

ECON 7351. Development Economics: Microeconomic Issues

Fall 2009 Course Syllabus

Mondays and Wednesdays 1:00-2:30pm, McElhinney Hall Room 212

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Office hours: Wednesdays 2:30-3:30pm (no appointment needed during this time).

Meetings at any other time must be arranged in advance, preferably via e-mail.

Course website: WebCT (<http://www.uh.edu/webct>) will contain announcements and assignments for our course

Description

This course provides an overview of the current literature on the microeconomics of development in poor countries. Topics covered include the role of human capital (health, education), the internal structure of households (neoclassical, bargaining), the functioning of factor markets (land, credit and insurance), and the role of institutions in mediating change. On the methodological side, we will examine econometric techniques that researchers have used to identify causal relationships (panel data, instrumental variables, randomized experiments, regression discontinuity design).

If you are interested in pursuing research in development economics, then this would be an appropriate field course to complement the macro growth and development sequence (taught by Profs. Vollrath and Kalemli-Ozcan).

If you are interested in pursuing research in applied microeconomics, then this would be an appropriate field course to complement the labor sequence (taught by Profs. Juhn and Kugler) or public finance sequence (taught by Profs. Craig and Imberman).

Learning Outcomes

- Students will attain, through lectures, readings and problem sets, knowledge of the microeconomic foundations of development economics.
- Students will be able to critically assess research papers.
- Students will be able to perform econometric techniques that are used to identify causal relationships.

Prerequisites

To take this course, you must have either: (1) passed Econometrics I (ECON 7331) and the first-year graduate sequence in microeconomics (ECON 6342 and 7342), or (2) received prior explicit permission from me.

Requirements and Grading

1) problem sets	Approximately 5 problem sets	40%
2) final exam	In-class given in two independent parts, one on November 30 and the second on December 2	40%
3) class participation	Combination of attendance, preparedness for class and quality of classroom comments	20%

Problem Sets: Some will involve data exercises. For the data exercises, we will use Stata. Students are encouraged to work together on problem sets. However, each student must write up his/her own problem set. No copies will be accepted, and this includes programs.

Final Exam: There will be a closed-book exam during our last two class meetings covering all the materials of the course.

Class Participation: Students are expected to attend every lecture, complete the readings in advance of the lecture, and participate in classroom discussion. Generally we meet every Monday and Wednesday during the semester except on the following dates: September 7 (Labor Day holiday), September 16 (I am out of town), and November 25 (Thanksgiving holiday).

There will be no make-ups or extensions given for exams and assignments except with prior consent from me or in the event of an unexpected emergency.

I strongly encourage you to attend the University of Houston-Rice University Empirical Microeconomics Workshop which is held Tuesdays 3:30-5pm (see my website or the department website for the schedule of speakers). Though seminar attendance is not counted in your grade for this class, attending seminars is an excellent way to expose yourself to current research, learn what a research paper comprises, and learn how to give oral presentations.

General Readings

The required readings associated with each lecture are given in the "Course Schedule" section of the syllabus. I describe some optional general references in this section.

Our course will not use a textbook, but the following books on micro development may be of interest to you:

Bardhan, Pranab and Christopher Udry (1999), *Development Microeconomics*, Oxford: Oxford University Press.

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

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

The following books and papers describe the econometric tools we will be using in this course:

Angrist, Joshua D. and Jorn-Steffen Pischke (2009), *Mostly Harmless Econometrics: An Empiricist's Companion*, Princeton and Oxford: Princeton University Press.

Duflo, Esther, Rachel Glennerster and Michael Kremer (2007), "Using randomization in development economics research: a toolkit," CEPR Discussion Paper No. 6059.

URL: <http://econ-www.mit.edu/files/806>

Angrist, Joshua D. and Alan B. Krueger (1999), "Empirical strategies in labor economics," in *Handbook of Labor Economics*, Volume 3, Ashenfelter, A. and D. Card, eds., Amsterdam: Elsevier Science.

