

Foundations of Development Economics

AAE 642

Professor Paul Castañeda Dower

Spring 2023

1 Preliminaries

Course schedule: TuTh 9:30am-10:45am
Office: 411 Taylor Hall
E-mail: pdower@wisc.edu
Office Hours: Wed. 1:30-2:30pm
Credit Hours: 3 Credits
Course URL: <https://canvas.wisc.edu/courses/345635>
Course Materials: readings available on course website

2 Course description

This course provides an overview of development economics. The topics covered include the concept of development, the measurement of poverty, inequality, and factor misallocation, theories of economic growth, human capital accumulation (and policies to encourage accumulation), agricultural household models, technology adoption, migration, credit, savings and insurance and the political economy of development. 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:

- CLO1** Articulate and critique theories of development economics, including basic closed and open economy macroeconomic models, microeconomic models of 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.
- CLO2** Calculate measures of poverty and inequality using household data.
- CLO3** Identify and apply empirical approaches used to analyze problems in development, including the use of observational data, both cross-sectional and panel, natural experiments, and intentional experiments.
- CLO4** Use economic models and empirical methods to evaluate development policy or issues relevant to developing economies and be able to clearly communicate this analysis orally and in writing.

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 Discussions

- Discussion Paper: You are expected to read the discussion paper before class and prepare one slide with at least three bullet points. These bullet points can summarize the paper, situate the paper in the literature, provide constructive criticism, suggest new avenues for future research or pose a question on the paper. It is entirely up to you, but these bullet points should contribute to the discussion of the paper. You should upload your slide as a pdf document to the Discussion Paper's discussion page on the course website before class. The classes that have Discussion Papers are Jan 26th, Feb 2nd, Feb 7th and Feb 9th.
- 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 conference-style 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. Currently, discussion classes are scheduled for Feb 23rd, Mar 2nd, Mar 9th, Mar 16th, Mar 30th, April 6th, Apr 13th, Apr 20th, and Apr 27th.

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. 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 proposal should include a discussion of the previous literature as it relates to what you plan to do and should discuss roughly 10 cited works. The cited works should come from the following sources, or journals of similar quality: *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*.

You should submit a one-page proposal concept note that includes i) the

research question, ii) bullet points on motivation and contribution to the literature, and iii) any bullet points on how you will attempt to answer the question, e.g., data description and empirical strategy, before April 1st. You have the opportunity to submit a draft proposal before April 23rd to obtain comments from me. You should circulate your proposal to the class before your presentation. I expect you to incorporate feedback that you received during the presentation in your final submission.

4.5 Final Exam

The final exam will be a take-home exam due at the end of finals week. More details on the final exam will be provided during the course of the semester.

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.

5.1 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 19
Homework 2	10	March 12
Homework 3	10	Apr 16
In-class presentation	10	Varies
Discussion slides	15	Varies
Research proposal	20	April 1st (Proposal concept note) & May 14 (Final proposal)
and presentation	10	May 2 or May 4
Final exam	15	May 14

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

6 Class readings schedule

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

1. Introduction

(a) [Jan 24] Stylized facts

- Banerjee, Abhijit V., and Esther Dufo. “Growth theory through the lens of development economics,” *Handbook of Economic Growth* 1 : 473-552 (2005).
- Banerjee, Abhijit, and Esther Dufo. “Economic Lives of the Poor” *Journal of Economic Perspectives* 21(1): 141-167 (2006)
- Sala i Martin, Xavier. “The World Distribution of Income: Falling Poverty and Convergence, Period” *Quarterly Journal of Economics* 121, no 2: 351-397 (2006)
- Durlauf, Steven, Paul A. Johnson and Jonathan R.W. Temple “Growth Econometrics” Ch. 8 *Handbook on Economic Growth* Vol. 1 (2005)
- Douglas Gollin, David Lagakos, Michael E. Waugh, “The Agricultural Productivity Gap,” *The Quarterly Journal of Economics*, Volume 129, Issue 2 :939–993 (2014)

(b) [Jan 26] Proximate vs. Deep Determinants

- 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)
- Glaeser EL, La Porta R, Lopez-de-Silanes F, Shleifer A. “Do institutions cause growth?” *Journal of Economic Growth* 9:271-303 (2004)
- Spolaore, Enrico, and Romain Wacziarg. “How Deep Are the Roots of Economic Development?” *Journal of Economic Literature*, vol. 51, no. 2: 325–69 (2013)
- Discussion Paper Nunn, Nathan. 2008. “The long-term effects of Africa’s slave trades. *Quarterly Journal of Economics*, 123:139–76.

