

Economics 120
Development Economics

Instructor

Professor Jon Robinson

457 Engineering 2

jmrtwo@ucsc.edu

Lectures: MWF, 2-3:10, Merrill Academy 102

Office hours: Wednesday 3:30-5:30, or by appointment

Teaching Assistant

Susan Paterson

spaterso@ucsc.edu

403G Engineering 2

Office hours: Monday 11-12, Thursday 10-11

Course Description (syllabus also available at <http://people.ucsc.edu/~jmrtwo>)

This course will cover the economics of development, with a particular focus on microeconomic issues. Development is a large field that includes much more than can be covered in one class, so by necessity I'll focus the class on several major topics. These will include health and nutrition, education, formal and informal risk-coping mechanisms, savings, credit, and household economics. Towards the end of the class, we will take some time to study other topics of interest. These topics include HIV/AIDS, formal and informal institutions, and studies that come at the intersection between development economics and behavioral economics.

Though this class will feature some theory, much of our attention will be empirical. Within economics, development is a field with a strong empirical tradition, and one goal of this class will be to learn what makes a good empirical study. Econometrics is not a pre-requisite for this class. However, if you have not taken econometrics, you should to be willing to familiarize yourself with some basic concepts that we will employ here. I will review all statistical tools that we will use in this class in lecture, and Susan will review those techniques in section as well.

The problem sets for this class will include exercises that will require data analysis using the statistical program Stata. No prior knowledge of Stata is required, however.

Stata version 8 can be accessed on any computer by connecting to the UCSC virtual computer lab. This allows you to use Stata without physically going to a computer lab. Information on setting up the virtual lab is here: http://ic.ucsc.edu/services/computer_labs/. If you don't have a computer or would prefer working in a lab, Stata version 6 is available on campus computers in instructional computing labs. Information on finding these labs is here: http://ic.ucsc.edu/services/virtual_computer_labs/.

Finally, you may order Stata for yourself at a discounted rate through this link on the Stata website: <http://www.stata.com/order/new/edu/gradplans/gp2-order.html>. The Course ID for the class is SANC12. You will need to purchase the Intercooled version (\$98), since small Stata will not be sufficient for the empirical exercises in this class.

Assignments

Grades for this class will be based on 4 or 5 problem sets, a midterm, and a final exam. The problem sets will count for 35%, the midterm 30%, and the final 35%. Class participation might also count in marginal cases (for instance, in the decision between a B+ and an A-).

Readings

The majority of the readings for this class will be papers, though several (especially towards the beginning) will come from the textbook *Development Economics* by Debraj Ray.

There are a number of papers on the syllabus, but only those marked with a * are required. All other listed readings are recommended but not required. It is essential that you do all of the required readings, and it would be to your benefit to at least skim the recommended ones as well.

Some of these papers include a fair amount of math – you are NOT responsible for most of that. Rather, I expect you to make an effort to understand the tables and results, which can be understood without understanding all the math behind them.

All papers should be available on e-reserves and I've included links for all of the papers as well. Most can also be found on JSTOR, Google scholar, or other online sources.

Reading List

1. Background

*UN Millenium Project (2005), "Investing in Development," Chapter 2.

<http://www.unmillenniumproject.org/documents/MainReportChapter2-lowres.pdf>

*Banerjee, Abhijit, and Esther Duflo (2007), "The Economic Lives of the Poor," *Journal of Economic Perspectives* 21 (1): 141-167.

Working paper version:

<http://econ-www.mit.edu/files/530>

Published version:

<http://www.anderson.ucla.edu/faculty/bhagwan.chowdhry/Banerjee-Duflo.pdf>

2. Empirical Tools

*Duflo, Esther, Rachel Glennerster, and Michael Kremer (2005), "Using Randomization in Development Economics: A Toolkit," mimeo, MIT Poverty Action Lab.

<http://www.povertyactionlab.com/papers/Using%20Randomization%20in%20Development%20Economics.pdf>

Example of why randomization is important

Glewwe, Paul, Michael Kremer, Sylvie Moulin and Eric Zitzewitz (2004), "Retrospective vs. Prospective Analyses of School Inputs: The Case of Flip Charts in Kenya," *Journal of Development Economics* 74 (1): 251-268.

<http://www.sciencedirect.com/science/article/B6VBV-4BS4FFV-1/2/551062ce4f8225ce03f893c26e7d3871>

3. Health, Nutrition, and Income

Theory

*Ray, pp. 272-279, 489-504.

Empirical

*Thomas, Duncan and Elizabeth Frankenberg (2002), "Health, Nutrition, and Prosperity: A Microeconomic Perspective," *Bulletin of the World Health Organization* 80 (2): 106-113.

