

DEPARTMENT OF ECONOMICS
COLORADO STATE UNIVERSITY

ECON 760: Microeconomics of Development

Spring 2016

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and Anita Alves Pena

Course Objectives and Intended Learning Outcomes:

Students will learn the microeconomic theory of development that is relevant to the poorest countries in the world. This will include the study of information based market failures, coordination failures, the role of institutions, and the role of the state, primarily in the context of predominantly rural agrarian based economies. Dualism, interlinked credit and labor markets, dependency, migration and population will be examined as specific concepts/issues in these countries. Students also will learn how empirical research is undertaken using data from household surveys. They will read journal articles using household survey data that are representative of the current field and will complete a research study of their own (replicating a published study) using data from a household survey in a developing country. The importance of paying attention to gender in development will be emphasized throughout the course.

Texts and References:

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

Angus Deaton (1997) *The Analysis of Household Surveys: A Microeconomic Approach to Development*, Johns Hopkins University Press, Baltimore, MD. This book is out of regular print, but available for free download from the World Bank: http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/1997/07/01/000009265_3980420172958/Rendered/PDF/multi_page.pdf

Selected journal articles.

Contact Hours:

To be successful, each week students are expected to spend approximately three hours in lecture, and (at least) six hours engaging in activities including reading the texts and journal references, reviewing class notes, and completing assignments (including learning software for the research project if not already known).

Organization of the Course:

The course will be a combination of lectures by the professors, presentations by students, and seminar-style discussion. Students will be expected to participate actively in discussion of the lecture material and the selected articles. At the end of the course, students will make short presentations of their research to the class. Students will be evaluated on the basis of their participation in class discussions, “referee report” of assigned unpublished paper, class presentations including that on personal research, and research paper.

Note: This is a team-taught class. Professor Bernasek will cover the part of the course involving the micro theory of development, and Professor Pena will cover the part of the course involving the empirical estimation of micro models of development. Each will teach roughly every other week. Grading will be shared.

Course Assignments:

Class discussions: Attendance, participation, and preparation (reading) for class is expected. Note that this is a significant percentage of your final grade since the quality of class discussion depends on your comments, reflections, and questions. Reading chapters and articles in advance of lectures is a must. Please bring copies of papers (print or electronic) to class so that you can refer to them during our discussion.

Class presentations of models and articles: Students will present models and/or research articles from the reading list as assigned by Professors Bernasek and Pena. Students should prepare a 15 minute (max) summary of their models and/or articles which will serve as a basis for discussion. There will be two presentations due for Professor Bernasek and one for Professor Pena. Presentations should be of similar format to how papers are presented in an academic seminar. This means that you should have presentation slides. Additional guidelines may be presented in class by individual instructors. Preparing these presentations will give you a chance to polish your academic presentation skills and will give you detailed understanding of the research that you present. Readings discussed in student presentations are still *required* reading for *all* students, and all students therefore should be prepared to participate during *each* class.

Mock referee reports: Students will practice writing referee reports (approximately 3 pages) of unpublished papers briefly summarizing the work, critiquing the article, and providing suggestions for improvement. The paper for this exercise will be assigned by Professors Bernasek and Pena. The paper will include both theoretical and empirical parts, and you should make sure to comment on both of these. Alain de Janvry's has a helpful guide as to how to approach referee reports:

<http://are.berkeley.edu/courses/ARE251/2004/assignments/RRGuidelines.pdf>. Other guidelines will be presented in class.

Research project: Students will choose a household level dataset from the World Bank's Living Standard Measurement Study (LSMS) and propose it on a first-come, first-served basis to Professor Pena. No two students will use the same data. See <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTLSMS/0,,contentMDK:21610833~pagePK:64168427~piPK:64168435~theSitePK:3358997,00.html>. There are many unrestricted surveys online with codebooks in English (and often also in native languages which you are welcome to use if your language abilities allow). If you have access from elsewhere to a different LSMS, you may propose that one. The research project will involve recreating the empirical analysis from a key paper in development economics for the country of your choice and writing up the results as a comparison to the original paper. Professor Pena will assign the paper along with particular elements that should be recreated. Students will turn in a "theory" section and summary statistic tables early in the semester and will turn in empirical model research findings at the end of the term. Students also will give a 15 minute presentation of their findings at the end of the term. Presentations should incorporate presentation slides.

