

# Development Economics

2023-2024 Academic Year

Master of Research in Economics, Finance and Management

## 1. Description of the subject

- Development Economics Code: 31710
- Total credits: 6 ECTS Workload: 150 hours
- Term: 2nd
- Type of subject: Optative
- Department of Economics and Business
- Teaching Team: Gianmarco Leon and Vasily Korovkin

## 2. Teaching guide

### • Introduction

The primary goal of this course is to provide an introduction to **the micro- economics of development**. Development Economics is an immense and exciting field that includes contributions from virtually all fields of Economics. We will thus have to make choices, and focus on a specific but still broad set of topics. The course will also cover some key methodological issues that are essential to study such topics empirically, including in the context of Randomized Controlled Trials (RCTs).

The focus will be on empirical results and methodologies, so **a good working knowledge of econometrics is required**: you should have a solid understanding of the material on cross-section econometrics in a relatively basic textbook such as Stock and Watson and the potential outcomes framework and causal inference as exposed in e.g. Angrist and Pishke's textbook.

We will mostly focus on *micro* topics. Of course, there are also essential *macro* aspects of development economics, such as growth and trade, and if you are interested in them you should check out other courses (see e.g. the class taught by Paula Bustos and Marti Mestieri in the third term).

Weekly TA sections will be devoted to: (1) give you a primer on Stata and a brush up on econometrics; (2) review and complement material covered in class; (3) provide guidance on assignments.

## ● Assessment and Grading System

You are expected to read key papers (but see below), which will be identified prior to the class in which the papers will be discussed. The class works better if everyone participates actively! While you will not be formally graded on your classroom participation, the value to you and your colleagues of asking questions and raising new ideas cannot be overstated.

**The formal evaluation will be based on a final exam and on group projects.**

**Each group can be composed of up to three students.** You are allowed to work with different groups for different group projects, if you prefer to do so.

The

overall grade will be determined as follows:

**20% Problem Set.** We expect one problem set with a mix of empirical and methodological questions.

**25% Policy Briefs.** There will be three one-page Policy Briefs for which short readings will be assigned, but you are encouraged to do further research. These briefs should present the policy issue with clarity, discuss the main trade-offs and policy challenges, highlight the most important stylized facts and argue for a sound policy recommendation. The PBs are due on Jan 24th, Feb. 14th, and Mar 14th.

**15%: Group presentation and Referee Report.** Each group will do a presentation of an unpublished paper. The presentation is expected to (i) describe the research question and its relevance, (ii) mention the key contribution to the relevant literature, (iii) present the data and empirical strategy (or theoretical model), (iv) describe the results, (v) provide critical comments. In addition, each group should hand in a referee report on the paper. The format of a referee report will be discussed in the sections. See the document "Class Presentations and Referee Reports" for more information and for suggestions on where to look for suitable papers. Depending on the number of groups, the presentations will take place on Feb. 7th, 10th, March 7th and 10th. Your group should sign up to present [here](#).

**40%: Final Exam.** This will be an **open book** exam. The exam will ask you to both show your critical understanding of the literature covered in the course and your ability to think rigorously about specific problems.

**NOTE: Students enrolled in the MRes and who take this course for credit will also be required to write a brief empirical project, and they can present (individually) their project instead of the group presentation. Please discuss this with the instructor.**

- **Prerequisites to enroll**

The students are expected to be familiar with standard econometric analysis and basic theoretical modeling techniques. A 6.5 GPA average from Term 1 is a pre-requisite.

- **Materials**

**The reading list is endless, but you are not required to read everything.**

The 'starred' papers are 'required' readings, and we will cover all of them in varying degrees of detail. Even for these starred papers you are not supposed to memorize every detail. Make sure you read carefully introduction and conclusions, and skim through the rest of the paper paying attention in particular to the content we covered in class. Some of the starred papers are literature reviews. In these cases again you are obviously not supposed to remember every paper & author cited there. Rather, make sure you understand and know the main insights from the literature.