<http://chd.ucla.edu/dthomas/ppr/whobull-2002.pdf>

Thomas, Duncan et al. (2005), "Causal Effect of Health on Labor Market Outcomes: Experimental Evidence," mimeo, UCLA.

<http://www.spc.uchicago.edu/prc/papers/thomasD/dthomas.pdf>

4. Education

*Duflo, Esther (2001), "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment," *American Economic Review* 91 (4): 795-813.

<http://links.jstor.org/sici?sici=0002-8282%28200109%2991%3A4%3C795%3ASALMCO%3E2.0.CO%3B2-9>

The Interaction Between Health and Education

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

<http://links.jstor.org/sici?sici=0012-9682%28200401%2972%3A1%3C159%3AWIIOEA%3E2.0.CO%3B2-A>

Schultz, T. Paul (1999), "Health and Schooling Investments in Africa," *Journal of Economic Perspectives* 13 (3): 67-88.

<http://links.jstor.org/sici?sici=0895-3309%28199922%2913%3A3%3C67%3AHASIIA%3E2.0.CO%3B2-4>

5. Informal Insurance and Risk-Coping Mechanisms

*Ray, Ch. 15

*Townsend, Robert (1995), "Consumption Insurance: An Evaluation of Risk-Bearing Systems in Low-Income Economies," *Journal of Economic Perspectives* 9 (3): 83-102.

<http://links.jstor.org/sici?sici=0895-3309%28199522%299%3A3%3C83%3ACIAEOR%3E2.0.CO%3B2-H>

Udry, Christopher (1990), "Credit Markets in Northern Nigeria: Credit as Insurance in a Rural Economy," *World Bank Economic Review* 4 (3): 251-269.

<http://wber.oxfordjournals.org/cgi/reprint/4/3/251>

Platteau, Jean-Philippe and Anita Abraham (1987), "An Inquiry into Quasi-Credit Contracts: The Role of Reciprocal Credit and Interlinked Deals in Small-Scale Fishing Communities," *Journal of Development Studies* 23 (4): 461-490.

http://people.ucsc.edu/~jmrtwo/class_papers/platteau%20&%20abraham%20-%20quasi-credit%20among%20fishermen.pdf

Townsend, Robert (1994), "Risk and Insurance in Village India," *Econometrica* 62 (3): 539-591.

<http://links.jstor.org/sici?sici=0012-9682%28199405%2962%3A3%3C539%3ARAIIVI%3E2.0.CO%3B2-9>

For an overview of informal risk-coping mechanisms, a good reference is:

Dercon, Stefan (2002), "Income Risk, Coping Strategies, and Safety Nets," *World Bank Research Observer* 17 (2): 141-166.

<http://wbro.oxfordjournals.org/cgi/content/abstract/17/2/141>

6. Savings

Are Savings Effective in Insuring Consumption Against Shocks?

*Paxson, Christina (1992), "Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand," *American Economic Review* 82 (1): 15-33.

<http://links.jstor.org/sici?sici=0002-8282%28199203%2982%3A1%3C15%3AUWVTET%3E2.0.CO%3B2-R>

Informal Savings Mechanisms: ROSCAs

Besley, Tim, Stephen Coate, and Glenn Loury (1993), "The Economics of Rotating Savings and Credit Associations," *American Economic Review* 83 (4): 792-810.

<http://links.jstor.org/sici?sici=0002-8282%28199309%2983%3A4%3C792%3ATEORSA%3E2.0.CO%3B2-4>

7. Credit

Theory

*Ray, Ch. 14

Empirics

*Karlan, Dean and Jonathan Zinman (2007), "Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts," working paper, Yale University and Dartmouth College.

<http://research.yale.edu/karlan/deankarlan/downloads/ExpandingCreditAccess.v4.pdf>

*Karlan, Dean and Jonathan Zinman (2007), "Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Experiment," mimeo, Yale and Dartmouth.

<http://research.yale.edu/karlan/deankarlan/downloads/ObservingUnobservables.KarlanZinman.pdf>

Aleem, Irfan (1990), "Imperfect Information, Screening, and the Cost of Informal Lending: A Study of a Rural Credit Market in Pakistan," *World Bank Economic Review* 4 (3): 329-349.

<http://wber.oxfordjournals.org/cgi/content/abstract/4/3/329>

Micro-credit

*Morduch, Jonathan (1999), "The Microfinance Promise," *Journal of Economic Literature* 37 (4): 159-1614.

<http://links.jstor.org/sici?sici=0022-0515%28199912%2937%3A4%3C1569%3ATMP%3E2.0.CO%3B2-F>

Karlan, Dean (2007), "Social Connections and Group Banking," *Economic Journal* 117 (517): F52-F84.

http://research.yale.edu/karlan/deankarlan/downloads/ecoj_463.pdf

8. Household Economics

*Thomas, Duncan (1990), "Intra-Household Resource Allocation: An Inferential Approach," *Journal of Human Resources* 25 (4): 635-664.