Grades:

Participation in discussions	100 points
Model and article presentations (3)	300 points
Mock referee report	200 points
Research paper*	300 points
Presentation of research	100 points
Total	1,000 points

*Note that research paper grade will include allowance for the quality and completeness of early submissions of parts of the paper as indicated in class and on the syllabus.

Department's Statement on Copyright:

Please do not share material from this course in online, print or other media. Course material is the property of the instructor who developed the course. Materials authored by third parties and used in the course are also subject to copyright protections. Posting course materials on external sites (commercial or not) violates both copyright law & the CSU Student Conduct Code. Students who share course content without the instructor's express permission, including with online sites that post materials to sell to other students, could face disciplinary or legal action.

Academic Integrity:

This course will adhere to the CSU Academic Integrity Policy as found on the Student Responsibilities page of the CSU General Catalog and in the Student Conduct Code. At a minimum, violations will result in a grading penalty in this course and a report to the Office of Conflict Resolution and Student Conduct Services.

Course Schedule and Reading List:

Note: This schedule is subject to change as deemed necessary by the instructors. Most non-textbook readings should be available on Canvas. Please look there first.

- Week 1 (JAN 19): *Introduction to the Course, Data, and Tools: (Alex & Anita)*
- Introductions to both textbooks
 - Chpt. 1 of Deaton (1997)
 - Chs 1 & 15 of Kaushik Basu *Analytical Development Economics: The Less Developed Economy Revisited*. MIT Press. 2005.
 - Duflo, E., Glennerster, R., and Kremer, M. (2007), "Using randomization in development economics research: A toolkit," *Handbook of Development Economics*, 4, 3895-3962.
- Week 2 (JAN 26): *Agricultural Household Model, Intrahousehold Allocation, Economies of Scale, and Population (Alex)*
- B & U Ch 2 HH Economics
 - Singh, Inderjit, Lyn Squire, and John Strauss. "A survey of agricultural household models: Recent findings and policy implications." *The World Bank Economic Review* (1986): 149-179.

- Taylor, J. Edward, and Irma Adelman. "Agricultural household models: genesis, evolution, and extensions." *Review of Economics of the Household* 1, no. 1-2 (2003): 33-58.
- B & U Ch 3 Population
- Basu, Kaushik, and Pham Hoang Van. "The economics of child labor." *American economic review* (1998): 412-427.
- Birdsall, Nancy. "Economic approaches to population growth." *Handbook of development economics* 1 (1988): 477-542.

Week 3 (FEB 2):

Agricultural Household Model, Intrahousehold Allocation, and Economies of Scale (Anita)

- Ch. 4 of Deaton (1997)
- Deaton, A. (1989), "Looking for Boy-Girl Discrimination in Household Expenditure Data," *World Bank Economic Review*, 3(1): 1-15.
- Udry, C. (1996), "Gender, Agricultural Production, and the Theory of the Household," *Journal of Political Economy*, 101(5): 1010-1045.
- Deaton, A. and C. Paxson (1998), "Economies of Scale, Household Size and the Demand for Food," *Journal of Political Economy*, 106(5): 897-930.
- Foster, A. and M. Rosenzweig (2002), "Household Division and Rural Economic Growth," *Review of Economic Studies*, 69(4): 839-869.

Week 4 (FEB 9):

REFEREE REPORT DUE FEB 9 IN CLASS

Labor and Migration (Alex)

- B & U Ch 4 Fragmented Markets (Labor)
- Fields, Gary S. "A guide to multisector labor market models." *Working Papers* (2004): 86.
- Stiglitz, Joseph E. "Alternative theories of wage determination and unemployment in LDC's: The labor turnover model." *The Quarterly Journal of Economics* (1974): 194-227.
- B & U Ch 5 Migration
- Behrman, Jere R., and Barbara L. Wolfe. "Labor force participation and earnings determinants for women in the special conditions of developing countries." *Journal of Development Economics* 15, no. 1 (1984): 259-288.
- Krugman, Paul. *Increasing returns and economic geography*. No. w3275. National Bureau of Economic Research, 1990.

