

# Foundations of Development Economics

## AAE 642

Professor Paul Castañeda Dower

Spring 2020

### 1 Preliminaries

Course schedule: TuTh 9:30am-10:45am , Taylor Hall B30  
Office: 411 Taylor Hall  
E-mail: pdower@wisc.edu  
Office Hours: Wed. 9-10am  
Credit Hours: 3 Credits  
Course URL: [canvas.wisc.edu/courses/190971](https://canvas.wisc.edu/courses/190971)  
Course Materials: readings available on course website

### 2 Course description

This course provides an overview of development economics. The topics covered include economic growth, trade, measurement of poverty and inequality, human capital (impacts of and policies to encourage accumulation), agricultural household models, technology adoption, migration, credit, savings and insurance. We will cover both basic theory and empirical applications.

Prerequisites: AAE 635 and 636 or equivalent.

### 3 Learning objectives

Students should leave this course with the following set of knowledge:

- An overview of development economic theory, including basic closed and open economy macroeconomic models as well as,

- the microeconomic relationships underlying them, including individual and household decisions to invest in human capital, agricultural household models, models of credit and insurance markets in developing countries, and a basic understanding of technology adoption decisions;
- the ability to calculate measures of poverty and inequality using household data;
- an overview of the empirical approaches used to analyze problems in development, including the use of observational data, both cross-sectional and panel, natural experiments, and intentional experiments;
- an understanding of the sources of market failures that cause households to become or remain poor and
- policies that have been effective in addressing these issues.

## 4 Course requirements

### 4.1 Participation

This is a graduate course. You are expected to come prepared to discuss and analyze the readings.

### 4.2 Paper presentations

Throughout the semester, you will be asked to make paper presentations. You will be expected to give a 20-25min presentation of the paper. We will then discuss the paper as a class. These papers are marked with **(P)** on the syllabus and you will find a signup sheet on the course website as well as brief guidelines on what you should include in the presentation or discussion.

### 4.3 Homework assignments

Homework assignments will combine theory and data analysis. You will need to use Stata or some similar statistical package. The computers in the department's computer lab have Stata, and if you do not have an account for those computers please let me know and I will help you get one. If you have more questions after looking at that please feel free to contact me. One advantage of using Stata is that I should be able to respond to your programming-related questions; this may not be true with other packages.

#### 4.4 Research proposal

An essential requirement of this class is to develop, present and submit a short research proposal. The research proposal should be 8-10, double-spaced pages. It should contain a brief (1-2 pages) survey of an existing literature in development economics that demonstrates the need for your planned research project. You do not need to carry out the project, but you should present a clear research question, describe why the question is interesting, propose a framework for understanding the question, and, if your project is empirical in nature, describe how you would estimate the effect of interest, including a description of what kind of data you might need. You will present your proposal to the class during a 10-15 minute presentation at the end of the semester. All students must meet with me outside of class to discuss their topic. The literature survey and a rough outline of the proposal will be due approximately halfway through the semester (March 15). The rough draft of your proposal can be in outline form if you wish, but your literature survey should be written and should discuss approximately 10 cited works. The cited works should come from the following sources, or journals of similar rank: *American Economic Review*, *Journal of Political Economy*, *Quarterly Journal of Economics*, any journals in the *American Economic Journal* family, *American Journal of Agricultural Economics*, *Journal of Development Economics*, *Economic Development and Cultural Change*, *Journal of Development Studies*, *Environment and Development Economics*, *Journal of the Association of Environmental and Resource Economists*, *Journal of Environmental Economics and Management*, *Journal of Human Resources*, *Review of Economics and Statistics*, *the Economic Journal*, *Journal of the European Economic Association*, *World Bank Economic Review* and *Environment and Resource Economics*.

#### 4.5 How 3 credits are earned

The class is organized based on an expected time investment of 45 hours of work per credit hour. One credit is the learning that takes place in at least 45 hours of learning activities, which include time in lectures or class meetings, in person or online, exams, presentations, tutorials, reading, writing, studying, preparation for any of these activities, and any other learning activities.

## 4.6 Grading

Assignment due dates and point distributions are given below. If you choose not to turn in an assignment on time, you will lose 20% of the total points that you earn on the assignment for each day that it is late.