2. Theories of Economic Growth

(a) **[Jan 31]** Solow Model

- Romer, Advanced Macroeconomics, Ch. 1
- 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)
- Lucas, Robert E. “On the mechanics of economic development,” *Journal of Monetary Economics*, Volume 22, Issue 1: 3-42 (1988)

(b) **[Feb 2]** Development traps: Initial Conditions

- Banerjee, Abhijit and Andrew Newmann , “Occupational Choice and the Process of Development,” *Journal of Political Economy*, 101(2), pp. 274-298. (1993)
Discussion Paper 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.

(c) **[Feb 7]** Development traps: Multiple equilibria

- Murphy, Kevin, Andrei Shleifer, and Robert Vishny. “Industrialization and the Big Push”, *Journal of Political Economy*, 97(5), 1003-1026. (1989)
- *Discussion Paper* Magruder, Jeremy, ”Can minimum wages cause a big push? Evidence from Indonesia.” *Journal of Development Economics*, 100: 48–62. (2013)

(d) **[Feb 9]** Global interdependence and growth

- Helpman (2004) “Interdependence”
- Lucas, Robert E. “Why Doesn’t Capital Flow from Rich to Poor Countries?” *The American Economic Review*, vol. 80, no. 2, pp. 92–96 (1990)
Discussion Paper Estevadeor and Taylor “Is the Washington Consensus Dead? Growth, Openness, and the Great Liberalization, 1970s-2000s” *The Review of Economics and Statistics* 95 (5): 1669–1690 (2013)

3. Measurement of Poverty and Inequality

(a) **[Feb 14]** Poverty Measures

- (up through page 66) Ravallion, Martin “Poverty Comparisons: A Guide to Concepts and Methods” *LSMS Working Paper No. 88* The World Bank (1992)
- (b) **[Feb 16]** Inequality Measures
- Sen “From Income Inequality to Economic Inequality” *Southern Economic Journal* 64 (2): 384-401 (1997)
 - Atkinson “On the Measurement of Inequality” *Journal of Economic Theory* 2: 244-63 (1970)
 - Easterly, William. “Inequality does cause underdevelopment: Insights from a new instrument.” *Journal of Development Economics* 84.2 (2007): 755-776.
4. Human capital
- (a) **[Feb 21]** Health
- 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)
 - Dupas, Pascaline “Health behavior in developing countries” *Annual Review of Economics* 3: 425-449 (2011)
 - Miguel, Edward and Michael Kremer “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities”, *Econometrica*, 72 (1), 159-217 (2004)
- (b) **[Feb 23]** Discussion on health interventions:
- Cohen, Jessica, and Pascaline Dupas. “Free Distribution or Cost Sharing? Evidence from a Randomized Malaria Prevention Experiment”. *Quarterly Journal of Economics* 125(1): 1-45 (2010) **(A)**
 - Bleakley, C. Hoyt. “Disease and Development: Evidence from Hookworm Eradication in the American South.” *The Quarterly Journal of Economics*. 122 (1), 73-117. (2007) **(B)**
- (c) **[Feb 28]** Education
- Krueger, Alan and Mikael Lindahl “Education for Growth: Why and For Whom?” *Journal of Economic Literature* 39(4): 1101-1136 (2001)

- 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)
 - Kremer and Holla “Improving Education in the Developing World: What Have We Learned from Randomized Evaluations?” *Annual Review of Economics* (2009)
- (d) **[Mar 2] Discussion on supply vs. demand in education:**
- Lucas, Adrienne M., and Isaac M. Mbiti. “Effects of School Quality on Student Achievement: Discontinuity Evidence from Kenya.” *American Economic Journal: Applied Economics*, 6 (3): 234-63. (2014) **(A)**
 - Jensen, Robert. “The (Perceived) Returns to Education and the Demand for Schooling,” *The Quarterly Journal of Economics*, 125 (2): 515–548, (2010) **(B)**

5. Households

- (a) **[Mar 7] Agricultural household models**
- Bardhan and Udry, chapter 2
 - de Janvry, Fafchamps, Sadoulet “Peasant Household Behavior with Missing Markets: some paradoxes explained” *Economic Journal* 101 (409) (1991)
 - G. Feder, “The Relation Between Farm Size and Farm Productivity: The Role of Family Labor, Supervision and Credit Constraints,” *Journal of Development Economics* 18 : 297-313 (1985)
- (b) **[Mar 9] Discussion on household decision-making:**
- Ashraf, Nava, Erica Field, and Jean Lee. “Household Bargaining and Excess Fertility: An Experimental Study in Zambia.” *American Economic Review*, 104 (7): 2210-37. (2014) **(A)**
 - LaFave, Daniel, and Duncan Thomas. “Farms, Families, and Markets: New Evidence on Completeness of Markets in Agricultural Settings.” *Econometrica* 84 (5): 1917–60. (2016) **(B)**
- (c) **[Mar 21] Technology adoption**
- Bardhan and Udry, chapter 12

