

5EN374: DEVELOPMENT ECONOMICS

VOJTĚCH BARTOŠ

1. PRACTICAL

Instructor: Vojtěch Bartoš (vojtech.bartos@cerge-ei.cz)

Lectures: Mon 11:00 AM - 12:30 PM

Seminars: Mon 12:45 PM - 2:15 PM

Office hours:

Mon 2:15 PM - 3:15 PM (office number: TBA);
or by appointment via email at CERGE-EI (Politických vězňů 7, Praha 1,
office number: 101)

Dear student,

welcome to 5EN374 Development economics. Please, do not be scared of the length of this syllabus. It's main purpose is to give you all the practical information about the course so that you do not have to ask me during the semester and should also form a contract between me and you. Please, make sure to read the Sections 2 to 5 as these give you the most important general information about the course structure and its requirements. Section 6 offers some hints on how to read academic papers, a skill that we'll be gradually improving during the course of our get-togethers. Section 7 provides detailed information about the schedule and the contents of the lectures and seminars. Please, do note that the lecture contents may be subject to change, but this will always be announced in advance. Finally, Sections 8 to 9 offer the selection of papers for your presentations and your referee reports, which are both part of your grades.

Looking forwards to meeting you in class.

2. COURSE INTRODUCTION

Half of the world's population subsists on less than \$2 per day. Despite substantial improvements over the recent years, many people still remain uneducated, with access to poor medical services, basic sanitation or access to clean water is often missing. Majority of population is still employed in subsistence agriculture or in informal entrepreneurial jobs without access to adequate financial services.

Date: Summer semester 2015.

The goal of this course is not only to provide more precise ideas about the lives of the poor around the world, but also to provide basic levels of understanding of why poverty persists and what tools can help alleviate it.

We will cover a broad range of topics ranging from macroeconomic growth theories, the persistence of historical events in current development, or the determinants and the role of both formal and informal institutions in lifting the countries out of poverty. We will also discuss the role of several types of capital (human, physical, financial, social, and "mental") that help to explain underdevelopment but, on the other hand — if properly understood — promise important directions for development policy and research.

3. GRADING

The course offers 12 lectures and 12 seminar sessions. Four different tasks will determine the student's grade:

- (1) Final exam (40%)
- (2) Midterm exam (20%)
- (3) One student presentation (20%)
- (4) One written referee report on one of the selected working papers (20%) - for the selection of working papers see Section 8.

3.1. Passing grades. To successfully pass the course, you require 60+ points.

3.2. Academic integrity. Plagiarism of any sort is a serious offence and its occurrence will be punished harshly, according to the institutional guidelines. Cheating in exams results in an immediate expulsion from the exam, zero points, and institutional proceedings would be initiated.

3.3. Final exam. The 90 minutes final exam will take place in the first week of the examination period. Those students failing to achieve 60 points after passing the final exam but having at least 20 points from other requirements (midterm, presentation, and/or referee report) will be given a chance to retake the exam. Students who fail to achieve 20 points before the final exam will not be allowed to take the final exam. The date of the final exam will be announced during the semester. Prior to the exam, you have to apply via isis.vse.cz after you are encouraged to do so in the lecture.

3.4. Midterm exam. The 90 minutes midterm exam will take place during the regular lecture time in the 7th week (March 30). Unless a statement from your doctor is delivered, you will not be allowed to be reexamined on other date. Prior to the exam, you have to apply via isis.vse.cz after you are encouraged to do so in the lecture.

3.5. Student presentation. In order to assess your presentation skills, you will present a selected article in the seminar. There are no strictly formal requirements on the format of the presentation but one can find some inspiration on how to structure the presentation in Section 6. The grading will follow the same structure. The presentation has to be between 15-25 minutes long and can only include own slides, only properly quoted copies of tables, graphs, or citations from other materials are allowed, but cannot form the major part of the presentation. Also, no videos are allowed. The list of papers

for presentation can be found under the Seminar sections in the Schedule (there are always 3 papers per seminar, always related in their topic).

3.6. Referee reports. In order to assess your writing skills and logical thinking, you will write a short (2-3 standard pages, i.e. 1800 signs/page including spaces and footnotes) summaries of selected articles. The deadline for the submission of referee reports is May 11th at the beginning of the lecture (11:00) in a hard copy or electronically to my mailbox. Absolutely no late submissions will be accepted! Again, inspiration for how a referee report should be structured, refer to Section 6. The grading will follow the same structure. The text should be written mostly using own words, cited parts have to be quoted accordingly. I'm interested in your own words and your own interpretation. The citation standard is the APA (see <http://www.apastyle.org>). The list of selected papers for referee reports can be found in the list below in Section 8.