In contrast, you are not expected to read the non-starred references, although we will sometimes discuss specific findings from these studies in class, and you are expected to know what we discuss in class. But these additional papers are only for your information in case you are interested in studying specific topics in more depth. Even so, countless more references could be added so if you wish to know about additional sources for your own enjoyment or professional/research agenda just let me know.

**BACKGROUND REFERENCES:**

Banerjee, Abhijit and Esther Duflo (2011). *Poor Economics*. Public Affairs, NY. Banerjee A. and E. Duflo (2009). "The Experimental Approach to Development Economics", *Annual Review of Economics* 1(1), 151-178.

Deaton, Angus (1997). *The Analysis of Household Surveys: A Micro-econometric Approach to Development Policy*. Johns Hopkins University Press: Baltimore, Maryland.

Deaton, Angus (2010). "Instruments, randomization, and learning about development", *Journal of Economic Literature*, 48(2): 424-455.

Deaton, Angus (2013). *The Great Escape: Health, Wealth, and the Origins of Inequality*.

Princeton University Press.

Duflo, Esther, Rachel Glennerster, and Michael Kremer. (2006). "Using Randomization in Development Economics Research: A Toolkit", NBER Technical Working Paper #333 [<http://www.nber.org/papers/t0333>]

*Handbook of Development Economics*: Most chapters in Volumes I, III (A and B) and

IV. Elsevier.

Jennifer S. Hawkins (2006). "Justice and Placebo Controls." *Social Theory and Practice*. Vol. 32, No. 3 (July 2006), pp. 467-496.

Ray, Debraj (1998) *Development economics*, Princeton University Press.

## READING LIST

### TOPIC 1 (3 LECTURES APPROX.): RESOURCE ALLOCATION AND FIRM PRODUCTIVITY

- \*Hsieh, Chang-Tai, and Peter Klenow. (2007). "Misallocation and Manufacturing TFP In China and India", *Quarterly Journal of Economics*. (main insights, motivations and findings, basically intro and conclusions)
- \*Bloom, Nicholas, Benn Eifert, Aprajit Mahajan, David McKenzie, and John Roberts (2013). "Does Management Matter? Evidence from India." *Quarterly Journal of Economics* 128(1): 1-51. (all)
- \*McKenzie, David, and Chris Woodruff. (2007). "Returns to Capital in Microenterprises: Evidence from a Field Experiment", *Quarterly Journal of Economics*, 123(4), 1329-1372. (what is in the slides + measurement)
- \*Atkin, David Atkin, Azam Chaudhry, Shamyla Chaudry, Amit K. Khandelwal, Eric Verhoogen (2017) "Organizational Barriers to Technology Adoption: Evidence from Soccer-Ball Producers in Pakistan" *Quarterly Journal of Economics* (What is in the slides + intro of the paper)
- Goldstein, Markus and Chris Udry. 2008. "The Profits of Power: Land Rights and Agricultural Investment in Ghana," *Journal of Political Economy*, 116(6): 981- 1022.
- Bardhan, Pranab and Chris Udry. 1999. "Household Economics," chapter 2 in *Development Microeconomics*. Oxford University Press. 8-18.
- Udry, Christopher. 1996. "Gender, Agricultural Production, and the Theory of the Household," *Journal of Political Economy*, 104(5): 1010-104.
- Hsieh, Chang-Tai and Peter J. Klenow. 2012. "The Life Cycle of Plants in India and Mexico".