- 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)
 - T.Suri, “Selection and Comparative Advantage In Technology Adoption,” *Econometrica* 79(1): 159-209.
- (d) **[Mar 23] Discussion on fertilizer adoption**
- Duflo, Esther, Michael Kremer, and Jonathan Robinson. “Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya.” *American Economic Review*, 101 (6): 2350-90 (2011) **(A)**
 - Conley, Timothy G., and Christopher R. Udry. “Learning about a New Technology: Pineapple in Ghana.” *American Economic Review*, 100(1): 35-69 (2010) **(B)**

6. Markets

- (a) **[Mar 28] Labor Markets and Migration**
- Bardhan and Udry, chapter 5
 - Jere Behrman. “Labor Markets in Developing Countries.” In: *Handbook of Labor Economics* Volume 3. Ed. by Orley Ashenfelter and David Card. 2859–2939 (1999)
 - Jayachandran, S.. “Selling Labor Low: Wage Responses to Productivity Shocks in Developing Countries,” *Journal of Political Economy*, 114(3):538-575. (2006)
 - Munshi, Kaivan “Networks in the Modern Economy: Mexican Migrants in the U.S. Labor Market.” *Quarterly Journal of Economics* 118(2): 549-599 (2003)
- (b) **[Mar 30] Discussion on the returns to migration**
- Hicks, Joan Hamory, Marieke Kleemans, Nicholas Y. Li, and Edward Miguel.. “Reevaluating Agricultural Productivity Gaps with Longitudinal Microdata”, *Journal of the European Economic Association* (2020) **(A)**
 - 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 : 1010-1033 (2011) **(B)**

- (c) [**Apr 4**] Land reform and tenancy
- Bardhan and Udry, ch. 6
 - Besley T. and Burgess R. “Land reform, poverty reduction, and growth: Evidence from India.” *The Quarterly Journal of Economics*.(2000)
 - 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)
- (d) [**Apr 6**] **Discussion on property rights and investment incentives**
- Huntington, H. & Shenoy A. “Does insecure land tenure deter investment? Evidence from a randomized controlled trial” *Journal of Development Economics* 150: 102632. (2021) (**A**)
 - Goldstein, Markus & Hounghbedji, Kenneth & Kondylis, Florence & O’Sullivan, Michael & Selod, Harris,. “Formalization without certification? Experimental evidence on property rights and investment,” *Journal of Development Economics*, vol. 132(C), pages 57-74 (2018) (**B**)
- (e) [**Apr 11**] Rural financial markets: Credit, Risk and Insurance
- Burgess, Robin, and Rohini Pande. 2005. “Do Rural Banks Matter?: Evidence from the Indian Social Banking Experiment.” *American Economic Review* 95(3):780-795.
 - 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)
 - Conning and Udry “Rural Financial Markets in Developing Countries” *Handbook of Agricultural Economics* (2007)
 - Townsend, Robert M. “Risk and Insurance in Village India” *Econometrica* (1994) 62(3):539-591.
- (f) [**Apr 13**] **Discussion on alleviating financial constraints**
- 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) (**A**)
 - 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**)

7. Firms

(a) [Apr 18] Microenterprises

- Jayachandran, Seema, “Microentrepreneurship in Developing Countries.” in K. F. Zimmermann (ed.), *Handbook of Labor, Human Resources and Population Economics* (2021)
- Woodruff, Christopher and McKenzie, David and de Mel, Suresh, “Returns to Capital in Microenterprises: Evidence from a Field Experiment,” *The Quarterly Journal of Economics*, 123:4, 1329-72. (2007).
- Fafchamps, Marcel. “Ethnicity and Credit in African Manufacturing.” *Journal of Development Economics* 61 : 205-235. (2000)

(b) [Apr 20] Discussion on microenterprise growth

- Dupas, P. and J. Robinson , “Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya,” *American Economic Journal: Applied Economics*, 5(1): 163–192. (2013) (A)
- Fafchamps, Marcel, David McKenzie, Simon Quinn and Christopher Woodruff. “Microenterprise growth and the flypaper effect: Evidence from a randomized experiment in Ghana.” *Journal of Development Economics*, 106: 211–226. (2014) (B)

8. Governance and Political Economy

(a) [Apr 25] Distribution of Power

- 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)
- Bourguignon, François and Verdier, Thierry, (2000), Oligarchy, democracy, inequality and growth, *Journal of Development Economics*, 62, issue 2, p. 285-313, ,

(b) [Apr 27] Discussion on corruption:

- Cole, Shawn. “Fixing market failures or fixing elections? Agricultural credit in India,” *American Economic Journal: Applied Economics* 1(1): 219-250. (2009)(A)

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

9. [May 2, 4] Proposal presentations

7 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>