Assignment	Points	Due date
Homework 1	10	Feb 13
Homework 2	10	Mar 5
Homework 3	10	Apr 9
Identification assignments	10	March 12
In-class presentations	15	Varies
Research proposal and presentation	25	April 14 (w/ option to revise) April 28 or 30
Final exam	20	May 9

Grades will be awarded according to the following scale:

$\geq 93\%$	: A
$< 93 \ \& \ \geq 88 \%$	: AB
$< 88 \ \& \ \geq 83 \%$	: B
$< 83 \ \& \ \geq 78\%$	: BC
$< 78 \ \& \ \geq 70$	: C
$< 70 \ \& \ \geq 60$	: D
$< 59$	: F

## 5 Class readings schedule

*This schedule is subject to change at any point within the semester.*

### 1. Introduction

- **[Jan 21]** Sala i Martin, Xavier. “The World Distribution of Income: Falling Poverty and Convergence, Period” *Quarterly Journal of Economics* 121, no 2: 351-397 (2006)
- **[Jan 21]** Banerjee, Abhijit V., and Esther Duflo. “Growth theory through the lens of development economics.” *Handbook of Economic Growth* 1 (2005): 473-552.
- **[Jan 21]** Durlauf, Steven, Paul A. Johnson and Jonathan R.W. Temple “Growth Econometrics” Ch. 8 *Handbook on Economic Growth* Vol. 1 (2005)

### 2. Convergence

#### (a) Growth in a closed economy

- **[Jan 23]** Romer, *Advanced Macroeconomics*, Ch. 1
- **[Jan 23]** Mankiw, Gregory, David Romer, and David Weil. “A Contribution to the Empirics of Economic Growth” *The Quarterly Journal of Economics* 107(2): 407-437 (1992)

#### (b) Global interdependence and growth

- **[Jan 28]** Helpman (2004) “Interdependence”
- **[Jan 28]** *Identification assignment 1* Estevadeoral and Taylor “Is the Washington Consensus Dead? Growth, Openness, and the Great Liberalization, 1970s-2000s” *NBER Working Paper 14264* (2008)

### 3. Development traps

#### (a) History

- **[Jan 30]** Banerjee, Abhijit and Andrew Newmann , “Occupational Choice and the Process of Development,” *Journal of Political Economy*, 101(2), pp. 274-298. (1993)
- **[Jan 30]** Nunn, Nathan “The Importance of History for Economic Development” *Annual Review of Economics* 1: 65-92 (2009)

(b) Institutions

- **[Feb 4]** Acemoglu, Daron, Simon Johnson, and James A Robinson “The Colonial Origins of Comparative Development: An Empirical Investigation” *American Economic Review* 91(5): 1369-1401 (2001)
- **[Feb 4]** Glaeser EL, La Porta R, Lopez-de-Silanes F, Shleifer A. “Do institutions cause growth?” *Journal of Economic Growth* 9:271-303 (2004)

(c) Expectations

- **[Feb 6]** Murphy, Kevin, Andrei Shleifer, and Robert Vishny. “Industrialization and the Big Push”, *Journal of Political Economy*, 97(5), 1003-1026. (1989)

**HW 1 due Feb 13**

4. Poverty and Inequality

(a) Poverty – microstyle measurement

- **[Feb 11]** Banerjee, Abhijit, and Esther Duflo. “Economic Lives of the Poor” *Journal of Economic Perspectives* 21(1): 141-167 (2006)
- **[Feb 11]** (up through page 66) Ravallion, Martin “Poverty Comparisons: A Guide to Concepts and Methods” *LSMS Working Paper No. 88* The World Bank (1992)

(b) Economic inequality – links to development and measurement

- **[Feb 13]** *Identification assignment 2* Easterly, William. “Inequality does cause underdevelopment: Insights from a new instrument.” *Journal of Development Economics* 84.2 (2007): 755-776.
- **[Feb 13]** Sen “From Income Inequality to Economic Inequality” *Southern Economic Journal* 64 (2): 384-401 (1997)
- **[Feb 13]** Atkinson “On the Measurement of Inequality” *Journal of Economic Theory* 2: 244-63 (1970)

5. Human capital

(a) Health

- **[Feb 18]** Acemoglu, Daron and Simon Johnson “Disease and Development: The Effect of Life Expectancy on Economic Growth” *Journal of Political Economy* 115(6): 925-985 (2007)
- **[Feb 18]** Dupas, Pascaline “Health behavior in developing countries” *Annual Review of Economics* 3: 425-449 (2011)
- **[Feb 20] (P)** Seema Jayachandran, Adriana Lleras-Muney. “Life Expectancy and Human Capital Investments: Evidence from Maternal Mortality Declines” *The Quarterly Journal of Economics*, Volume 124, Issue 1, 1 February 2009, Pages 349-397.
- **[Feb 20]** *Identification assignment 3 (P)* Cohen, Jessica, and Pascaline Dupas. 2010. “Free Distribution or Cost Sharing? Evidence from a Randomized Malaria Prevention Experiment”. *Quarterly Journal of Economics* 125(1): 1-45.
- **[Feb 25]** Miguel, Edward and Michael Kremer (2004) “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities”, *Econometrica*, 72 (1), 159-217

