

DEVELOPMENT ECONOMICS – JEM 0123

Version: September, 10, 2021

Basic information

Lecturer: Doc. PhDr. Michal Bauer, PhD (MB)

Teaching assistants: Mgr. Dominika Rečková (DR)

Location (when allowed): Lectures - Tuesday 9:30-10:50 in the room 206, Seminars – Tuesday 11:00-12:20 in the room 206.

Online lectures: Via Zoom (all registered students receive a link, in case Covid-19 situations prevents them from attending in person)

Office hours: Michal Bauer: By appointment via email bauerm@fsv.cuni.cz, office number: 402.

The course covers several major topics in development economics. It focuses on concepts that are important for understanding causes of under-development and poverty. After introducing traditional growth models, particular attention is devoted to the role of technological complementarities, population growth, human capital, institutions, access to finance and psychological effects of poverty. We will also extensively discuss how the existing empirical evidence speaks to some of the key issues. Most of the evidence will be based on field experiments.

Primer text: Ray Debraj (1998): Development economics. Princeton University Press. (available in the library)

The text is supplemented by a packet of recent articles and book chapters. You can download them via the intranet (Moodles). It is crucial that you use Moodles (<https://dl1.cuni.cz/course/view.php?id=855>). It is a platform where you can find important dates, download slides, referenced papers and tasks for exercise sessions. Each of you will get access to the account of this subject. The key is “eldc”.

Requirements

1. Mid-term exam and final exam
2. Reading research papers

I would like students to read and think about important topics in economic development. In order to get a sense of what the leading questions are and how the leading scholars structure their arguments, nothing (including my lectures) can substitute for reading original papers. Therefore, each topic contains list of suggested readings.

In addition, students are expected to read all three research papers before they are covered during the “discussion seminars” (there are two such seminars, one focusing on education and the second one focusing on microfinance). This should allow an informed follow-up discussion about the papers during the seminars.

In addition, students are required to prepare a brief written summary of one paper for each topic. The summary will contain a brief description of the motivation of the paper, the research question, why the answer is not obvious *ex ante*, what intervention is being studied and the main results and implications. The students should also attempt to make a critical assessment. What did you like in the article? What did you dislike? Does it miss anything important? Any ideas how it can be extended/improved? Is related to some other related studies or phenomena that you read about?

These assignments have to be submitted via the Moodles course website (please no sending via email) and are due on the day before a respective “discussion seminar” at 11pm. These assignments should begin with student’s own name and title of the paper. Students will receive points for submitting each summary, and in addition, one randomly selected summary will receive points, based on their quality.

Grading

Your final grade will consist of three parts with approximately following weights:

- Paper summary: 20%
- Mid-term: 30%
- Final exam: 50%
- Total: 100%

Outline of the course

(Please note that all dates below are tentative and will be updated on Moodles, not in this document!)

Lecture 1: Introduction (5.10.) MB

Topics

- Why to study economic development?
- Course: approach, structure and requirements
- Historical and geographical overview
- Economic lives of the poor

Literature

- Ray Debraj (1998): Development Economics, ch.1-2, pp. 2-42.
- Todaro and Smith (2004): Economic Development, ch. 1-2, pp.3-71. Library folder.
- J. Bradford De Long, “Main Themes of Twentieth Century Economic Development,” University of California, Berkeley, pp. 1 – 10.
- Banerjee, A. and E. Duflo (2006): Economic lives of the poor. Journal of Economic Perspectives
- Banerjee A. and E. Duflo (2008): What is middle class about the middle classes around the world? Journal of Economic Perspectives

Lectures 2-3: Traditional growth models and poverty traps (12.10 – 2 lectures, one during the lecture slot and one during the seminar) MB

Topics

- Harrod-Domar model
- Solow model
- Convergence
- Poverty traps: savings trap, capital threshold
- Policy implications of poverty trap models

Literature

- Ray Debraj (1998): Development Economics, ch.3, pp. 47-90.
- Sachs, Jeffrey, et al. (2004): Ending Africa's Poverty Trap, Brookings Papers on Economic Activity, Issue 1, 2004 pp. 117-130.
- De Mel, McKenzie, Woodruff (2008): Returns to capital in microenterprises: evidence from a field experiment. Quarterly Journal of Economics