URL: <http://www.irs.princeton.edu/pubs/pdfs/401.pdf>

This provides more details on instrumental variables: Angrist, Joshua D. and Alan B. Krueger (2001), "Instrumental variables and the search for identification: from supply and demand to natural experiments," *Journal of Economic Perspectives*, 13(2):69-85. **(JSTOR)**

This provides more details on regression discontinuity designs: Lee, David S. and Thomas Lemieux (2009), "Regression discontinuity designs in economics," NBER Working Paper 14723. URL: <http://www.princeton.edu/~davidlee/wp/w14723.pdf>

COURSE SCHEDULE (*subject to change*)

I will announce which readings to do before each lecture. Unless a specific URL is provided, get the readings through University of Houston Libraries electronic journals.

- "(JSTOR)" denotes that the article is available in the JSTOR database.
- For other articles, you will have to search for the appropriate database to retrieve the full text. (Start at the UH Library website, select research tools, select electronic journal list, then search for the desired journal of interest. After the search results are presented, select a database that provides full text for the desired issue of the journal (generally I use the MIT Press database for the latest issues of the *Quarterly Journal of Economics* and the University of Chicago Press database for latest issues of the *Journal of Political Economy*).

I. Introduction (Lecture 1)

Browse through issues of the United Nation's *Human Development Report* and the World Bank's *World Development Report* online to get a sense of the cross-country measures of development, and broad issues in development.

Appendix tables associated with the following two articles located at the following URL: <http://econ-www.mit.edu/files/3793>

Banerjee, A. and E. Duflo (2007), "The economic lives of the poor," *Journal of Economic Perspectives* 21, no. 1: 141-167.

Banerjee, A. and E. Duflo (2008), "What is middle class about the middle classes around the world?," *Journal of Economic Perspectives* 22, no. 2: 3-28.

II. Land and Property Rights (3 lectures, Lectures 2-4)

Shaban, Radwan Ali (1987), "Testing between competing models of sharecropping," *Journal of Political Economy* 95: 893-920. (JSTOR)

Banerjee, Abhijit V., Paul J. Gertler and Maitreesh Ghatak (2002), "Empowerment and efficiency: tenancy reform in West Bengal," *Journal of Political Economy* 110, no. 2: 239-280. (JSTOR)

Goldstein, Markus and Christopher Udry, "The Profits of Power: Land Rights and Agricultural Investment in Ghana," *Journal of Political Economy* 116, no. 6: 981-1022.

Field, Erica (2007), "Entitled to work: Urban property rights and labor supply in Peru," *Quarterly Journal of Economics* 122, no. 4: 1561-1602.

III. Credit, Savings and Risk (7 lectures, Lectures 5-11)

Banerjee, Abhijit (2004) "Contracting Constraints, Credit Markets, and Economic Development," in M. Dewatripoint, L. Hansen and S. Turnovsky, eds. *Advances in Economics and Econometrics: Theory and Applications*, Eight World Congress of the Econometric Society, Volume III. Cambridge University Press, pp. 1-46.
URL: <http://web.mit.edu/14.771/www/con-dev-april-2002-v-6-23.pdf>

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* 4: 329-349.

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.

Khawaja, Asim Ijaz and Atif Mian (2005), "Do lenders favor politically connected firms? Rent provision in an emerging financial market," *Quarterly Journal of Economics* 120, no. 4: 1371-1411.

Cole, Shawn (2009), "Fixing market failures or fixing elections? Agricultural credit in India," *American Economic Journal: Applied Economics* 1, no. 1: 219-250. Very recent article, download it from:
http://www.wcfia.harvard.edu/sites/default/files/Cole_Fixing.pdf

Banerjee, Abhijit, Esther Duflo, Rachel Glennerster and Cynthia Kinnan (2009), "The miracle of microfinance? Evidence from a randomized evaluation," MIT mimeo.
URL: <http://econ-www.mit.edu/files/4162>

Karlan, Dean and Xavier Gine (2009), "Group vs. individual liability: long term evidence from Phillipine microcredit lending groups," Yale mimeo. URL:
<http://karlan.yale.edu/p/GroupversusIndividualLending-May2009.pdf>

Karlan, Dean S. (2007), "Social connections and group banking," *Economic Journal* 117: F52-F84. URL: http://karlan.yale.edu/p/eoj_463.pdf