Week 5 (FEB 16):

Labor and Migration (Anita)

- Taylor, E. J. (1999), "The New Economics of Labour Migration and the Role of Remittances in the Migration Process," *International Migration*, 37(1): 63-88.
- Munshi, K. (2003), "Networks in the Modern Economy: Mexican Migrants in the U.S. Labor Market," *The Quarterly Journal of Economics*, 118(2): 549-599.
- Yang, D. (2008), "International Migration, Remittances and Household Investment: Evidence from Philippine Migrants' Exchange Rate Shocks," *The Economic Journal*, 118(528): 591-630.

- McKenzie, D. and H. Rapoport (2010), "Self-Selection Patterns in Mexico-U.S. Migration: The Role of Migration Networks," *The Review of Economics and Statistics*, 92(4): 811-21.

Week 6 (FEB 23): *Land, Credit, and Savings* (Alex)

- Ch 6 Rural Land Markets
- Braverman, Avishay, and Joseph E. Stiglitz. "Cost-sharing arrangements under sharecropping: moral hazard, incentive flexibility, and risk." *American Journal of Agricultural Economics* 68, no. 3 (1986): 642-652.
- Ch 12 Kaushik Basu *Analytical Development Economics: The Less Developed Economy Revisited*. MIT Press. 2005.
- B & U Ch 7 Fragmented Markets (Credit)
- Stiglitz, Joseph E., and Andrew Weiss. "Credit rationing in markets with imperfect information." *The American economic review* (1981): 393-410.
- Ch 13 Kaushik Basu *Analytical Development Economics: The Less Developed Economy Revisited*. MIT Press. 2005.

Week 7 (MAR 1): THEORY PART AND SUMMARY STATISTICS TABLES OF PAPER DUE MAR 1 IN CLASS

Land, Credit and Savings (Anita)

- Ch. 6 of Deaton (1997)
- Rosenzweig, M. R. and K. 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(21): 223-244.
- Morduch, J. (1999), "The Microfinance Promise," *Journal of Economic Literature*, 37(4): 1569-1614.
- Field, E. (2007), "Entitled to Work: Urban Property Rights and Labor Supply in Peru," *The Quarterly Journal of Economics*, 122(4): 1561-1602.
- Karlan, D. and J. Zinman (2009), "Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment," *Econometrica*, 77(6): 1993-2008.

Week 8 (MAR 8): *Risk, Insurance, and Rural Markets* (Alex)

- Ch 8 Risk and Insurance in Agriculture
- Deaton, Angus, and Christina Paxson. *Intertemporal choice and inequality*. No. w4328. National Bureau of Economic Research, 1993.
- Ch 11 Kaushik Basu *Analytical Development Economics: The Less Developed Economy Revisited*. MIT Press. 2005.
- B & U Ch 9 Interlinkages in Rural Markets
- Hoff, Karla, and Joseph E. Stiglitz. "Introduction: Imperfect information and rural credit markets: Puzzles and policy perspectives." *The world bank economic review* (1990): 235-250.
- Ch 14 Kaushik Basu *Analytical Development Economics: The Less Developed Economy Revisited*. MIT Press. 2005.

Week 9 (MAR 15): SPRING BREAK WEEK

Week 10 (MAR 22): *Risk, Insurance, and Rural Markets* (Anita)

- Ch. 6 of Deaton (1997)
- Townsend, R. (1994), "Risk and Insurance in Village India," *Econometrica*, 62(4): 539-591.
- Udry, C. (1994), "Risk and Insurance in a Rural Credit Market: An Empirical Investigation in Northern Nigeria," *Review of Economic Studies*, 61(3): 495-526.
- Dercon, S. and P. Krishnan (2000), "In Sickness and In Health: Risk Sharing within Households in Ethiopia," *Journal of Political Economy*, 108(4): 688-727.
- Miguel, E. (2005), "Poverty and Witch Killing," *Review of Economic Studies*, 72(4): 1153-1172.

