

Economics 220A  
Development Economics

**Instructor**

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457 Engineering 2

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Office hours: Tuesday 11-12, Wednesday 3:30-4:30, or by appointment

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

This course will cover the microeconomics of development. The first part of the class will focus on some important key topics in micro development: health, education, risk-coping, savings, credit, and household economics. Towards the end of the class, we will hopefully have time to cover some other topics that might be of interest, including contract enforceability and informal institutions, corruption, the economics of HIV/AIDS, and some recent papers at the intersection of behavioral economics and development. The papers covered in these later topics will tend to be more recently written than those from the earlier topics, so they should give you an idea about what people are currently researching (if we get to them!).

Since development is a field with a strong empirical tradition, we will spend a fair amount of time discussing and evaluating the empirical strategies used in the papers on the reading list – one goal of this class will be to gain some insight into what makes a good empirical study. Several of the papers on the reading list employ natural experiments or field experiments and many involve primary data collection, which I think is generally reflective of the present state of the field.

**Grading**

Grading will consist of 2 problem sets, 2 referee reports on recent working papers (usually by recent development job market candidates), a short research proposal (10 pages or so), and a final exam. The point of the referee reports and the research proposal is to get you to think about what kind of research is currently being conducted, and to think about how an idea you might have could fit into the literature. Whether you end up doing research in development or not, it's good to think about what could actually be done rather than to just point out the flaws in whatever paper you're reading.

*Referee Reports*

Each referee report should be 2-4 pages long (double-spaced). The first paragraph or two should summarize the paper. Follow this with any "big-picture" comments that you might have (for instance, about whether you think that the paper is on an important topic or questions you might have about the identification strategy that is utilized), and then get into specific major points that you have. Conclude with more minor remarks. Also, even though these aren't real referee reports, try to use a neutral tone in all of your comments.

The first referee report must be chosen from one of the following papers:

Dave Donaldson (2008), "[Railroads of the Raj: Estimating the Impact of Transportation Infrastructure](#)," mimeo, LSE.

James Berry (2008), "[Child Control in Education Decisions: An Evaluation of Targeted Incentives to Learn in India](#)," mimeo, MIT.

Greg Fischer (2008), "[Contract Structure, Risk Sharing and Investment Choice](#)," mimeo, LSE.

The second referee report must be chosen from one of the following papers:

Nathan Nunn and Diego Puga (2007), "[Ruggedness: The Blessing of Bad Geography in Africa](#)," mimeo, Harvard.

Lori Beaman (2008), "[Social Networks and the Dynamics of Labor Market Outcomes: Evidence from Refugees Resettled in the U.S.](#)," mimeo Northwestern.

Taryn Dinkelman (2008), "[The Effects of Rural Electrification on Employment: New Evidence from South Africa](#)," mimeo, Princeton.

Bobonis, Gustavo (2008), "[Is the Allocation of Resources within the Household Efficient?](#)" mimeo, Toronto.

### *Research Proposal*

Since the research proposal is so short, it should be tightly focused and to the point. The proposal should (very briefly) motivate an empirical research question and then move directly into the logistics of how the project would work. For instance, describe the data that you would use, the estimation strategy you would employ, the specifications you would run, etc. I will give more details on the proposal as the quarter moves on.

### **Reading List**

There is no textbook for the course, though good references are:

Pranab Bardhan and Chris Udry, *Development Microeconomics*

Angus Deaton, *The Analysis of Household Surveys*

A good reference at the undergraduate level is Debraj Ray, *Development Economics*.

The Bardhan and Udry and Deaton books are on reserve at the Engineering Library. If you'd like to consult the Debraj Ray book, I'd be happy to lend you one of mine (just send me an e-mail).

Required readings are marked with a \*\*, those with a \* are highly recommended though not required, and all others are useful for those interested in the subject matter. Note: the required readings are subject to change during the term, as we will read papers in part based on class interest.

I've tried to mix in some recent papers into the syllabus as well. We will cover these papers as time allows; otherwise, they make a good starting place for those interested in further reading.