Banerjee, Abhijit, Esther Duflo and Kaivan Munshi (2003), "The (mis)allocation of capital" *Journal of the European Economic Association* 1, no. 2/3: 484-494. **(JSTOR)**
This article summarizes work in the following two articles:

Banerjee, Abhijit and Kaivan Munshi (2004), "How efficiently is capital allocated? Evidence from the knitted garment industry in Tirupur" *Review of Economic Studies* 71, issue 246: 19-42. **(JSTOR)**

Banerjee, Abhijit and Esther Duflo (2008), "Do firms want to borrow more? Testing credit constraints using a directed lending program," MIT mimeo.
URL: http://econ-www.mit.edu/faculty/download_pdf.php?id=434

Paxson, Christina H. (1992), "Using weather variability to estimate the response of savings to transitory income in Thailand," *American Economic Review* 82: 15-33. **(JSTOR)**

Rosenzweig, Mark R. and Kenneth I. Wolpin (1993), "Credit market constraints, consumption smoothing and the accumulation of durable production assets in low-income countries: Investments in bullocks in India," *Journal of Political Economy* 101: 223-244. **(JSTOR)**

Frankenberg, Elizabeth, James P. Smith and Duncan Thomas (2003), "Economic shocks, wealth and welfare," *Journal of Human Resources* 38(2): 280-321.

Townsend, Robert M. (1995), "Consumption insurance: An evaluation of risk-bearing systems in low-income economies," *Journal of Economic Perspectives* 9: 83-102. **(JSTOR)**

Udry, Christopher (1994), "Risk and insurance in a rural credit market: an empirical investigation in northern Nigeria," *Review of Economic Studies* 61: 495-526. **(JSTOR)**

Rosenzweig, Mark R. and Oded Stark (1989), "Consumption smoothing, migration and marriage: Evidence from rural India," *Journal of Political Economy* 97: 905-926. **(JSTOR)**

Yang, Dean (2008), "International Migration, Remittances, and Household Investment: Evidence from Philippine Migrants' Exchange Rate Shocks," *Economic Journal* 118: 591-630. URL: http://www-personal.umich.edu/~deanyang/papers/yang_migshock.pdf

IV. Health, Nutrition and Education (6 lectures, Lectures 15-20)

Strauss, John and Duncan Thomas (1998), "Health, nutrition and economic development," *Journal of Economic Literature* 36: 766-817. **(JSTOR)**

Strauss, John (1986), "Does better nutrition raise farm productivity?," *Journal of Political Economy* 94: 297-320. **(JSTOR)**

Subramanian, Shankar and Angus Deaton (1996), "The demand for food and calories," *Journal of Political Economy* 104(1): 133-162. **(JSTOR)**

Miguel, Edward and Michael Kremer (2004), "Worms: Identifying impacts on education and health in the presence of treatment externalities," *Econometrica* 72(1): 159-217. **(JSTOR)**

Bleakley, Hoyt (2007), "Disease and development: Evidence from the hookworm eradication in the American South," *Quarterly Journal of Economics* 122(1): 73-117

Jayachandran, Seema and Adriana Lleras-Muney (2009), "Life expectancy and human capital investments: evidence from maternal mortality declines," *Quarterly Journal of Economics* 124(1): 349-397

Glewwe, Paul and Michael Kremer (2006), "Schools, teachers, and education outcomes in developing countries," in *Handbook of Economics of Education*, Volume 2, Hanushek, E. and F. Welch, eds., Amsterdam: Elsevier Science. URL: <http://www.economics.harvard.edu/faculty/kremer/files/EconEducationHandbook.pdf>

Duflo, Esther (2001), "Schooling and labor market consequences of school construction in Indonesia: evidence from an unusual policy experiment," *American Economic Review* 91: 795-813. **(JSTOR)**

Angrist, Joshua D. and Victor Lavy (1999), "Using Maimonides' Rule to estimate the effects of class size on scholastic achievement," *Quarterly Journal of Economics* 114: 533-575. **(JSTOR)**