**TOPIC 2 (2 LECTURES APPROX.): LABOR MARKETS AND MIGRATION**

- \*Clemens, Michael (2011) "Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?" *Journal of Economic Perspectives*, 25(3): 83-106. (all)
- \*Bryan, Gharad, Shyamal Chaudhuri, and A. Mushfiq Mobarak (2014), "Underinvestment in a Profitable Technology: The Case of Seasonal Migration in Bangladesh," *Econometrica*. (intro + experimental design + reduced form effects)
- \*Imbert, Clement and John Papp (2016) "Short-term Migration, Rural Workfare Programs and Urban Labor Markets: Evidence from India" (slides)
- Khanna, Gaurav, Emir Murathanoglu, Caroline B. Theoharides, and Dean Yang (2022) "Abundance from Abroad: Migrant Income and Long-Run Economic Development" NBER WP29862
- Banerjee, Abhijit, and Andrew Newman. (1998). "Information, the Dual Economy, and Development", *Review of Economic Studies*, 65 (4), 631-653.
- Rosenzweig, Mark. (1988). "Chapter 15: Labor markets in low-income countries", *Handbook of Development Economics Vol 1*, Hollis Chenery and T.N. Srinivasan (ed.s).
- [<http://econpapers.repec.org/bookchap/eedevhes/1.htm>]
- Yang, Dean (2006), "Why Do Migrants Return to Poor Countries? Evidence from Philippine Migrants' Responses to Exchange Rate Shocks," *Review of Economics and Statistics*, 88(4), pp. 715-735.
- McKenzie, David, Caroline Theoharides, and Dean Yang (2011), "Distortions in the International Migrant Labor Market: Evidence from Filipino Migration and Wage Responses to Destination Country Economic Shocks," *American Economic Journal: Applied Economics*.

- Munshi, Kaivan, and Mark Rosenzweig. (2006). "Traditional Institutions Meet the Modern World: Caste, Gender, and Schooling in a Globalizing Economy", *American Economic Review*, 96(4), 1225-1252.
- Mckenzie, David and Hillel Rapoport (2010), "Self-Selection Patterns in Mexico-U.S. Migration: The Role of Migration Networks," *Review of Economics and Statistics*, 92(4), pp. 811-821.
- Woodruff, Christopher and Rene Zenteno, "Migrant Networks and Microenterprises in Mexico," *Journal of Development Economics*, 82(2), 2007, pp. 509-528.

### **TOPIC 3 (1 LECTURE APPROX.): ETHNIC AND SOCIAL DIVISIONS**

- \*Burgess, Robin, Remi Jedwab, Edward Miguel, Ameet Morjaria, Gerard Padro-i-Miquel. (2015). "The Value of Democracy: Evidence from Road Building in Kenya", *American Economic Review*. (all)
- \*Hjort, Jonas. (2014). "Ethnic Divisions and Production in Firms", *Quarterly Journal of Economics*, 1899-1946. (intro + conclusions + main insights)
- \*Easterly, William, and Ross Levine. (1997). "Africa's growth tragedy: policies and ethnic divisions", *Quarterly Journal of Economics*, 112(4), 1203-1250. (Main Insights)
- Miguel, Edward. (2004). "Tribe or Nation? Nation-building and Public Goods in Kenya versus Tanzania", *World Politics*, 56, 327-362.
- Rao, Gautam. (2017). "Familiarity does not breed contempt: Diversity, Discrimination and Generosity in Delhi Schools", unpublished working paper. [<https://sites.google.com/site/graoeconomics/>]
- Habyarimana, James, Macartan Humphreys, Daniel Posner, and Jeremy Weinstein. (2007). "Why Does Ethnic Diversity Undermine Public Goods

Provision? An Experimental Approach", *American Political Science Review*, 101(4), 709-725.

Pande, Rohini. (2003). "Can Mandated Political Representation Increase Policy Influence for Disadvantaged Minorities? Theory and Evidence from India," *American Economic Review*, 93(4), 1132-1151.

**TOPIC 4 (1 LECTURE APPROX. – IF TIME PERMITS): DEMOCRACY, ACCOUNTABILITY AND DEVELOPMENT**

\*Acemoglu, Daron, Suresh Naidu, Pascual Restrepo, James Robinson (2015) "Democracy does cause growth," *Journal of Political Economy*. (motivation + main findings)

\*Ferraz, Claudio, and Frederico Finan (2011). "Electoral accountability and corruption: Evidence from the audits of local governments." *American Economic Review* 101.4: 1274-1311. (All)

Ferraz, Claudio, and Fred Finan. (2008). "Exposing Corruption politicians: The Effects of Brazil's Publicly Released Audits on Electoral Outcomes", *Quarterly Journal of Economics*, 123(2), 703-745.