(b) Education

- **[Feb 27]** Krueger, Alan and Mikael Lindahl “Education for Growth: Why and For Whom?” *Journal of Economic Literature* 39(4): 1101-1136 (2001)
- **[Feb 27]** Kremer and Holla “Improving Education in the Developing World: What Have We Learned from Randomized Evaluations?” *Annual Review of Economics* (2009)
- **[Mar 3]** Dufo, Esther “Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment” *American Economic Review* 91(4): 795-813 (2001)
- **[Mar 5]** *Identification assignment 4 (P)* Behrman, Jere, Yingmei Cheng and Petra Todd (2004) “Evaluating Preschool Programs When Length of Exposure to the Program Varies: A Non-Parametric Approach,” *Review of Economics and Statistics*, 86(1):108-132.
- **[Mar 5]** *Identification assignment 5 (P)* Lucas, Adrienne M., and Isaac M. Mbiti. 2014. “Effects of School Quality on Student Achievement: Discontinuity Evidence from Kenya.” *American Economic Journal: Applied Economics*, 6 (3): 234-63.

## HW 2 due Mar 5

### 6. Agriculture and rural development

#### (a) Household models

- [Mar 10] Bardhan and Udry, chapter 2
- [Mar 10] de Janvry, Fafchamps, Sadoulet “Peasant Household Behavior with Missing Markets: some paradoxes explained” *Economic Journal* 101 (409) (1991)
- [Mar 10] G. Feder, “The Relation Between Farm Size and Farm Productivity: The Role of Family Labor, Supervision and Credit Constraints,” *JDE* 18 (1985): 297-313.
- [Mar 12] Duflo, E. “Grandmothers and granddaughters: Old age pension and intrahousehold allocation in South Africa”. *World Bank Economic Review* 17 (1), 1-26. (2003).

#### Identification Assignments due March 12th

#### (b) Technology adoption

- [Mar 24] Bardhan and Udry, chapter 12
- [Mar 24] Foster, Andrew and Mark Rosenzweig “Learning by Doing and Learning from Others: Human Capital and Technical Change in Agriculture” *Journal of Political Economy* 103(6): 1176-1209 (1995)
- [Mar 24] Conley, Timothy G., and Christopher R. Udry. 2010. “Learning about a New Technology: Pineapple in Ghana.” *American Economic Review*, 100(1): 35-69.
- [Mar 26] (P) Duflo, Esther, Michael Kremer, and Jonathan Robinson. 2011. “Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya.” *American Economic Review*, 101 (6): 2350-90.

#### (c) Migration

- [Mar 31] Bardhan and Udry, chapter 5
- [Mar 31] Munshi, Kaivan “Networks in the Modern Economy: Mexican Migrants in the U.S. Labor Market.” *Quarterly Journal of Economics* 118(2): 549-599 (2003)
- [Apr 2] (P) Beegle, Kathleen, Joachim De Weerd, and Stefan Dercon. “Migration and economic mobility in Tanzania: Evidence from a tracking survey.” *Review of Economics and Statistics* 93.3 (2011): 1010-1033.



- **[Apr 2] (P)** Rosenzweig, M. and O. Stark. (1989). Consumption smoothing, migration and marriage: evidence from rural India, *Journal of Political Economy*, August, 97.4:905-926.

### HW 3 due Apr 9

#### (d) Rural financial markets

- **[Apr 7]** Conning and Udry “Rural Financial Markets in Developing Countries” *Handbook of Agricultural Economics* (2007)
- **[Apr 7]** Aleem, Irfan “Imperfect Information, Screening and the Costs of Informal Lending: A Study of a Rural Credit Market in Pakistan” *World Bank Economic Review* 3: 329-349 (1990)
- **[Apr 7]** Townsend, Robert M. “Risk and Insurance in Village India” *Econometrica* (1994) 62(3):539-591.
- **[Apr 9] (P)** Ashraf, Nava, Dean Karlan, and Wesley Yin. “Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines” *Quarterly Journal of Economics* 121(2): 635-672 (2006)
- **[Apr 9] (P)** Fafchamps, Marcel, Christopher Udry, and Katie Czukas. “Drought and Savings in West Africa: Are Livestock a Buffer Stock?” *Journal of Development Economics* 55, no. 2 (1998): 273-306.
- **[Apr 14] (P)** Karlan, Osei, Osei-Akoto, and Udry. “Agricultural Decisions after Relaxing Credit and Risk Constraints,” *Quarterly Journal of Economics*, Vol. 129, No. 2, pages 697-652 (2014)
- **[Apr 14] (P)** Burgess, Robin, and Rohini Pande. 2005. “Do Rural Banks Matter?: Evidence from the Indian Social Banking Experiment.” *American Economic Review* 95(3):780-795.