Urqiola, Miguel and Eric Verhoogen (2009), "Class-size caps, sorting and the regression-discontinuity design," *American Economic Review* 99(1): 179-215. URL: [http://www.columbia.edu/~msu2101/Urquiola-Verhoogen\(2009\).pdf](http://www.columbia.edu/~msu2101/Urquiola-Verhoogen(2009).pdf)

V. Gender and Family (3 lectures, Lectures 12-14)

Thomas, Duncan (1990), "Intra-household resource allocation: an inferential approach," *Journal of Human Resources* 25: 635-664. (JSTOR)

Duflo, Esther (2003), "Grandmothers and granddaughters: old age pension on child and intra-household allocation in South Africa," *World Bank Economic Review* 17: 1-25.
URL: <http://papers.nber.org/papers/w8061.pdf>

Udry, Christopher (1996), "Gender, agricultural production and the theory of the household," *Journal of Political Economy* 101: 1010-1045. (JSTOR)

Qian, Nancy (2008), "Missing women and the price of tea in China: The effect of sex-specific income on sex imbalance," *Quarterly Journal of Economics* 123, no. 3: 1251-1285.

Bobonis, Gustavo (2009), "Is the allocation of resources within the household efficient? New evidence from a randomized experiment," *Journal of Political Economy* 117(3): 453-503.

Ashraf, Nava (2008), "Spousal control and intra-household decision making: an experimental study in the Philippines," forthcoming in the *American Economic Review*. URL: <http://drfd.hbs.edu/fit/public/facultyInfo.do?facInfo=pub&facEmId=nashraf%40hbs.edu>
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Edmonds, Eric (2007), "Child labor," NBER Working Paper 12926.
URL: <http://www.nber.org/papers/w12926>

VI. Social Interactions, Social Learning and Technology Adoption (2 lectures, Lectures 21-22)

Foster, Andrew G. and Mark R. Rosenzweig (1995), "Learning by doing and learning from others: human capital and technical change in agriculture," *American Economic Review* 103: 1176-1209. (JSTOR)

Conley, Timothy G. and Christopher R. Udry (2008), "Learning about a new technology: pineapple in Ghana," forthcoming in *American Economic Review*. This can be found at the following URL: <http://www.econ.yale.edu/~cru2//pdf/aercycle3.pdf>

Munshi, Kaivan and Jacques Myaux (2005), "Social norms and the fertility transition," *Journal of Development Economics* 70, no. 1: 1-38.

Munshi, Kaivan and Mark Rosenzweig (2006), "Traditional institutions meet the modern world: caste, gender, and schooling choice in a globalizing economy," *American Economic Review* 96 (4): 1225-1252.

VII. Other Possible Topics (time permitting)

A. Democracy

Besley, Timothy and Robin Burgess (2002), "The political economy of government responsiveness: theory and evidence from India," *Quarterly Journal of Economics* 117(4): 1415-1451.

Chattopadhyay, Raghendra and Esther Duflo (2004), "Women as policymakers: evidence from a randomized policy experiment in India," *Econometrica* 72(5): 1409-1443. **(JSTOR)**

Pande, Rohini (2003), "Can mandated political representation increase policy influence for disadvantaged minorities? Theory and evidence from India," *American Economic Review* 93: 1132-1151. **(JSTOR)**

Khawaja, Asim (2004), "Is increasing community participation always a good thing?," *Journal of the European Economic Association* 2(2-3):427-436. **(JSTOR)**

B. Corruption

Banerjee, Abhijit, Rema Hanna and Sendhil Mullainathan (2009) "Corruption," MIT mimeo. URL: <http://econ-www.mit.edu/files/3848>

Bertrand, Marianne, Simeon Djankov, Rema Hanna and Sendhil Mullainathan (2007), "Obtaining a driver's license in India: an experimental approach to studying corruption," *Quarterly Journal of Economics* 122(4): 1639-1676.

Olken, Benjamin A. (2007), "Monitoring corruption: Evidence from a field experiment in Indonesia," *Journal of Political Economy* 115(2): 200-249.

Ferraz, Claudio and Frederico Finan (2007), "Exposing Corrupt Politicians: The Effect of Brazil's Publicly Released Audits on Electoral Outcomes," *Quarterly Journal of Economics* 123(3): 703-745.