Martinez Bravo et al - democracy in china and public good provision

Dal Bó, Pedro, Andrew Foster, Louis Putterman (2010) "Institutions and Behavior: Experimental Evidence on the Effects of Democracy", *American Economic Review*, 100(5), 2205-2229.

Acemoglu, Daron, Simon Johnson, James Robinson, and Pierre Yared. (2008). "Income and Democracy", *American Economic Review*, 98(3), 808-842.

Casey, Katherine, Rachel Glennerster, and Edward Miguel. (2012). "Reshaping institutions: Evidence on aid impacts using a pre-analysis plan", *Quarterly Journal of Economics*, 127(4), 1755-1812.



## TOPIC 5 (1 LECTURE APPROX.): THE POLITICAL ECONOMY OF CIVIL CONFLICT

- \*Dube, Oeindrila and Juan Vargas (2013) "Commodity Price Shocks and Civil Conflict: Evidence from Colombia". *Review of Economic Studies*
- \*Miguel, Edward, Shanker Satyanath, and Ernest Sergenti. (2004). "Economic Shocks and Civil Conflict: An Instrumental Variables Approach", *Journal of Political Economy*, 112(4), 725-753. [Read also the critique by Ciccone et al and the response by Miguel et al]
- \*Powell, Robert. (2006). "War as a Commitment Problem", *International Organization*, 60, 169-203.
- \*Blattman, Christopher and Edward Miguel (2010). "Civil War", *Journal of Economic Literature*, 48(1): 3-57.
- Hsiang, Solomon, Marshall Burke, and Edward Miguel. (2013). "Quantifying the Influence of Climate on Human Conflict", *Science*, 10.1126/science.1235367.
- Besley, Timothy and Torsten Persson (2010) "State Capacity, Conflict and Development", *Econometrica*, 78, 1-34.
- Davis, Donald R., and David Weinstein. (2002). "Bones, Bombs, and Breakpoints: The Geography of Economic Activity", *American Economic Review*, 92(5).
- Chassang, Sylvain, and Gerard Padro-i-Miquel. (2007). "Mutual Fear and Civil War", unpublished working paper.
- Chassang, Sylvain, and Gerard Padro-i-Miquel. (2010). "Economic Shocks and Civil War", *Quarterly Journal of Political Science*, 4(3), 211-228.
- Grossman, Herschell I. (1991). "A General Equilibrium Model of Insurrections", *American Economic Review*, 81(4), 912-921.
- Fearon, James (1995), "Rationalist Explanations for War," *International Organization* 49, 379-414.

Dal Bo, Ernesto and Pedro Dal Bo (2004), "Workers, Warriors, and Criminals: Social Conflict in General Equilibrium", mimeo, UC Berkeley.

Ellman, Matthew, and Leonard Wantchekon. (2000). "Electoral Competition under the Threat of Political Unrest", Quarterly Journal of Economics, 115(2), 499- 531.

Esteban, Joan and Debraj Ray (2008), "On the Saliency of Ethnic Conflict", American Economic Review 98 (5), pp. 2185-2202.

Caselli, Francesco and John Coleman (2006), "On the Theory of Ethnic Conflict," mimeo, LSE.

World Bank. 2003. "Chapter 1: Civil War as Development in Reverse." In Breaking the Conflict Trap, p13-32.

