

Economics 120
Development Economics

Instructor

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Lectures: MWF, 2-3:10, Stevenson Academy 150

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

By some estimates, approximately 1.1 billion people live on less than \$1.08 a day.¹

Health status, educational attainment, government quality, and many other indicators are substantially lower in developing countries than in developed countries. Why are so many people so poor when so many people in developed countries are so rich? What is it that constrains poor people from catching up? Perhaps most importantly, what types of interventions can be the most effective in helping people move out of poverty?

These are all very big questions that we can't hope to answer in just one quarter. Many people, from academics to philanthropic organizations such as the Bill and Melinda Gates Foundation to Peace Corps volunteers to celebrity entertainers have their own ideas as to what factors are most important in constraining poor people from getting richer. But what do we really know about what works and what doesn't?

This class does not take any philosophical position on what needs to be done. Instead, the goal of this class is to critically interpret the existing evidence, in order to begin to understand what we know and what we don't know. This class is about closely scrutinizing the evidence before making any policy prescriptions. We will take a very microeconomic approach by studying individual households and firms, rather than countries. We want to understand the choices and constraints facing the average person in a developing country.

¹ Shahua Chen and Martin Ravallion (2004). "How Have the World's Poor Fared Since the 1980s?" *World Bank Research Observer* 19 (2): 141-169.

Most of the papers we will read will be empirical, and one goal of the class will be to learn how to read and understand (at a basic level) empirical work. We will spend quite a bit of time reading, discussing, and interpreting tables from these papers.

Econometrics is not a prerequisite for this class and all of the tools that you need will be covered in class. However, if you have not taken econometrics, you should be willing to familiarize yourself with these tools.

Topics

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 in the microeconomics of development. 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.

Grading

Grades for this class will be based on 4 problem sets, 2 midterms, and a final exam. The problem sets will count for 20%, each midterm will count for 25%, and the final will count for 30%. Class participation might also count in marginal cases (for instance, in the decision between a B+ and an A-).

The dates of the 2 midterms are Friday, May 2nd and Friday, May 23rd.

Readings

The majority of the readings for this class will be papers, though several reading (especially towards the beginning) will come from the textbook *Development Economics* by Debraj Ray. The textbook is an excellent reference if you are interested in development, but is not required. A copy is on reserve at McHenry.

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 the links in the syllabus work as of this writing. Most require a subscription to download, however. UCSC pays the fee for you, but you must use a campus computer to access them. Most can also be found on JSTOR, Google scholar, or other online sources.

Reading List

1. Background

Debate on What Constrains Poor People

*Sachs, Jeffrey (2007), "Breaking the Poverty Trap." *Scientific American*, August 17.

http://people.ucsc.edu/~jmrtwo/120papers/breaking_the_poverty_trap.pdf

*Sachs, Jeffrey (2007), "Rapid Victories Against Extreme Poverty," *Scientific American*, March 18.

http://people.ucsc.edu/~jmrtwo/120papers/rapid_victories_against_extreme_poverty.pdf

*Easterly, William (2007), "Africa's Poverty Trap," *Wall Street Journal*, March 23.

http://people.ucsc.edu/~jmrtwo/120papers/easterly-africas_poverty_trap.pdf

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

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

Some Evidence on What Poor People Do With their Money

*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

*Ray, Appendix 2.3.

*Duflo, Esther, Rachel Glennerster, and Michael Kremer (2005), "Using Randomization in Development Economics: A Toolkit," mimeo, MIT Poverty Action Lab (pp. 1-27, 40-47).

<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%3AHASIA%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/120papers/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/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>

*Morduch, Jonathan (1998), "Does Microfinance Really Help the Poor?" mimeo, NYU.

http://www.nyu.edu/projects/morduch/documents/microfinance/Does_Microfinance_Really_Help.pdf

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

http://research.yale.edu/karlan/deankarlan/downloads/ecej_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/Relative%20Risks%20and%20the%20Market%20for%20Sex_10.07.pdf

*Robinson, Jonathan and Ethan Yeh (2008), "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/120papers/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/120papers/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-](http://links.jstor.org/sici?sici=0002-8282%28199306%2983%3A3%3C525%3ACEAEII%3E2.0.CO%3B2-G)

[8282%28199306%2983%3A3%3C525%3ACEAEII%3E2.0.CO%3B2-G](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/~7Ejmrtwo/120papers/bigsten%20et%20al.%20-](http://people.ucsc.edu/~7Ejmrtwo/120papers/bigsten%20et%20al.%20-%20contract%20flexibility.pdf)

[%20contract%20flexibility.pdf](http://people.ucsc.edu/~7Ejmrtwo/120papers/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/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>