3.7. Attendance. Attendance in lectures is not mandatory, yet highly recommended. The slides from lectures will be provided to students after each lecture, but are definitely not exhaustive. Students will be required to regularly attend the seminar sessions. Allowed are two absences in the seminars, for any extra absences a medical certificate signed by the doctor will be required (the official faculty medical certificate can be found here: http://nf.vse.cz/files/useruploads/form_omluvenka.doc).

4. TEXTBOOK

The principle textbook for this course is:

- Ray, D. (1998): Development economics. Princeton University Press.

Although it covers the majority of topics, the principle textbook does not cover the entire range of topics discussed in classes. The following books will be helpful for deeper understanding of the remaining parts of the course, although it is not mandatory to read the books in their entirety:

- Banerjee, A., and Duflo, E. (2011): Poor Economics. Public Affairs.
- Armendriz, B., and Morduch, J. (2005): The Economics of Microfinance. MIT Press.
- Collins, D., Morduch, J., Rutherford, S., and Ruthven, O. (2009): Portfolios of the Poor: How the World's Poor Live on \$2 a Day. Princeton University Press.

5. LEARNING OUTCOMES OF THE COURSE

At the end of the course the student should be able to:

- (1) Have substantial insights into the economic lives of the poor.
- (2) Understand the main development economic theories and concepts ranging from macroeconomic growth models, coordination failures, models of asymmetric information, all the way to simple behavioral models.
- (3) Critically read and discuss strengths and weaknesses of academic papers including the empirical methods used.
- (4) Present results of an academic study and ask relevant questions.

- (5) Design and evaluate effects of specific policies aimed at various issues in the developing world.

6. READING ACADEMIC PAPERS

You will be required to read academic papers. We will be critically discussing them in the lectures, you will be presenting a paper in class, and you will also be assigned a paper for a referee report. This short step-by-step guide should help you in reading through economic papers and structure your thinking:

- (1) What question is the article trying to answer (question)?
- (2) Why is the question interesting (motivation)?
- (3) How does the article answer the question (method)?
- (4) What are the main results (findings)?
- (5) What are the potential problems with the interpretation of the results the authors admit (limitations)?
- (6) If any, what potential policy conclusions can you draw from the findings (policy)?
- (7) What did you like or dislike in the article? (own opinion)
- (8) For extra points: Can you find some limitations that are not discussed in the paper? Can you think of any extensions? (weaknesses)

7. SCHEDULE

Please, do understand that the outline of the lectures is illustrative. Possibly we will cover less, possibly more, possibly we'll be just on time. The material covered in your midterm and final exams, however, will be determined purely based on the material covered in the lectures up until the time of the respective exam.

Also, since the literature is quickly evolving, additional reading may appear on the reading list, but never as a required reading for the lectures.

16.2.

Lecture 1: Introduction to development economics and the economic lives of the poor

Contents:

- Overview of the course
- Introduction to development economics using statistical indicators of poverty (macroeconomic approach)
- Historical overview of economic growth and cross-country comparison
- Economic lives of the poor (microeconomic approach)

Reading:

- *Ray (1998), ch. 2.
- *Banerjee, A. and E. Duflo (2006): Economic lives of the poor. *Journal of Economic Perspectives*, 21(1): 141-167.
- Banerjee and Duflo (2011), ch. 1, 2.

Seminar 1: Statistics reminder

Contents:

- Reminder of basic statistical concepts (mean, variance, median, distribution...)
 - Understanding statistical hypothesis testing
 - Reading regression tables (level and slope, elasticities, interaction terms...)
- Reading:**
- *Ray (1998), Appendix 2.

23.2.

Lecture 2: Traditional growth models and poverty traps, and the way towards MDGs

Contents:

- Growth models (Harrod-Domar, Solow)
- Role of technology and human capital in economic development
- Convergence and steady state
- Development accounting
- Poverty traps (savings trap and capital thresholds) and the reasoning for the "big push"

Reading:

- *Ray (1998), ch. 3, 4.
- De Mel, S., McKenzie, D., and Woodruff, C. (2008). Returns to capital in microenterprises: Evidence from a field experiment. *The Quarterly Journal of Economics*, 123(4), 1–55.
- *Hsieh, C-T and P.J. Klenow (2010): Development accounting. *American Economic Journal: Macroeconomics* 2(1): pp.207-23.
- *Sachs, Jeffrey, et al. (2004): Ending Africa's Poverty Trap. *Brookings Papers on Economic Activity*, 1: 117-130.