Collier, Paul. 2009. "Development in Dangerous Places: A Forum on Global Poverty and Intervention." Boston Review, Not in reader, but can be accessed online, <http://new.bostonreview.net/BR34.4/collier.php>

## **TOPIC 6 (3 LECTURES APPROX.): RETURNS TO EDUCATION, CONSTRAINTS TO HUMAN CAPITAL**

### **ACCUMULATION**

\* PE, Chapter 4

\*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. (understand well the methodology)

\*Krueger, Alan and Mikael Lindahl. (2001). "Education for Growth: Why and For Whom?" Journal of Economic Literature, 39 (4), 1101-1136. (Focus on the main insights, basically the intro and conclusion)

\*Muralidharan, Karthik and Venkatesh Sundararaman. (2011). "Teacher Performance Pay: Experimental Evidence from India", Journal of Political Economy. (all of it)

- \*Jensen, Robert (2010). "The (Perceived) Returns to Education and the Demand for Schooling," *Quarterly Journal of Economics*, 125(2), 515-548. (understand the main mechanisms and the model in the appendix)
- \*Baird, Sarah, Craig McIntosh, and Berk Ozler. (2011). "Cash or condition? Evidence from a Randomized Cash Transfer Program", *Quarterly Journal of Economics*, 126(4), 1709-1753. (read all of it, focus on the slides from the class)
- Mbiti, Isaac, Karthik Muralidharan, Mauricio Romero, Youdi Schipper, Constantine Manda, and Rakesh Rajani (2019) "Inputs, Incentives, and Complementarities in Education: Experimental Evidence from Tanzania" *Quarterly Journal of Economics* 2019, Vol. 134(3), pp. 1627-1673
- Kremer, Michael, Rebecca Thornton, and Edward Miguel. (2008). "Incentives to Learn", *Review of Economics and Statistics*.
- Khanna, Gaurav (2023) "Large-scale Education Reform in General Equilibrium: Regression Discontinuity Evidence from India" *Journal of Political Economy*, 131(2)
- Arteaga, Carolina (2018) "The effect of human capital on earnings: Evidence from a reform at Colombia's top university" *Journal of Public Economics*, 157: 212-225
- 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(3), 1235-1264. [<http://www.mitpressjournals.org/doi/abs/10.1162/qjec.122.3.1235>]
- Jensen, Robert. 2012. "Do Labor Market Opportunities Affect Young Women's Work and Family Decisions? Experimental Evidence from India," *Quarterly Journal of Economics*, 127(2): 753-792.
- Jayachandran, Seema and A. Lleras-Muney. 2009. "Life Expectancy and Human Capital Investments: Evidence from Maternal Mortality Declines," *Quarterly Journal of Economics*, 124(1): 349-397.

#### **TOPIC 7 (3 LECTURES): HEALTH ECONOMICS AND DEVELOPMENT**

- \*Maluccio, J. et al (2009). The Impact of Improving Nutrition During Early Childhood on Education among Guatemalan Adults. *Economic Journal*
- \*Hoddinot, J. et al (2008). Effect of a nutrition intervention during early childhood

on economic productivity in Guatemalan adults. *Lancet*, 371: 411-16

- \*Jayachandran, S., and Pande, R. (2017). Why are Indian children so short? *American Economic Review*
- \*Das, Jishnu, Alaka Holla, Aakash Mohpal, and Karthik Muralidharan. (2016). "Quality and Accountability in Health Care Delivery: Audit-study Evidence from Primary Care in India", *American Economic Review*, 106(12), 3765- 3799.
- \*Dupas, Pascaline. (2014). "Short-run subsidies and long-run adoption of new health products: Evidence from a field experiment", *Econometrica*, 82(1), 197-228.
- \*Karing, Anne. (2018). "Social Signaling and Childhood Immunization: A Field Experiment in Sierra Leone", working paper.
- \*Alsan, Marcella. (2015). "The Effect of the Tsetse fly on African Development", *American Economic Review*, 105(1), 382-410.
- \*Baird, Sarah, Joan Hamory Hicks, Michael Kremer, and Edward Miguel. (2016). "Worms at Work: Long-run Impacts of Child Health Gains", *Quarterly Journal of Economics*, 131(4), 1637-1680.
- \*Miguel, Edward, and Michael Kremer (2004). "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities", *Econometrica*, 72(1), 159-217.
- Dupas, Pascaline, and Edward Miguel. (2017). "Impacts and Determinants of Health Levels in Low-Income Countries", *Handbook of Field Experiments*, (eds.) Esther Duflo and Abhijit Banerjee.
- Bouguen, Adrien, Yue Huang, Michael Kremer, and Edward Miguel. (2019). "Using RCT's to Estimate Long-Run Impacts in Development Economics", *Annual Review of Economics*, 11, 523-561.
- Ridley, Matthew, Gautam Rao, Frank Schilbach, and Vikram Patel. (2020). "Poverty, depression, and anxiety: Causal evidence and mechanisms", *Science*, 370, eaay0214.
- Maluccio, J. et al (2009). The Impact of Improving Nutrition During Early Childhood on Education among Guatemalan Adults. *Economic Journal*