Week 11 (MAR 29): *Human Capital, Income Distribution, and Education* (Alex)

- B&U Ch 10 Human Capital and Income Distribution
- Deaton, Angus. *Health, inequality, and economic development*. No. w8318. National bureau of economic research, 2001.
- Banerjee, Abhijit V., and Andrew F. Newman. "Occupational choice and the process of development." *Journal of political economy* (1993): 274-298.
- B& U Ch 11 Poverty Alleviation
- Bardhan, Pranab. "Efficiency, equity and poverty alleviation: Policy issues in less developed countries." *The Economic Journal* (1996): 1344-1356.
- Fukuda-Parr, Sakiko. "The human development paradigm: operationalizing Sen's ideas on capabilities." *Feminist Economics* 9, no. 2-3 (2003): 301-317.

Week 12 (APR 5): FORMATTED REGRESSION TABLES DUE APR 5 IN CLASS

Human Capital, Income Distribution, and Education (Anita)

- 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.
- Schultz, P. T. (2004), "School subsidies for the poor: evaluating the Mexican Progresa poverty program," *Journal of Development Economics*, 74(1): 199-250.
- Evans, D. and E. Miguel (2007), "Orphans and Schooling in Africa: A Longitudinal Analysis," *Demography*, 44(1): 35-57.
- Banerjee, A. and E. Duflo (2007), "The Economic Lives of the Poor," *Journal of Economic Perspectives*, 21(1): 141-167.

Week 13 (APR 12): *Coordination and Institutions* (Alex)

- B & U Ch 16 Intersectoral Complementarities and Coordination Failures
- Bardhan, Pranab. "Economics of Development and the Development of Economics." *The Journal of Economic Perspectives* (1993): 129-142.
- Alesina, Alberto, and Dani Rodrik. *Distributive politics and economic growth*. No. w3668. National Bureau of Economic Research, 1991.
- Ch 17 Institutional Economics and the State

- Rodrik, Dani. "Institutions for high-quality growth: what they are and how to acquire them." *Studies in Comparative International Development* 35, no. 3 (2000): 3-31.

Week 14 (APR 19): *Health and Experiments* (Anita)

- Subramanian, S. and A. Deaton (1996), "The Demand for Food and Calories," *Journal of Political Economy*, 104(1): 133-162.
- Miguel, E. and M. Kremer (2004), "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities," *Econometrica*, 72(1): 159-217.
- Banerjee, A. V. and E. Duflo (2009), "The Experimental Approach to Development Economics," *Annual Review of Economics*, 1(1): 151-178.
- Jayachandran, S. (2009), "Air Quality and Infant Mortality: Evidence from Indonesia's Wildfires," *Journal of Human Resources*, 44(4): 916-954.

Week 15 (APR 26): *Learning, and Technology* (Alex)

- Ch 12 Technical Progress and Learning
- Easterlin, Richard A. "Why isn't the whole world developed?." *The Journal of Economic History* 41, no. 01 (1981): 1-17.
- Acemoglu, Daron. "Training and innovation in an imperfect labour market." *The Review of Economic Studies* 64, no. 3 (1997): 445-464.

Learning, and Technology (Anita)

- Foster, A. D. and M. R. Rosenzweig (1995), "Learning by Doing and Learning from Others: Human Capital and Technical Change in Agriculture," *Journal of Political Economy*, 103(6): 1176-1209.
- Conley, T. and C. Udry (2001), "Social Learning through Networks: The Adoption of New Agricultural Technologies in Ghana," *American Journal of Agricultural Economics*, 83(3): 668-673.

Week 16 (MAY 3): PRESENTATIONS OF RESEARCH PAPERS (Alex & Anita)

Students will present final papers and receive feedback to be incorporated into final drafts of their papers; depending on final enrollment in the class, we may need to extend class periods this week to longer sessions; if so, time and place TBD

Week 17 (MAY 10): EXAM WEEK: RESEARCH PAPERS DUE (Alex & Anita)

May 10: 9:40-11:40am is our scheduled final exam time by the university; therefore 11:40am SHARP is the deadline to submit your final revised paper; please submit 2 printed copies, one to each of our mailboxes; It is expected that you will have incorporated changes as indicated by presentation feedback from the week before