Seminar 2: Basics of game theory**Contents:**

- Definition of an economic "game"
- Understanding the concept of Nash equilibrium
- Analysing simple economic games
- Coordination games and development traps

Reading:

- *Ray (1998), Appendix 1.
- Wydick, B. (2008): Games in Economic Development. Cambridge University Press, ch. 3.

2.3.

Lecture 3: Modern (endogenous) growth models, poverty traps, and the role of history in economic development

Contents:

- Endogenous growth models (a la Romer)
- Introduction of endogenous technology accumulation

- Complementarities and increasing returns as key issues in endogenous growth models
- Empirical evidence for poverty traps
- Discussing the role of history in economic development

Reading:

- *Ray (1998), ch. 4, 5.
- *Nunn, N (2009): The importance of history for economic development. *Annual Review of Economics* 1(1): 65-92.
- Miguel, E. and G. Roland (2011): The long-run impact of bombing Vietnam. *Journal of Development Economics* 96(1): 1-15.

Seminar 3: Growth models and complementarities exercises

9.3.

Lecture 4: Measuring poverty, inequality, and discrimination

Contents:

- Rationale for and definitions of measures of poverty (poverty head count, head count ratio, poverty gap ratio, income gap ratio)
- Defining measures of economic inequality (calculating the GINI coefficient, Lorenz curve)
- Discussing the role of ethnic and gender discrimination in development
- Measuring discrimination using experimental methods
- Overcoming problems of causal inference using randomised control trials

Reading:

- *Ray (1998), ch. 6, 7.
- *Fershtman, C., and Gneezy, U. (2001). Discrimination in a Segmented Society: An Experimental Approach. *The Quarterly Journal of Economics*, 116(1): 351-377.
- Banerjee, A., Bertrand, M., Datta, S., and Mullainathan, S. (2009). Labor market discrimination in Delhi: Evidence from a field experiment. *Journal of Comparative Economics*, 37(1): 14-27.
- *Sen, A. (1992): Missing Women: Social Inequality Outweighs Women's Survival Advantage In Asia And North Africa. *British Medical Journal*, 304(6827): 587-588.
- *Sen, A. (2003): Missing Women-Revisited: Reduction In Female Mortality Has Been Counterbalanced By Sex Selective Abortions. *British Medical Journal*, 327(7427): 1297-1298.

Seminar 4: Student presentations: Introduction to development economics and poverty traps.

- Banerjee, A. and E. Duflo (2006): Economic lives of the poor. *Journal of Economic Perspectives*, 21(1): 141-167.
- Banerjee, A. V., and Duflo, E. (2011). Think Again, Again. In *Poor Economics* (pp. 1-16).

- Cohen, J., and Easterly, W. (2009). Introduction: Thinking Big versus Thinking Small. In J. Cohen and W. Easterly (Eds.), *What Works in Development?: Thinking Big and Thinking Small* (Vol. 1, pp. 1–23). Brookings Institution Press.

16.3.

Lecture 5: The role of culture and institutions in economic development (social capital)

Contents:

- Introducing new empirical methods for causal inference: Instrumental variables
- Discussing the role of culture and persistence of institutions
- Measuring trust and the role of trust in economic transactions
- Using economic experiments to measure cooperation, trust and trustworthiness

Reading:

- *Alesina, A., Giuliano, P., and Nunn, N. (2013). On the origins of gender roles: Women and the plough. *The Quarterly Journal of Economics*, 128(2): 469-530.
- Bartoš, V., and Lely, I. (2015). Moral Incentives and Contract Enforcement across Ethnicity: Experimental evidence from Northern Afghanistan. *Mimeo*.
- Fisman, R., and Miguel, E. (2007). Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets. *Journal of Political Economy*, 115(6): 1020-1048.
- *Guiso, L., Sapienza, P., and Zingales, L. (2006). Does Culture Affect Economic Outcomes? *Journal of Economic Perspectives*, 20(2): 23-48.
- *Nunn, N. and L. Wantchekon (2011): The slave trade and the origins of mistrust in Africa. *American Economic Review* 101(7): 3221-52.

Seminar 5: Student presentations: Blank slate versus economic history?

- Nunn, N. (2012). Culture and the Historical Process. *NBER Working Paper No. 17869*.
- Acemoglu, D., Johnson, S. H., and Robinson, J. A. (2001). The Colonial Origins of Comparative Development: An Empirical Investigation. *American Economic Review*, 91(5), 1369–1401.
- Sokoloff, K. L., and Engerman, S. L. (2000). History Lessons: Institutions, Factor Endowments, and Paths of Development in the New World. *Journal of Economic Perspectives*, 14(3), 217–232.

23.3.

