

Foundations of Development Economics

AAE 642

Professor Paul Castañeda Dower

Spring 2021

1 Preliminaries

Course schedule: TuTh 11:00am-12:15pm , Virtual
Office: 411 Taylor Hall
E-mail: pdower@wisc.edu
Office Hours: Wed. 9-10am
Credit Hours: 3 Credits
Course URL: canvas.wisc.edu/courses/243302
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 Discussion classes

Throughout the semester, you will be asked to make and assist with short paper presentations. You will be expected to give a 10-15min presentation of the paper. We will then discuss the paper as a class. These papers are marked with **(A)** or **(B)** 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*.

As part of your research proposal, I would like you to submit a referee report on one of the key papers in the literature for your proposal.

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 18
Homework 2	10	Mar 11
Homework 3	10	Apr 1
Referee Report	10	Varies
In-class presentations	15	Varies
Research proposal and presentation	25	April 8 (w/ option to revise), April 22 (final) April 27 or 29
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 26]** 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 26]** Banerjee, Abhijit V., and Esther Duflo. “Growth theory through the lens of development economics.” *Handbook of Economic Growth* 1 (2005): 473-552.
- **[Jan 26]** 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 28]** Romer, *Advanced Macroeconomics*, Ch. 1
- **[Jan 28]** 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

- **[Feb 2]** Helpman (2004) “Interdependence”

Discussion:

- **[Feb 4]** Estevadeorol and Taylor “Is the Washington Consensus Dead? Growth, Openness, and the Great Liberalization, 1970s-2000s” *NBER Working Paper 14264* (2008) **(A)**
- **[Feb 4]** Topalova, P., & Khandelwal, A. (2011). Trade liberalization and firm productivity: The case of India. *Review of economics and statistics*, 93(3), 995-1009. **(B)**

3. Development traps

(a) Institutions

- **[Feb 9]** 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 9]** Glaeser EL, La Porta R, Lopez-de-Silanes F, Shleifer A. “Do institutions cause growth?” *Journal of Economic Growth* 9:271-303 (2004)
- **[Feb 9]** Nunn, Nathan “The Importance of History for Economic Development” *Annual Review of Economics* 1: 65-92 (2009)

Discussion:

- **[Feb 11]** Reinikka, Ritva and Svensson, Jacob (2004) “Local Capture: Evidence from a Central Government Transfer Program in Uganda,” *Quarterly Journal of Economics*, 119: 679- 705. **(A)**
- **[Feb 11]** Olken, Benjamin (2007). “Monitoring Corruption: Evidence from a Field Experiment in Indonesia,” *Journal of Political Economy*, 115 (2): 200-249. **(B)**

(b) Dependence on Initial Conditions

- **[Feb 16]** Banerjee, Abhijit and Andrew Newmann , “Occupational Choice and the Process of Development,” *Journal of Political Economy*, 101(2), pp. 274-298. (1993)
- **[Feb 16]** Gollin, D. “The Lewis Model: A 60-Year Retrospective.” *Journal of Economic Perspectives*, 28(3): 71-88. (2014).

HW 1 due Feb 18

(c) Expectations

- **[Feb 18]** Murphy, Kevin, Andrei Shleifer, and Robert Vishny. “Industrialization and the Big Push”, *Journal of Political Economy*, 97(5), 1003-1026. (1989)

Discussion:

- **[Feb 23]** Guiso, L. , Sapienza, P. and Zingales, L. (2016), Long-term Persistence. *Journal of the European Economic Association*, 14: 1401-1436. **(A)**
- **[Feb 23]** Nunn Nathan. 2008. “The long-term effects of Africa’s slave trades. *Quarterly Journal of Economics*, 123:139–76. **(B)**

4. Poverty and Inequality

(a) Poverty – measurement

- **[Feb 25]** Banerjee, Abhijit, and Esther Duflo. “Economic Lives of the Poor” *Journal of Economic Perspectives* 21(1): 141-167 (2006)
 - **[Feb 25]** (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 – measurement
- **[Mar 2]** Sen “From Income Inequality to Economic Inequality” *Southern Economic Journal* 64 (2): 384-401 (1997)
 - **[Mar 2]** Atkinson “On the Measurement of Inequality” *Journal of Economic Theory* 2: 244-63 (1970)

Discussion:

- **[Mar 4]** Easterly, William. “Inequality does cause underdevelopment: Insights from a new instrument.” *Journal of Development Economics* 84.2 (2007): 755-776. **(A)**
- **[Mar 4]** Galor, Oded, Omer Moav, and Dietrich Vollrath. “Inequality in landownership, the emergence of human-capital promoting institutions, and the great divergence.” *The Review of Economic Studies* 76.1 (2009): 143-179. **(B)**