#### (e) Land

- **[Apr 16]** Bardhan and Udry, ch. 6
- **[Apr 16]** Besley T. and Burgess R. “Land reform, poverty reduction, and growth: Evidence from India.” *The Quarterly Journal of Economics*.(2000)
- **[Apr 16]** Banerjee, Abhijit, Paul Gertler and Maitresh Ghatak. “Empowerment and Efficiency: Tenancy Reform in West

Bengal,” *Journal of Political Economy*, Vol. 110 (2), pp 239-280. (2002)

- [Apr 21] (P) Goldstein, Markus & Hounghbedji, Kenneth & Kondylis, Florence & O’Sullivan, Michael & Selod, Harris, 2018. “Formalization without certification? Experimental evidence on property rights and investment,” *Journal of Development Economics*, vol. 132(C), pages 57-74.
- [Apr 21] (P) Goldstein, Markus and Christopher Udry, “The Profits of Power: Land Rights and Agricultural Investment in Ghana,” *Journal of Political Economy*, 116 (2008), 981-1022.

### Draft proposal due April 21

#### 7. Corruption

- [Apr 23] (P) Reinikka, Ritva and Svensson, Jacob (2004) “Local Capture: Evidence from a Central Government Transfer Program in Uganda,” *Quarterly Journal of Economics*, 119: 679- 705.
- [Apr 23] (P) Olken, Benjamin (2007). “Monitoring Corruption: Evidence from a Field Experiment in Indonesia,” *Journal of Political Economy*, 115 (2): 200-249.

#### 8. [Apr 28, 30] Proposal presentations

### Final Exam due May 9

## 6 Other information

**Plagiarism:** Plagiarism is a serious offense. All sources and assistance used in preparing your papers must be precisely and explicitly acknowledged. Ignorance of what constitutes plagiarism or academic misconduct is not a defense. It is your responsibility to be sure. The web creates special risks. Cutting and pasting even a few words from a web page or paraphrasing material without a reference constitutes plagiarism. If you are not sure how to refer to something you find on the internet, you can always give the URL. It is generally better to quote than to paraphrase from material on the web, because in the absence of page numbers it can be hard to find passages that are paraphrased rather than quoted. For more

information on writing and source citation, the following may be helpful <http://writing.wisc.edu/Handbook/Documentation.html>

**Academic Integrity:** By enrolling in this course, each student assumes the responsibilities of an active participant in UW-Madison's community of scholars in which everyone's academic work and behavior are held to the highest academic integrity standards. Academic misconduct comprises the integrity of the university. Cheating, fabrication, plagiarism, unauthorized collaboration, and helping others commit these acts are examples of academic misconduct, which can result in disciplinary action. This includes but is not limited to failure on the assignment/course, disciplinary probation, or suspension. Substantial or repeated cases of misconduct will be forwarded to the Office of Student Conduct & Community Standards for additional review. If you have any questions about what constitutes academic misconduct, please read the following information <http://students.wisc.edu/doso/acadintegrity.html> or come talk with one of the instructors.

**Accommodations for students with disabilities:** The University of Wisconsin-Madison supports the right of all enrolled students to a full and equal educational opportunity. The Americans with Disabilities Act (ADA), Wisconsin State Statute (36.12), and UW-Madison policy (Faculty Document 1071) require that students with disabilities be reasonably accommodated in instruction and campus life. Reasonable accommodations for students with disabilities is a shared faculty and student responsibility. Students are expected to inform faculty [me] of their need for instructional accommodations by the end of the third week of the semester, or as soon as possible after a disability has been incurred or recognized. Faculty [I], will work either directly with the student [you] or in coordination with the McBurney Center to identify and provide reasonable instructional accommodations. Disability information, including instructional accommodations as part of a student's educational record, is confidential and protected under FERPA. <http://mcburney.wisc.edu/facstaffother/faculty/syllabus.php>