Lecture 6: The role of foreign aid in development economics

Contents:

- Does foreign aid bring the intended benefits?

- How to make aid more effective?
- What unintended effects does aid carry along?

Reading:

- *Easterly, W. (2009). Can the West Save Africa? *Journal of Economic Literature*, 47(2): 373-447.
- *Nunn, N., and Qian, N. (2014). US Food Aid and Civil Conflict. *American Economic Review*, 104(6): 1630-1666.
- (Already covered in Lecture 2) Sachs, Jeffrey, et al. (2004): Ending Africa's Poverty Trap. *Brookings Papers on Economic Activity*, 1: 117-130.
- Werker, E., Ahmed, F. Z., and Cohen, C. (2009). How Is Foreign Aid Spent? Evidence from a Natural Experiment. *American Economic Journal: Macroeconomics*, 1(2): 225-244.

Seminar 6: Student presentations: Does foreign aid do any good?

- Easterly, W. (2006). Planners vs. Searchers in Foreign Aid. *Asian Development Review*, 23(2), 1–35.
- Burnside, C., and Dollar, D. (2000). Aid, Policies, and Growth. *American Economic Review*, 90(4), 847–868.
- Easterly, W., and Pfutze, T. (2008). Where Does the Money Go? Best and Worst Practices in Foreign Aid. *Journal of Economic Perspectives*, 22(2), 29–52.

30.3.

MIDTERM EXAM

6.4.

Lecture 7: Health, nutrition, and development (physical capital)**Contents:**

- Is there a nutrition based poverty trap?
- Long-term economic benefits of proper nutrition
- Household models and competition for food
- Famines

Reading:

- *Ray (1998), ch. 8.
- *Meng, X., and Qian, N. (2009): The Long Term Consequences of Famine on Survivors: Evidence from a Unique Natural Experiment using China's Great Famine. *NBER Working Paper No. 14917*.
- *Miguel, E., and Kremer, M. (2004). Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities. *Econometrica*, 72(1): 159-217.
- Miguel, E. (2005). Poverty and Witch Killing. *Review of Economic Studies*, 72(4): 1153-1172.
- *Ravallion, M. (1997). Famines and economics. *Journal of Economic Literature*, 35(3): 1205-1242.

Seminar 7: Student presentations: To pay or not to pay for health services?

- Ashraf, N., Bandiera, O., and Lee, S. S. (2014). Do-gooders and go-getters: Career incentives, selection, and performance in public service delivery (pp. 1–68).
- Cohen, J., and Dupas, P. (2010). Free Distribution or Cost-Sharing? Evidence from a Randomized Malaria Prevention Experiment. *Quarterly Journal of Economics*, 125(1), 1–45.
- Shampanier, K., Mazar, N., and Ariely, D. (2005). - Zero as a special price: The true value of free products. *Marketing Science*, 26(6), 742–57.

13.4.

Lecture 8: Education and development (human capital)**Contents:**

- Solow model and education revisited
- Returns (even indirect) to education and its effect on development
- Challenges for education in developing countries

Reading:

- *Banerjee, A., and Duflo, E. (2006). Addressing Absence. *Journal of Economic Perspectives*, 20(1), 117–132.
- Glewwe, P., Kremer, M., and Moulin, S. (2009). Many Children Left Behind? Textbooks and Test Scores in Kenya. *American Economic Journal: Applied Economics*, 1(1), 112–135.
- *Hoff, K., and Pandey, P. (2006). Discrimination, Social Identity, and Durable Inequalities. *The American Economic Review*, 96(2), 206–211.
- *Jensen, R. T. (2010). The (perceived) returns to education and the demand for schooling. *The Quarterly Journal of Economics*, 125(2), 515–548.

Seminar 8: Student presentations: How to improve access to education? And what are its benefits?

- Bauer, M., and Chytilová, J. (2010). The Impact of Education on Subjective Discount Rate in Ugandan Villages. *Economic Development and Cultural Change*, 58(4), 643–669.
- Duflo, E., Hanna, R., and Ryan, S. P. (2012). Incentives work: Getting teachers to come to school. *American Economic Review*, 102(4), 1241–1278.
- Banerjee, A., Cole, S., Duflo, E., and Linden, L. (2007). Remedying Education: Evidence from Two Randomized Experiments in India. *The Quarterly Journal of Economics*, 122(3), 1235–1264.

20.4.

Lecture 9: Microcredit, limited liability, and imperfect information (financial capital)**Contents:**

- Why intervene in credit markets?
- Agency problems: adverse selection and moral hazard

- Types of microfinance (traditional and modern)

Reading:

- *Ray (1998), ch. 14.
- Armendriz and Morduch (2005), ch 4, 5.
- *Duflo, E., Banerjee, A. V., Glennerster, R., and Kinnan, C. G. (2013). The miracle of microfinance? Evidence from a randomized evaluation. *NBER Working Paper 18950*.

