 121, no. 2: 635-672.



### Topic 8: Intrahousehold Allocation and Gender

- \*Deaton (1997): Chapter 4.
- Udry, Christopher (1996). "Gender, Agricultural Production, and the Theory of the Household," *Journal of Political Economy*, 101(5), 1010—1045.
- \*Qian, Nancy (2006). "Missing Women and the Price of Tea in China: The Effect of Sex-Specific Earnings on Sex Imbalance," CEPR Discussion Papers: 5986.

### Topic 9: Corruption

- \*\*Easterly, William (2001). "Corruption and Growth" in *The Elusive Quest for Growth*, Cambridge, MA: MIT Press, Ch. 12.
- \*\*Shleifer, Andrei and Robert W. Vishny (1993). "Corruption," *The Quarterly Journal of Economics*, 108(3).
- \*\*"The Road to Hell is Unpaved," *The Economist*, December 19, 2002
- \*\*"India's Corruption Blues," *The Economist*, March 24, 2001
- \*Olken, Benjamin A. (2007). "Monitoring Corruption: Evidence from a Field Experiment in Indonesia." *Journal of Political Economy* 115, no. 2: 200-249.
- Mauro, Paolo (1995). "Corruption and Growth," *Quarterly Journal of Economics*, 110 (3), 681-712.
- Fisman, Raymond (2001). "Estimating the Value of Political Connections", *American Economic Review*, 91(4), 1095-1102.

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### Topic 10: Technology and Learning

- Ellison, Glen and Drew Fudenberg (1993). "Rules of Thumb for Social Learning," *Journal of Political Economy*, 101(4), 612-643.
- Conley, Timothy and Christopher Udry (2008). "Learning about a New Technology: Pineapple in Ghana," *American Economic Review*, forthcoming.
- \*Miguel, Edward and Michael Kremer (2004). "Worms: identifying impacts on education and health in the presence of treatment externalities", *Econometrica*, 72(1), 159-217.
- Duflo, Esther, Michael Kremer, and Jonathan Robinson (2008). "How High Are Rates of Return to Fertilizer? Evidence from Field Experiments in Kenya." *American Economic Review* 98, no. 2: 482-488.



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