Hoddinnot, J. et al (2008). Effect of a nutrition intervention during early childhood on economic productivity in Guatemalan adults. *Lancet*, 371: 411-16

Jayachandran, S., and Pande, R. (2017). Why are Indian children so short? *American Economic Review*

**TOPIC 8 (2 LECTURES APPROX.): PERSONNEL ECONOMICS OF THE STATE**

\*Frederico Finan, Benjamin A. Olken, and Rohini Pande (2017) "The Personnel Economics of the State" (all)

\*Dal Bó, Ernesto, Frederico Finan, and Martín A. Rossi. 2013. "Strengthening State Capabilities: The Role of Financial Incentives in the Call to Public Service." *Quarterly Journal of Economics* 128 (3): 1169- 1218. (slides + motivation + measurement of main variables and main results)

\*Khan, Adnan Q., Asim I. Khwaja, and Benjamin A. Olken. 2016. "Tax Farming Redux: Experimental Evidence on Performance Pay for Tax Collectors." *Quarterly Journal of Economics*.

Callen, Michael, Saad Gulzar, Ali Hasanain, Yasir Khan, and Arman Rezaee. 2015. "Personalities and Public Sector Performance: Evidence from a Health Experiment in Pakistan." NBER Working Paper 21180.

Ashraf, Nava, Oriana Bandiera, and B. Kelsey Jack. 2014. "No Margin, No Mission? A Field Experiment on Incentives for Public Service Delivery." *Journal of Public Economics* 120: 1-17.

Rasul, Imran and Daniel Rogger. 2015. "Management of Bureaucrats and Public Service Delivery: Evidence from the Nigerian Civil Service." Working Paper.

Deserranno, Erika. 2015. "Financial Incentives as Signals: Experimental Evidence from the Recruitment of Health Workers." Working Paper.

Dhaliwal, Iqbal and Rema Hanna. 2014. "Deal with the Devil: The Successes and Limitations of Bureaucratic Reform in India." NBER Working Paper 20482.

Hanna, Rema and Shing-Yi Wang. 2014. "Dishonesty and Selection into Public Service: Evidence from India." NBER Working paper 19649.

Bandiera, Oriana, Michael Best, Adnan Khan, and Andrea Prat. 2015. "Motivating Bureaucrats: Autonomy vs. Performance Pay for Public Procurement in Pakistan." Ongoing.

Bénabou, Roland, and Jean Tirole. 2006. "Incentives and Prosocial Behavior." *American Economic Review*, 96 (5): 1652-1678.

Besley, Timothy and Maitreesh Ghatak. 2005. "Competition and Incentives with Motivated Agents." *American Economic Review* 95 (3): 616-636.

Duflo, Esther, Rema Hanna, and Stephen P. Ryan. 2012. "Incentives Work: Getting Teachers to Come to School." *American Economic Review* 102 (4): 1241- 1278.

**TOPIC 9 (1 LECTURE APPROX.): BEHAVIORAL DEVELOPMENT**

**ECONOMICS READING LIST TBD**