## Topics

### 1. Background

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

[Link is to the working paper version, which has more tables. The published version without tables is at <http://www.anderson.ucla.edu/faculty/bhagwan.chowdhry/Banerjee-Duflo.pdf>]

### 2. Tools

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

Freeman, David A. (1991), "[Statistical Model and Shoe Leather](#)," *Journal of the American Statistical Association* 21 (1991): 291-313.

\*Angrist, Joshua and Alan Krueger (1999, "[Empirical Strategies in Labor Economics](#)," in *Handbook of Labor Economics*, 3 (1): 1-90.

### 3. Health & Nutrition

\*\*Dasgupta, Partha and Debraj Ray (1986), "[Inequality as a Determinant of Malnutrition and Unemployment: Theory](#)," *Economic Journal* 96 (384): 1011-1034.

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

Stiglitz, Joseph (1976), "[The Efficiency Wage Hypothesis, Surplus Labor, and the Distribution of Income in L.D.C.s](#)," *Oxford Economics Papers* 28 (2): 185-207.

\*Strauss, John (1986), "[Does Better Nutrition Raise Farm Productivity?](#)" *Journal of Political Economy* 94 (2): 297-320.

\*\*Subramanian, Shankar and Angus Deaton (1996), "[The Demand for Food and Calories](#)," *Journal of Political Economy* 104 (1): 133-162.

\*\*Thomas, Duncan et al. (2006), "[Causal Effect of Health on Labor Market Outcomes: Experimental Evidence](#)," mimeo, UCLA.

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

## References

Strauss, John and Duncan Thomas (1995), "[Human Resources: Empirical Modeling of Household and Family Decisions](#)," *Handbook of Development Economics* 3 (1): 1883-2023.

\*Strauss, John and Duncan Thomas (1998), "[Health, Nutrition, and Economic Development](#)," *Journal of Economic Literature* 36 (2): 766-817.

### 4. Education

#### 4.1 Returns to Education in Developing Countries

\*\*Psacharopoulos, George (1994), "[Returns to Investment in Education: A Global Update](#)," *World Development* 22 (9): 1325-1343.

\*\*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.

Rosenzweig, Mark (1995), "[Why Are There Returns to Schooling?](#)" *American Economic Review P&P* 85 (2): 153-158.

\*Card, David (1999), "[The Causal Effect of Education on Earnings](#)," *Handbook of Labor Economics* 3 (1): 1801-1863.

#### 4.2 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.

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

Luke, Nancy and Kaivan Munshi (2007), "[Social Affiliation and the Demand for Health Services: Caste and Child Health in South India](#)," *Journal of Development Economics* 83 (2): 256-279.

\*Grossman, Michael (2000), "[The Human Capital Model of the Demand for Health](#)," *Handbook of Health Economics* 1 (1): 347-408.

#### 4.3 Interventions

Duflo, Esther, Pascaline Dupas, and Michael Kremer (2008), "[Peer Effects and the Impact of Tracking: Evidence from a Randomized Evaluation in Kenya](#)," mimeo, UCLA.

### 5. Informal Insurance and Risk-Coping

#### 5.1 Is Insurance Efficient?

Bardhan and Udry, Chapter 8.

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

\*\*Udry, Christopher (1994), "[Risk and Insurance in a Rural Credit Market: An Empirical Investigation in Northern Nigeria](#)," *Econometrica* 62 (3): 539-591.

Fafchamps, Marcel and Susan Lund (2003), "[Risk Sharing Networks in Rural Philippines](#)," *Journal of Development Economics* 71 (2): 261-287.

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

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.

\*Morduch, Jonathan (1995), "[Income Smoothing and Consumption Smoothing](#)," *Journal of Economic Perspectives* 9 (3): 103-114.

Rosenzweig, Mark R. and Oded Stark (1989), "[Consumption Smoothing, Migration, and Marriage: Evidence from Rural India](#)," *Journal of Political Economy* 97 (4): 905-926.

Fafchamps, Marcel and Flore Gubert (2007), "[The Formation of Risk Sharing Networks](#)," *Journal of Development Economics* 83 (2): 326-350.

