

ECON 7351. Development Economics: Microeconomic Issues

Fall 2011 Course Syllabus

Mondays and Wednesdays 11:30am-1:00pm, McElhinney Room 212

Instructor: **Professor Aimee Chin**
Office: McElhinney Room 221B
Office hours: W 1:00-2:00pm. Meetings at other times must be arranged in advance.
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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 (offered by Prof. Vollrath and Prof. Kalemli-Ozcan) and political economy (offered by Prof. Ujhelyi).

If you are interested in pursuing research in applied microeconomics, then this would be an appropriate field course to complement labor economics (offered by Prof. Juhn), public economics (offered by Prof. Craig and Prof. Imberman), health economics (offered by Prof. Bhargava and Prof. Liu), and economics of education (taught by Prof. Juhn).

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	30%
2) final exam	In-class exam on Nov 21	40%
3) oral presentation	In-class presentations on Nov 28 and 30	20%
4) class participation	Combination of attendance, preparedness for class and quality of classroom comments	10%

Problem Sets: Problem set assignments will be posted on UH Blackboard Vista (<http://www.uh.edu/blackboard/>). 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 on Monday November 21 covering all the materials of the course.

Oral Presentation: Each student will be assigned to a team that will replicate the results and provide a formal slide presentation of a paper. I expect to assign teams and papers in early November.

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 5 (Labor Day holiday), and November 23 (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 POLICIES

- 1) Lectures will begin at 11:30am and end at 12:50pm.
- 2) Adhere to the university's academic honesty policy (it is described in the Student Handbook as well as <http://www.uh.edu/academics/catalog/policies/academ-reg/academic-honesty/>).
- 3) If you have special learning needs, please contact me. I can make accommodations only if given advance notice.

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 Microeconomic Approach to Development Policy*, Baltimore: Johns Hopkins University Press.

The five-volume *Handbook of Development Economics* is a useful reference, offering thorough overviews of many topics in development economics.

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 (2008), “Using randomization in development economics research: a toolkit,” in *Handbook of Development Economics*, Volume 4, Schultz, T.P. and John Strauss, eds., Amsterdam: North-Holland. 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: North-Holland. 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.

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. Most articles are available in the JSTOR database. Some articles come from journals or issues of journals that JSTOR does not contain. For these articles, you will have to search for the appropriate database to retrieve the full text. (Start at the UH Library website, then under the “e-Journals” tab search for the desired journal. After the search results are presented, select a database that provides full text for the desired issue of the journal.)

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 (about 3 lectures, Lectures 2-4)

Besley, Timothy and Maitreesh Ghatak (2010), “Property rights and economic development,” in *Handbook of Development Economics*, Volume 5, Rodrik, D. and M. Rosenzweig, eds., Amsterdam: North-Holland. URL: <http://econ.lse.ac.uk/staff/mghatak/handbook.pdf>

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

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.

Goldstein, Markus and Christopher Udry (2008), “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 Insurance (about 7 lectures, Lectures 5-11)

Karlan, Dean and Jonathan Morduch (2010), "Access to finance," in *Handbook of Development Economics*, Volume 5, Rodrik, D. and M. Rosenzweig, eds., Amsterdam: North-Holland.

URL: http://karlan.yale.edu/p/HDE_June_11_2009_Access_to_Finance.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.

De Mel, Suresh, David McKenzie and Christopher Woodruff (2008), "Returns to capital in microenterprises: evidence from a field experiment," *Quarterly Journal of Economics* 123(4): 1329-14372.

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. 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.

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/files/2706>

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.

Banerjee, Abhijit, Esther Duflo, Rachel Glennerster and Cynthia Kinnan (2010), "The miracle of microfinance? Evidence from a randomized evaluation," MIT mimeo.

URL: <http://econ-www.mit.edu/files/5993>

Karlan, Dean S., and Jonathan Zinman (2008), "Credit elasticities in less developed countries: Implications for microfinance," *American Economic Review* 8, no. 3: 1040-1068.

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

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.

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.

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

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 (about 6 lectures, Lectures 12-17)

Schultz, T. Paul (2010), "Population and health policies," in *Handbook of Development Economics*, Volume 5, Rodrik, D. and M. Rosenzweig, eds., Amsterdam: North-Holland. URL: http://www.econ.yale.edu/growth_pdf/cdp974.pdf

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

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

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

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

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

Bleakley, Hoyt (2010), "Malaria eradication in the Americas: A retrospective analysis of childhood exposure," *American Economic Journal: Applied Economics* 2, no. 2: 1-45.

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: North-Holland. 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.

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.

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 18-20)

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

Lundberg, Shelly J., Robert A. Pollak, and Terence J. Wales (1997), "Do husbands and wives pool their resources? Evidence from the United Kingdom child benefit," *Journal of Human Resources* 32, no. 3: 463-480.

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.

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 (2009), "Spousal control and intra-household decision making: an experimental study in the Philippines," *American Economic Review* 99(4): 1245-1277.

De Mel, Suresh, David McKenzie and Christopher Woodruff (2009), "Are women more credit constrained? Experimental evidence on gender and microenterprise returns." *American Economic Journal: Applied Economics* 1(3): 1-32.

Edmonds, Eric (2008), "Child labor," in *Handbook of Development Economics*, Volume 4, Schultz, T.P. and John Strauss, eds., Amsterdam: North-Holland.
URL: <http://www.nber.org/papers/w12926>

VI. Technology Adoption (about 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," *Journal of Political Economy* 103: 1176-1209.

Conley, Timothy G. and Christopher R. Udry (2010), "Learning about a new technology: pineapple in Ghana," *American Economic Review* 100(1): 35-69.

Duflo, Esther, Michael Kremer, and Jonathan Robinson, "Nudging farmers to use fertilizer: theory and experimental evidence from Kenya," forthcoming in *American Economic Review*.
URL: <http://econ-www.mit.edu/files/6170>

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 Topics (time permitting; topics and readings to be decided later)