Lecture 4: Technology adoption and complementarities (19.10, during lecture slot) MB

Topics

- Complementarities and coordination failure
- Increasing returns

Literature

- Ray, D. 1998: Development Economics. ch. 5, pp. 131-159.
- Rosenstein-Rodan (1943): Problems of industrialization of Eastern and Southeastern Europe. The Economic Journal, Vol. 53, No. 210/211. (Jun. - Sep., 1943), pp. 202-211.
- Todaro and Smith (2004): Economic Development, ch. 5, pp.170-5. Library folder.
- Dulfo, Kremer and Robinson (2006): Why don't farmers use fertilizers: Evidence from field experiments in Kenya. American economic review

Seminar 1 (exercises) – growth models and complementarities (19.10, seminar slot) DR

Lecture 5-6: Population, poverty and under-nutrition (26. 10) MB

Topics

- Population: basic concepts
- Demographic transition and hidden momentum
- Poverty measures and evidence
- Poverty, nutrition and discrimination

Literature

- Ray, D. 1998: Development Economics. ch. 8-9, pp. 249-338. Library folder.
- Todaro and Smith (2004): Economic development, ch.7. Library folder.
- Jensen and Miller (2008): Giffen behavior and subsistence consumption. American economic review.
- Strauss, John (1986): Does better nutrition raise farm productivity? Journal of political economy.
- Miguel, E. and M. Kremer. 2004. „ Worms : Identifying Impacts on Education and Health in the Presence of Treatment Externalities“. Econometrica 72: 159-217.
- Field, Robles and Torero: The cognitive link between geography and development: Iodine deficiency and schooling attainment in Tanzania, working paper
- Sen, A. (1992): Missing women. BMJ 1992;304: 586-7 (free registration required).
- Sen, A. (2002): Missing women- revisited. BMJ 2003;327:1297-1298 (6 December) (free registration required).
- Miguel (2004): Poverty and witch killing. Review of economic studies.
- Qian (2008): Missing women and the price of tea in China. Quarterly journal of economics.

Seminar 2 (exercises) – poverty lines, population growth (26.10, during seminar slot) DR

Lecture 7: Education (2.11.) MB

Topics

- Benefits of greater education
- Barriers of increasing education
- Why are field experiments a powerful tool to figure out what policy interventions work?
- Evaluations of different types of interventions: supply side and demand side

Literature

- Ray, D. 1998: Development Economics. ch. 4, pp. 100-107
- Psacharopoulos, George (1991): The Economic Impact of Education: Lessons for Policymakers. In Meier and Rauch (eds.) (2005), pp. 189-193.
- E. Duflo, M. Kremer and R. Glennerster (2006): Using Randomization in Development Economics Research: A Toolkit. In Schultz and Strauss (2008): Handbook of Development Economics, volume 4.
- E. Duflo: Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment
- Glewwe, P., Ilias, N., & Kremer, M. (2010). Teacher incentives. American Economic Journal: Applied Economics, 2(3), 205–227.
- Jensen, R. (2010). The (perceived) returns to education and the demand for schooling. The Quarterly Journal of Economics, 125(2), 515-548.
- Barrera-Osorio, F., Bertrand, M., Linden, L. L., & Perez-Calle, F. (2011). Improving the Design of Conditional Transfer Programs : Evidence from a Randomized Education Experiment in Colombia. American Economic Journal: Applied Economics, 3(2), 167–195.

