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.

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 1.

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:


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:

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 number of 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).

Please note that the tutorial on May 11 is cancelled. Instead, I will reallocate the time of this tutorial among the remaining tutorials (these will have 210 minutes instead of 180 minutes).

Apr 12

Lecture: 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:
– Banerjee and Duflo (2011), ch. 1, 2.

**Apr 12, Apr 19**

Lecture: 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:

**Apr 13, Apr 20**

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

Reading:
Lecture: 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:

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:
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.

Tutorial: Replicating Miguel and Roland (2011)

Reading:

Lecture: 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:

May 3

**Lecture: 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:**

May 4

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

**Reading:**

May 10

**NO LECTURE (Ascension day)**

May 11

**NO TUTORIAL**

May 17

**Lecture: 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
- Using field experiments in improving health

**Reading:**

May 17

**Lecture: 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:**

**May 18**

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

**Reading:**

**May 24**

**Lecture:** 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:**
– Armendriz and Morduch (2005), ch 4, 5.

**May 24**

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

**Contents:**
– Evaluations of microcredit
– Randomized control trials
External validity concerns in economic research

**Reading:**

**May 25**

**Tutorial:** Reading and replicating Karlan and Zinman (2009)

**Reading:**

**May 25**

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

**Contents:**
- Time inconsistency and commitment devices (savings)
- Psychological effects of scarcity
- Stress and development
- Scarcity and (anti)social preferences

**Reading:**

May 25

**Lecture:** Q & A session before the exam

**Contents:**
– Send me your questions two days in advance and I will answer them.

Jun 1

**FINAL EXAM (10-12; Geschw.-Scholl-Pl. 1 (B) - B 106 A)**