<http://links.jstor.org/sici?sici=0022-166X%28199023%2925%3A4%3C635%3AIRAAIA%3E2.0.CO%3B2-O>

Duflo, Esther (2003), "Grandmothers and Granddaughters: Old-Age Pensions and Intrahousehold Allocation in South Africa," *World Bank Economic Review* 17 (1): 1-25.
<http://wber.oxfordjournals.org/cgi/content/abstract/17/1/1>

Dercon, Stefan and Pamela Krishnan (2000), "In Sickness and in Health: Risk Sharing within Rural Households in Rural Ethiopia," *Journal of Political Economy* 108 (4): 688-727.
<http://links.jstor.org/sici?sici=0022-3808%28200008%29108%3A4%3C688%3AISAIHR%3E2.0.CO%3B2-D>

Udry, Christopher (1996), "Gender, Agricultural Productivity, and the Theory of the Household," *Journal of Political Economy* 104 (5): 1010-1046.
<http://links.jstor.org/sici?sici=0022-3808%28199610%29104%3A5%3C1010%3AGAPATT%3E2.0.CO%3B2-G>

Other topics

We might not get to all of these, but these papers are at least good places for further reading for those that are interested in the subject matter.

9. HIV/AIDS

Philipson, Tomas and Richard A. Posner (1995), "The Microeconomics of the AIDS Epidemic in Africa," *Population and Development Review* 21 (4): 835-848.
<http://links.jstor.org/sici?sici=0098-7921%28199512%2921%3A4%3C835%3ATMOTAE%3E2.0.CO%3B2-G>

*Dupas, Pascaline (2006), "Relative Risks and the Market for Sex: Teenagers, Sugar Daddies, and HIV in Kenya," mimeo, Dartmouth College.
http://www.dartmouth.edu/~pascaline/Dupas_RelativeRisks10.26.06.pdf

*Robinson, Jonathan and Ethan Yeh (2007), "Transactional Sex as a Response to Risk in Western Kenya," mimeo, UC Santa Cruz.
http://people.ucsc.edu/~jmrtwo/SHIP_draft.pdf

10. Corruption

Background

*Svensson, Jakob (2005), "Eight Questions about Corruption," *Journal of Economic Perspectives* 19 (3): 19-42
http://people.ucsc.edu/~jmrtwo/class_papers/svensson%20-%208%20questions%20about%20corruption.pdf

*Wade, Robert (1982), "The System of Administrative and Political Corruption: Canal Irrigation in South India," *Journal of Development Studies* 18 (3): 287-328.
http://people.ucsc.edu/~jmrtwo/class_papers/wade%20-%20canal%20irrigation%20in%20south%20india.pdf

Shleifer, Andrei and Robert Vishny (1993), "Corruption," *Quarterly Journal of Economics* 108 (3): 599-617.

<http://links.jstor.org/sici?sici=0033-5533%28199308%29108%3A3%3C599%3AC%3E2.0.CO%3B2-8>

Field Experiments

*Olken, Ben (2007), "Monitoring Corruption: Evidence from a Field Experiment in Indonesia," *Journal of Political Economy* 115 (2): 200-249.

<http://www.nber.org/~bolken/corruptionexperiments.pdf>

11. Informal Institutions

*Greif, Avner (1993), "Contract Enforceability and Economic Institutions in Early Trade: the Maghribi Traders' Coalition," *American Economic Review* 83 (3): 525-548.

<http://links.jstor.org/sici?sici=0002-8282%28199306%2983%3A3%3C525%3ACEAEII%3E2.0.CO%3B2-G>

Bigsten, Arne et al. (2000), "Contract Flexibility and Dispute Resolution in African Manufacturing," *Journal of Development Studies* 36 (4): 1-37.

http://people.ucsc.edu/~jmrtwo/class_papers/bigsten%20et%20al.%20-%20contract%20flexibility.pdf

12. New Approaches to Development: Behavioral Economics

*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 (2): 635-672.

<http://research.yale.edu/karlan/deankarlan/downloads/SEED.pdf>

*Duflo, Esther, Michael Kremer, and Jonathan Robinson (2007), "Understanding Technology Adoption: Fertilizer in Western Kenya – Evidence from Field Experiments," mimeo, MIT and Harvard.

Not yet available online, will be distributed in class

Bertrand, Marianne, Dean Karlan, Sendhil Mullainathan, Eldar Shafir, and Jonathan Zinman (2006), "What's Psychology Worth? A Field Experiment in the Consumer Credit Market," mimeo, Yale.

<http://aida.econ.yale.edu/karlan/papers/zamarketing.pdf>