Seminar 3 (discussion seminar): Education (2.11) MB

Papers to read (also pick one and write a summary before the seminar)

- Banerjee and Duflo (2011). Poor economics . chapter 1 - Think again, again
- Glewwe, Kremer and Moulin (2007): Many children left behind? Textbooks and test scores in Kenya.
- Duflo, E. and R. Hanna (2005): Monitoring works: Getting teachers to come to school. NBER working paper 11880

Seminar 4: Mid-term (9.11, lecture slot) MB or DR

November 16 – no lecture and seminar, Dean’s holiday

Lecture 9: Microcredit and asymmetric information (23.11 and 30.12) MB

Topics

- The poor: un-bankable?
- Adverse selection and credit rationing
- Moral hazard and credit rationing
- Microcredit innovation and its key characteristics
- Measuring adverse selection and moral hazard

Literature

- Armendariz DeAghion and Morduch (2005): Economics of microfinance. MIT, ch. 1-2, pp. 1-52. Library folder.
- Karlan and Zinman (2007): Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment. *Econometrica*.

No seminar on 23.11.

Seminar 5 (discussion seminar): Microfinance (30.12) MB

Papers to read (also pick one and write a summary before the seminar)

- Banerjee, Duflo, Glennerster and Kinnan (2009): The miracle of microfinance? Evidence from a randomized evaluation. *AEJ: Applied*
- Karlan and Zinman (2011): Microcredit in Theory and Practice: Using Randomized Credit Scoring for Impact Evaluation. *Science*.
- Karlan, D. and X. Gine (2006): Group Versus Individual Liability: A Field Experiment in the Philippines.

Lecture 10: Institutions and corruption (7.12) MB

Topics

- Overview: corruption and development
- Parasite and productive enterprises
- Informal property rights and “mystery of capital”

Literature

- Pande, Rohini (2008): Understanding Political Corruption in Low Income Countries. In Schultz and Strauss (2008): *Handbook of Development Economics*, volume 4.
- Bowles, Durlauf and Hoff (2006): *Poverty traps*. Princeton University Press. p. 79-94.
- DeSoto, Fernando (2000): *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. Basic Books. Ch1, 3.

Seminar 6 (exercises) – Microfinance (7.12) DR

Lecture 11: Psychology of poverty (14.12) MB

Topics

- Does poverty increase impatience?
- Does poverty impair cognitive function and increases stress?
- How does stress and lower cognitive function affect decision-making?

Literature

- Mani, S. Mullainathan, E. Shafir, J. Zhao, Poverty impedes cognitive function. *Science* 341(6149), 976-980 (2013).
- Haushofer, J., & Shapiro, J. (2013). Household Response to Income Changes: Evidence from an Unconditional Cash Transfer Program in Kenya. Working paper
- Haushofer, J., & Fehr, E. (2014). On the psychology of poverty. *Science* (New York, N.Y.), 344(6186), 862–7. doi:10.1126/science.1232491
- Lerner, J. S., Li, Y., & Weber, E. U. (2013). The financial costs of sadness. *Psychological Science*, 24(1), 72–9. doi:10.1177/0956797612450302
- Bartos, V., Bauer, M., Chytilova, J. and Lively, I. (2017): Does poverty inhibit attention or self-control? Experimental evidence on behavioral sources of impatience among the ultra-poor. Working paper

Seminar 7 (exercise): Institutions (14.12) DR

Dec 21 – Final Exam pre-term

If time allows: Lecture 12: Heath: Lessons about pricing from RCTs, MB

Topics

- Demand for health products: shall health products be subsidized?

Literature

- Kremer, M., & Holla, A. (2009). Improving Education in the Developing World : What Have We Learned from Randomized Evaluations ? *Annual Review of Economics*, 1, 513–42.
- Cohen, J., and P. Dupas. 2010. “Free Distribution or Cost-Sharing? Evidence from a Randomized Malaria Prevention Experiment*.” *Quarterly Journal of Economics* 125:1–45.
- Dupas, Pascaline. 2014. “Short-Run Subsidies and Long-Run Adoption of New Health Products: Evidence from a Field Experiment.” *Econometrica* 82 (1): 197–228.
- Fischer, Greg, Dean Karlan, Margaret Mcconnell, and Pia Raffler. 2016. “To Charge or Not to Charge : Evidence from a Health Products Experiment in Uganda.” Working paper.
- Ashraf, N., Berry, J., & Shapiro, J. M. (2010). Can Higher Prices Stimulate Product Use? Evidence from a Field Experiment in Zambia. *American Economic Review*, 100, 2383-2413.