Rosenzweig, Mark R. (1988), "[Risk, Implicit Contracts and the Family in Rural Areas of Low-Income Countries](#)," *The Economic Journal* 98 (393): 1148-1170.

*For reviews, see:*

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

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

## 5.2 Limits to Insurance

\*Ligon, Ethan, Jonathan P. Thomas and Tim Worrall (2002), "[Informal Insurance Arrangements with Limited Commitment: Theory and Evidence from Village Economies](#)," *Review of Economic Studies* 69 (1): 209-244.

Coate, Stephen and Martin Ravallion (1993), "[Reciprocity without Commitment: Characterization and Performance of Informal Insurance Contracts](#)," *Journal of Development Economics* 40 (1): 1-24.

## 6. Savings

### 6.1 Consumption Smoothing

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

\*Rosenzweig, Mark and Kenneth 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 (2): 223-244.

\*Udry, Christopher (1995), "[Risk and Savings in Northern Nigeria](#)," *American Economic Review* 85 (5): 1287-1300.

Fafchamps, Marcel, Christopher Udry, and Katherine Czukas (1998), "[Drought and Saving in West Africa: Are Livestock a Buffer Stock?](#)" *Journal of Development Economics* 55 (2): 273-305.

Kazianga, Harounan and Christopher Udry (2006), "[Consumption Smoothing? Livestock, Insurance, and Drought in Rural Burkina Faso](#)," *Journal of Development Economics* 79 (2): 413-446.

Kochar, Anjini (1999), "[Smoothing Consumption by Smoothing Income: Hours-of-Work Responses to Idiosyncratic Agricultural Shocks in Rural India](#)," *Review of Economics and Statistics* 81 (1): 50-61.

## 6.2 Informal Savings Mechanisms: ROSCAs

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

\*Gugerty, Mary Kay (2007), "[You Can't Save Alone: Commitment in Rotating Savings and Credit Associations in Kenya](#)," *Economic Development and Cultural Change* 55 (2007): 251-282.

Anderson, Siwan, and Jean-Marie Baland (2002), "[The Economics of ROSCAs and Intra-Household Resource Allocation](#)," *Quarterly Journal of Economics* 117 (3): 963-995.

## 6.3 Formal Banking

\*Dupas, Pascaline and Jonathan Robinson (2008), "[Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya](#)," mimeo, UCLA and UCSC.

\*Burgess, Robin and Rohini Pande (2005), "[Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment](#)," *American Economic Review* 95 (3): 780-795.

## 7. Credit

### 7.1 Individual Level Credit

Banerjee, Abhijit (2004), "[Contracting Constraints, Credit Markets, and Economic Development](#)," in M. Dewatripoint, L. Hansen and S. Turnovsky, eds. *Advances in Economics and Econometrics: Theory and Applications, Eight World Congress of the Econometric Society*, Volume III. Cambridge University Press: 1-46.

\*\*Karlán, Dean and Jonathan Zinman (2007), "[Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Experiment](#)," forthcoming, *Econometrica*.

\*Karlán, Dean and Jonathan Zinman (2008), "[Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts](#)," forthcoming, *Review of Financial Studies*.

\*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.

### 7.2 Micro-credit

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

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

\*Pitt, Mark and Shahidur R. Khandker (1998), "[The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?](#)" *Journal of Political Economy* 106 (5): 958-996

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

### 7.3 Returns to Capital

Banerjee, Abhijit and Esther Duflo (2008), "[Do Firms Want to Borrow More? Testing Credit Constraints Using a Directed Lending Program](#)," mimeo, MIT.

\*\*de Mel, Suresh, David McKenzie and Christopher Woodruff (2008), [Returns to Capital in Microenterprises: Evidence from a Field Experiment](#), *Quarterly Journal of Economics* 123 (4): 1329-1372.

## 8. Household Models

\*\*Benjamin, Dwayne (1992), "[Household Composition, Labor Markets, and Labor Demand: Testing for Separation in Agricultural Household Models](#)," *Econometrica* 60 (2): 287-322.

Binswanger, Hans and Mark Rosenzweig (1993), "[Wealth, Weather Risk and the Composition and Profitability of Agricultural Investments](#)," *Economic Journal* 103 (416): 56-78.