5. Human capital

(a) Health

- **[Mar 9]** 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)
- **[Mar 9] (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.
- **[Mar 9]** Dupas, Pascaline “Health behavior in developing countries” *Annual Review of Economics* 3: 425-449 (2011)
- **[Mar 11]** Miguel, Edward and Michael Kremer (2004) “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities”, *Econometrica*, 72 (1), 159-217

Discussion:

- [Mar 16] 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. (A)
- [Mar 16] Dupas, Pascaline, and Jonathan Robinson. 2013. “Why Don’t the Poor Save More? Evidence from Health Savings Experiments.” *American Economic Review*, 103 (4): 1138-71. (B)

HW 2 due Mar 11

(b) Education

- [Mar 18] Krueger, Alan and Mikael Lindahl “Education for Growth: Why and For Whom?” *Journal of Economic Literature* 39(4): 1101-1136 (2001)
- [Mar 18] Kremer and Holla “Improving Education in the Developing World: What Have We Learned from Randomized Evaluations?” *Annual Review of Economics* (2009)
- [Mar 18] Duflo, 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)

Discussion:

- [Mar 23] 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. (A)
- [Mar 23] Kazianga, Harounan, et al. “The Effects of ‘Girl-Friendly’ Schools: Evidence from the BRIGHT School Construction Program in Burkina Faso.” *American Economic Journal: Applied Economics*, vol. 5, no. 3, 2013, pp. 41-62 (B)

6. Agriculture and rural development

(a) Household models

- [Mar 25] Bardhan and Udry, chapter 2
- [Mar 25] de Janvry, Fafchamps, Sadoulet “Peasant Household Behavior with Missing Markets: some paradoxes explained” *Economic Journal* 101 (409) (1991)

- [Mar 25] G. Feder, “The Relation Between Farm Size and Farm Productivity: The Role of Family Labor, Supervision and Credit Constraints,” *JDE* 18 (1985): 297-313.

Discussion:

- [Mar 30] Duflo, E. “Grandmothers and granddaughters: Old age pension and intrahousehold allocation in South Africa”. *World Bank Economic Review* 17 (1), 1-26. (2003). (A)
- [Mar 30] Jacoby, Hanan. 2002. “Is there an Intra-household ‘Flypaper Effect’? Evidence from a School Feeding Program”. *Economic Journal* 117(476): 196-221. (B)

(b) Migration

- [Apr 1] Bardhan and Udry, chapter 5
- [Apr 1] 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 1] Munshi, Kaivan “Networks in the Modern Economy: Mexican Migrants in the U.S. Labor Market.” *Quarterly Journal of Economics* 118(2): 549-599 (2003)

HW 3 due Apr 1

(c) Land

- [Apr 6] Bardhan and Udry, ch. 6
- [Apr 6] Besley T. and Burgess R. “Land reform, poverty reduction, and growth: Evidence from India.” *The Quarterly Journal of Economics*.(2000)
- [Apr 6] 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)

Discussion

- [Apr 8] Goldstein, Markus and Christopher Udry, “The Profits of Power: Land Rights and Agricultural Investment in Ghana,” *Journal of Political Economy*, 116 (2008), 981-1022. (A)
- [Apr 8] Goldstein, Markus & Hounbedji, 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. **(B)**

(d) Technology adoption

- **[Apr 13]** Bardhan and Udry, chapter 12
- **[Apr 13]** 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)
- **[Apr 13]** Conley, Timothy G., and Christopher R. Udry. 2010. “Learning about a New Technology: Pineapple in Ghana.” *American Economic Review*, 100(1): 35-69.

Discussion

- **[Apr 15]** 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. **(A)**
- **[Apr 15]** 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) **(B)**

(e) Rural financial markets

- **[Apr 20]** Conning and Udry “Rural Financial Markets in Developing Countries” *Handbook of Agricultural Economics* (2007)
- **[Apr 20]** Townsend, Robert M. “Risk and Insurance in Village India” *Econometrica* (1994) 62(3):539-591.
- **[Apr 20]** Jensen, Robert “Agricultural Volatility and Investments in Children” *American Economic Review* (2000)
- **[Apr 22]** Burgess, Robin, and Rohini Pande. 2005. “Do Rural Banks Matter?: Evidence from the Indian Social Banking Experiment.” *American Economic Review* 95(3):780-795.
- **[Apr 22]** 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)

Draft proposal due April 21

7. [Apr 27, 29] 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>