Seminar 9: Student presentations: Bank the poor, or not?

- Field, E., Pande, R., Papp, J., and Rigol, N. (2013). Does the Classic Microfinance Model Discourage Entrepreneurship Among the Poor? Experimental Evidence from India. *American Economic Review*, 103(6), 2196–2226.
- Gin, X., Jakiela, P., Karlan, D., and Morduch, J. (2010). Microfinance Games. *American Economic Journal: Applied Economics*, 2(July), 60–95.
- Dean, S., and Karlan, D. S. (2007). Group versus individual liability: a field experiment in the Philippines. *Economic Growth Center discussion paper no. 940*, pp. 1–45.

27.4.

Lecture 10: Savings and insurance, and moral hazard models (financial capital)

Contents:

- Benefits of insurance and model of perfect insurance
- Measuring aversion to risk in the lab and in the field
- Rationale for why people do not save enough and why they should
- Revisiting time inconsistency models

Reading:

- *Ray (1998), ch. 15.
- Armendriz and Morduch (2005), ch 6.
- Bauer, M., Chytilová, J., and Morduch, J. (2012). Behavioral Foundations of Microcredit: Experimental and Survey Evidence From Rural India. *American Economic Review*, 102(2), 1118–1139.

Seminar 10: Student presentations: Why don't the poor take up insurance or save?

- Fafchamps, M., and Lund, S. (2003). Risk-sharing networks in rural Philippines. *Journal of Development Economics*, 71(2), 261–287.
- Dupas, P., and Robinson, J. (2013). Why don't the poor save more? Evidence from health savings experiments. *American Economic Review*, 103(4), 1138–1171.
- Karlan, D., and Zinman, J. (2009). Observing Unobservables: Identifying Information Asymmetries With a Consumer Credit Field Experiment. *Econometrica*, 77(6), 1993–2008.

4.5.

Lecture 11: Using behavioral economics for better development policy design (mental capital)

Contents:

- Time inconsistency and commitment devices (back to savings)
- Psychological effects of scarcity
- Stress and development
- Scarcity and (anti)social preferences

Reading:

- *Ashraf, N., Karlan, D., and Yin, W. (2006). Tying Odysseus to the mast: Evidence from a commitment savings product in the Philippines. *The Quarterly Journal of Economics*, 121(2), 635–672.
- Bartoš, V. (2015). Sharing norms during seasonal food shortages: Experimental evidence from Afghanistan. *Mimeo*
- *Haushofer, J., and Fehr, E. (2014). On the psychology of poverty. *Science*, 344(6186), 862–7.
- *Mani, A., Mullainathan, S., Shafir, E., and Zhao, J. (2013). Poverty Impedes Cognitive Function. *Science*, 341(6149), 976–980.
- Prediger, S., Vollan, B., and Herrmann, B. (2014). Scarcity and Antisocial Behavior. *Journal of Public Economics*, 119, 1–9.

Seminar 11: Student presentations: TBA

11.5.

Lecture 12: Democracy or authoritarianism

Contents:

- Do countries grow faster under authoritarian leaders?
- What is the role of democracy in economic development?

Reading:

- Berger, D., Easterly, W., Nunn, N., and Satyanath, S. (2013). Commercial Imperialism? Political Influence and Trade During the Cold War. *American Economic Review*, 103(2), 863–896.
- Jones, B. F., and Olken, B. a. (2009). Hit or Miss? The Effect of Assassinations on Institutions and War. *American Economic Journal: Macroeconomics*, 1(2), 55–87.
- Persson, T., and Tabellini, G. (2009). Democratic Capital: The Nexus of Political and Economic Change. *American Economic Journal: Macroeconomics*, 1(2), 88–126.

Seminar 1: Wrap-up Q&A session before the final exam

For this seminar I expect you to send me via email up to 3 most pressing issues you would like me to discuss. Send the topics in the order of importance to you by May 5. I will cover the most pressing issues during the last seminar before the final exam.

18.5.

FINAL EXAM**8. PAPERS FOR REFEREE REPORTS**

This is the list of selected working papers you can choose from for your referee reports:

- TBA

9. PAPERS FOR PRESENTATIONS

There is a number of papers for student presentation assigned thematically to the seminars. You will get a chance to sign up for the presentations in the first week of classes on a first-come-first-served basis. In most cases the presentations will be done in pairs due to large number of enrolled students.