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

\*\*Duflo, Esther (2003), "[Grandmothers and Granddaughters: Old-Age Pensions and Intrahousehold Allocation in South Africa](#)," *World Bank Economic Review* 17 (1): 1-25.

Browning, Martin and Pierre-Andre Chiappori (1992), "[Efficient Intra-Household Allocations: A General Characterization and Empirical Tests](#)," *Econometrica* 66 (6): 1241-1278.

Chiappori, Pierre-Andre (1992), "[Collective Labor Supply and Welfare](#)," *Journal of Political Economy* 100 (3): 437-467.

Browning, Martin, Francois Bourguignon, Pierre-Andre Chiappori and Valerie Lechene (1994), "[Income and Outcomes: A Structural Model of Intrahousehold Allocation](#)," *Journal of Political Economy* 102 (6): 1067-1096.

\*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.

\*\*Udry, Christopher (1996), "[Gender, Agricultural Productivity, and the Theory of the Household](#)," *Journal of Political Economy* 104 (5): 1010-1046.

\*Duflo, Esther and Christopher Udry (2004), "[Intrahousehold Resource Allocation in Cote D'Ivoire: Social Norms, Separate Accounts, and Consumption Choices](#)," mimeo, Yale and MIT.

Robinson, Jonathan (2007), "[Limited Insurance within the Household: Evidence from a Field Experiment in Western Kenya](#)," mimeo, UC Santa Cruz.

## Other possible topics

### 9. Contract Enforcement and Informal Institutions

\*Tirole, Jean (1997), "[A Theory of Collective Reputations \(with Applications to the Persistence of Corruption and to Firm Quality\)](#)," *Review of Economic Studies* 63 (1): 1-22.

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

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

\*McMillan, John and Christopher Woodruff (1999), "[Interfirm Relationships and Informal Credit in Vietnam](#)," *Quarterly Journal of Economics* 114 (4): 1285-1320.

### 10. 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.

\*Kremer, Michael (1996), "[Integrating Behavioral Choice into Epidemiological Models of AIDS](#)," *Quarterly Journal of Economics* 111 (2): 549-573.

\*Dupas, Pascaline (2007), "[Relative Risks and the Market for Sex: Teenage Pregnancy, HIV, and Partner Selection in Kenya](#)," mimeo, UCLA.

\*Robinson, Jonathan and Ethan Yeh (2008), "[Transactional Sex as a Response to Risk in Western Kenya](#)," mimeo, UC Santa Cruz.

\*Magruder, Jeremy (2008), "[Marital Shopping and Epidemic AIDS](#)," mimeo, UC Berkeley.

### 11. Corruption

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

\*Claudio Ferraz and Frederico Finan (2008), "[Exposing Corrupt Politicians: The Effects of Brazil's Publicly Released Audits on Electoral Outcomes](#)" *Quarterly Journal of Economics* 123 (2): 703-745.

Khwaja, Asim Ijaz and Atif Mian (2005), "[Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market](#)," *Quarterly Journal of Economics* 118 (1): 207-230.

\*Wade, Robert (1982), "[The System of Administrative and Political Corruption: Canal Irrigation in South India](#)," *Journal of Development Studies* 18 (3): 287-328.

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

\*Fisman, Raymond (2001), "[Estimating the Value of Political Connections](#)," *American Economic Review* 91 (4): 1095-1102.

## 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.

\*Duflo, Esther, Michael Kremer, and Jonathan Robinson (2008), "Nudging Farmers to Use Fertilizer: Evidence from Field Experiments" mimeo, MIT, Harvard, and UCSC.  
*Not yet available online, will be distributed in class*

Bertrand, Marianne, Dean Karlan, Sendhil Mullainathan, Eldar Shafir, and Jonathan Zinman (2008), "[What's Advertising Content Worth? Evidence from a Consumer Credit Marketing Field Experiment](#)," mimeo, Yale.

\*Banerjee, Abhijit and Sendhil Mullainathan (2007), "[Climbing out of Poverty: Long Term Decisions under Income Stress](#)," mimeo, BREAD.