

DEVELOPMENT ECONOMICS, LMU MUNICH

VOJTĚCH BARTOŠ

1. PRACTICAL

Instructor: Vojtěch Bartoš (vojtech.bartos@econ.lmu.de)

Lecture: Thursdays 8-12, Geschw.-Scholl-Pl. 1 (E), E 210

Seminar: Fridays 12-16, IuK room of the CIP Pool in Ludwigstr. 28 VG (front building)

Course starts: 27.4.2017

Course ends: 9.6.2017

Office hours:

By appointment via email

Relevant course information:

<http://vojtechbartos.net/teaching/lmu-development-economics-2017/>

Dear student,

Welcome to Development Economics class. Please, do not be scared by the length of this syllabus. Its 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 of sorts between me and you. Please, make sure to read Sections 2 to 5 as these give you the general information about the course structure and its requirements. Section 6 offers some hints on how to read academic papers, a skill that should be gradually improving throughout the course. Section 7 provides detailed information about the schedule and the contents of the lectures. Please, do note that the lecture contents may be subject to change, but this will always be announced in advance.

Looking forward to meeting you in class.

2. COURSE INTRODUCTION

A large share of the world's population subsists on less than \$2 per day. Despite substantial improvements over the recent decades, many people still remain uneducated, with limited access to medical services, sanitation, and clean water. The majority of these people are still employed in subsistence agriculture or in informal entrepreneurial jobs without access to adequate financial services.

Date: Summer semester, 2017.

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 consider why poverty persists and what tools can help alleviate it. We will study this by discussing existing theories, recent literature, and we will accompany our discussions with hands-on work with existing data and student presentations of academic papers.

We will cover topics ranging from macroeconomic growth theories, the persistence of historical events in current development, and the determinants and the role of both formal and informal institutions in lifting 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, and further—if properly understood—promise important directions for development policy and research.

3. GRADING

There will be a 90 minutes Final exam that determines the final grade. The exam will take place on June 12.

3.1. Academic integrity. Any violation of the LMU Ethics Code will be considered an act of academic dishonesty and will not be tolerated. The Ethics Committee is in charge of all allegations related to cheating, plagiarism, or any violation of the code of ethics at LMU. Cheating in the exam results in an immediate expulsion from the exam, zero points, and institutional proceedings would be initiated.

3.2. 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 tutorial sessions.

4. TEXTBOOK

The principle textbook for this course is:

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

Note that the relevant chapters are available on my website in the readings section (gated and not available for download). Although it covers the majority of topics, the principle textbook does not cover the entire range of topics discussed in classes. The following books—all available electronically on Kindle, e.g.—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:

- Todaro, M. P., and Smith, S. C. (2011): *Economic Development*. Pearson.
- 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.
- Wydick, B. (2008): *Games in Economic Development*. Cambridge 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) Be able to replicate results of an academic study examining an important and recent issue in development economics.
- (6) 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 and in tutorials. 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.

Also, since the literature is quickly evolving, additional reading may appear on the reading list, but never as a required reading for the lectures. All readings will be available for download on my website (gated).

Apr 27

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.

Apr 27, May 4

Lecture 2 and 3: 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
- Poverty traps (savings trap and capital thresholds) and the reasoning for the "big push"

Reading:

- *Ray (1998), ch. 3, 4.
- Baumol, W.J. (1986): Productivity Growth, Convergence, and Welfare. *American Economic Review* 76(5): pp. 1072-1085.
- De Long, J.B. (1988): Productivity Growth, Convergence, and Welfare: Comment. *American Economic Review* 78(5): pp. 1138-54.
- 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.
- *Sachs, Jeffrey, et al. (2004): Ending Africa's Poverty Trap. *Brookings Papers on Economic Activity*, 1: 117-130.

Tutorial: Stata introduction and replication of Mankiw, Romer, Weil (1992)**Reading:**

- *Mankiw, N. Gregory, Romer, D., and Weil, D.N. (1992): A Contribution to the Empirics of Economic Growth. *Quarterly Journal of Economics*, 107(2): 407-37.

May 4

Lecture 4: Modern (endogenous) growth models, poverty traps, and the role of history in economic development**Contents:**

- Endogenous growth models (*à la* Romer)
- Introduction of endogenous technology accumulation
- Complementarities and increasing returns as key issues in endogenous growth models
- Empirical evidence for poverty traps

Reading:

- *Ray (1998), ch. 4, 5.
- Barro, R.J. (1991): Economic Growth in a Cross Section of Countries. *Quarterly Journal of Economics*, 106(2): 407-43.
- Lucas, R.E (1988): On the Mechanics of Economic Development. *Journal of Monetary Economics*, 22(1): 3-42.
- *Miguel, E. and G. Roland (2011): The long-run impact of bombing Vietnam. *Journal of Development Economics* 96(1): 1-15.
- Romer, P.M. (1990): Endogenous Technological Change. *Journal of Political Economy*, 98(5): S71102

Tutorial: Continuing MRW replication and replicating Miguel and Roland (2011)

Reading:

- *Miguel, E. and G. Roland (2011): The long-run impact of bombing Vietnam. *Journal of Development Economics* 96(1): 1-15.

May 11

Lecture 5: Games in economic development

Contents:

- Definition of an economic "game"
- Understanding/refreshing the concept of Nash equilibrium
- Analysing simple economic games
- Coordination games, technology adoption, development traps, and corruption

Reading:

- *Ray (1998), Appendix 1.
- Wydick, B. (2008): Games in Economic Development. Cambridge University Press, ch. 3 and 9.

Tutorial: Few practical examples on game theory in development

May 11

Lecture 6: 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.

- 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.
- *Fershtman, C., and Gneezy, U. (2001). Discrimination in a Segmented Society: An Experimental Approach. *The Quarterly Journal of Economics*, 116(1): 351-377.
- *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.

Tutorial: Policy exercise: reducing inequality

May 18

Lecture 7: 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:

- 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.
- *Hall, R.E., and Jones, C.I. (1999): Why do some countries produce so much more output per worker than others?, *Quarterly Journal of Economics*, 114(1), 83-116.
- *Nunn, N. (2008): The long-term effects of Africa's slave trades, *Quarterly Journal of Economics*, 123(1): 139-76.
- Nunn, N. and L. Wantchekon (2011): The slave trade and the origins of mistrust in Africa. *American Economic Review*, 101(7): 3221-52.

Tutorial: Critical discussion of Acemoglu, Robinson, and Johnson (2001) and paper replication.

Reading:

- *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.

- *Abuoy, D.Y. (2012). The Colonial Origins of Comparative Development: An Empirical Investigation: Comment. *American Economic Review*, 102(6), 3059-3076.
- *Acemoglu, D., Johnson, S. H., and Robinson, J. A. (2001). The Colonial Origins of Comparative Development: An Empirical Investigation: Reply. *American Economic Review*, 102(6), 3077-3110.

May 18

Lecture 8: 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:

- Burnside, C., and Dollar, D. (2000). Aid, policies, and growth. *American Economic Review*, 90(4): 847-868.
- Easterly, W., R. Levine, and D. Roodman (2004). Aid, Policies, and Growth: Comment. *American Economic Review*, 94(3): 774-80.
- Eiseensee, T., and Stromberg, D. (2007): News Droughts, News Floods, and U.S. Disaster Relief. *Quarterly Journal of Economics*, 122(2): 693-728.
- Galiani, S., Knack, S., Xu, L.C., Zhou, B. (2017): The effect of aid on growth: evidence from a Quasi-experiment, *Journal of Economic Growth*, 22: 1-33.
- *Nunn, N., and Qian, N. (2014). US Food Aid and Civil Conflict. *American Economic Review*, 104(6): 1630-1666.
- *Qian, N. (2015). Making progress on foreign aid. *Annual Review of Economics*, 7: 277-308.
- (Already covered in Lecture 2) Sachs, Jeffrey, et al. (2004): Ending Africa's Poverty Trap. *Brookings Papers on Economic Activity*, 1: 117-130.

June 1

Lecture 9: 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.
- Jensen, R. T., and Miller, N. H. (2008). Giffen behavior and subsistence consumption. *American Economic Review*, 98(4), 1553-1577.
- *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.
- *Subramanian, S., and Deaton, A. (1996): The demand for food and calories, *Journal of Political Economy*, 104(1): 133-162.
- Thomas, D., et al. (2006): Causal effect of health on labor market outcomes: Experimental evidence. *Unpublished manuscript*.

Tutorial: Reading, discussing, and replicating Miguel and Kremer (2004)

Reading:

- *Miguel, E., and Kremer, M. (2004). Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities. *Econometrica*, 72(1): 159-217.

June 1

Lecture 10: 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.
- Duflo, E. (2001): Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment, *American Economic Review*, 91(4): 795-813.
- Duflo, E. (2004). The medium run effects of educational expansion- evidence from a large school construction program in Indonesia. *Journal of Development Economics*, 74(1), 163-197.
- 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.
- Psacharopoulos, G. (1994). Returns to investment in education: A global update. *World Development*, 22(9), 1325-1343.

Tutorial: Reading and replicating Martinez-Bravo (2017)

Reading:

- *Martinez-Bravo, M. (2017): Martinez-Bravo: The Local Political Economy Effects of School Construction in Indonesia, *American Economic Journal: Applied Economics*, 9(2): 256-89.

June 8

Lecture 11: 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.

Tutorial: Reading and replicating Karlan and Zinman (2009)

Reading:

- *Karlan, D. and Zinman, J. (2009): Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment, *Econometrica*, 77(6): 1993-2008.

June 8

Lecture 12: Microcredit: recent evidence on its effectiveness (financial capital)

Contents:

- Evaluations of microcredit
- Randomized control trials
- External validity concerns in economic research

Reading:

- *Banerjee, A., Karlan, D., and Zinman, J. (2015). Six Randomized Evaluations of Microcredit: Introduction and Further Steps. *American Economic Journal: Applied Economics*, 7(1), 1–21.
- Other papers in the *American Economic Journal: Applied Economics* 2015, 7(1).
- Karlan, D., and Zinman, J. (2011). Microcredit in theory and practice: using randomized credit scoring for impact evaluation. *Science*, 332(6035), 1278–1284.

If spare time

Lecture 13: 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.

June 12

FINAL EXAM