

Econ 5623
Development Economics I
Spring 2012 Syllabus

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Course Description

The Focus of this course is on microeconomic approaches to understanding households, markets and institutions in developing countries. The course covers the neoclassical agricultural household model and recent developments in the theory of the household, topics in rural economies, financial arrangements, human capital, program evaluation and the role of institutions in development.

The course has three objective. The first objective is to provide a critical overview of the recent literature and important debates in economic development. The second objective is to introduce ways of tackling methodological issues that arise when doing research on microeconomics of development. The emphasis is on (i) how theoretical microeconomic hypotheses may be tested with data and (ii) how to identify causal relationships from spurious correlations. The third objective is to prepare students for original research in empirical microeconomics and to help identify possible thesis topics.

Prerequisites

Prerequisites for this course are the Ph.D. sequences in microeconomics and econometrics. Knowledge of development economics at the undergraduate level is recommended but not required.

Requirements

There are four requirements for the course:

1. Do all the required readings and participate in class discussion.
2. Present and lead the discussion of one of the papers on the reading list.
3. Do the home work assignments
4. Write a research paper. Students can: (1) replicate the empirical results of an approved paper in development economics; or (2) write an original applied research paper (theoretical, empirical, or both) on development economics.

Text Books

1. Bardhan, Pranab and Christopher Udry (1999). *Development Microeconomics*. Oxford University Press
2. Deaton, Angus (1997) *The Analysis of Household Surveys: A Microeconometric Approach to Development Policy*. The World Bank/ The John Hopkins University Press.
3. Ray, Debraj (1998) *Development Economics*. Princeton University Press.

Grading

1. Term paper: 30 %
2. Presentation: 10 %
3. Home Works: 30 %
4. Final Exam: 30 %

Home work Policy

1. Students are encouraged to work together in solving problems, however home work must be submitted individually
2. Home works are due in my office before or on the deadline at 5 pm. Late home works will be discounted 10 % for each extra day

Expectations on presentations

What I am looking for is more than a mere summary of the paper but a critical readings. Here are example (non-exhaustive) of issues that you could address.

1. What makes the paper interesting
2. If there is a theoretical model, what are the key assumptions and how could you modify them and what could change as a consequence of your modifications
3. If there is an empirical model, what is the identification strategy and how can you criticize it?
4. Do the empirical results have an alternative interpretation?
5. How can the paper be improved?

Paper

The term paper must have the following sections clearly discussed: (i) discussion of the research question showing why it is relevant, (ii) discussion of the related literature emphasizing your own contribution, (iii) description of the theoretical framework and, (iv) presentation of the data and empirical results discussion of your identification strategy. During the course of the semester, I expect to interact with you on your paper as much as possible. Below if the schedule we will follow to make sure you get feedbacks on your paper at different stages.

1. By the end of 4th week of class: 3 pages maximum summary of research topic and documentation on data sources. Feel free to come discuss your topic with me early on.
2. By the end of week of class: Conceptual framework 3 pages (max)
3. End of 9th week: empirical models and identification strategy (3 pages max)

4. End of 12th week: empirical results and discussion (5 pages maximum, excluding tables).
5. End of 16th week: complete paper due (20 pages maximum, excluding tables, references and appendices).
6. Data: during the second class I will distribute a short handout on data that I can make available to you for your class project and on links to data sources on the internet. If you have your own data that you consider using, you are more than welcome.

Software

You are welcome to use your preferred software to complete the homeworks or your term paper. However, I will be able to help you if you are using Stata © or to a lesser degree you are using Gauss ©.

Classroom behavior and academic integrity

The rules of academic integrity will be strictly enforced in this class. Please visit <http://academicintegrity.okstate.edu> for details on university policy pertaining to academic integrity.

Course Outline

Note: Required readings are starred

1 Introduction

- * Banerjee, A. and E. Duflo (2007). “The Economic Lives of the Poor”, *The Journal of Economic Perspectives*. 21(1) pp 141-167
- Schultz, T. W. 1979. “Nobel Lecture: The Economics of Being Poor”, *Journal of Political Economy* 88(4) pp 639-651

2 Household Economics

2.1 Standard Household Models

- * Bardhan & Udry, Chapters 1 & 2
- *Udry, C. 1999. “Efficiency and market structure: Testing for Profit Maximization in African Agriculture.” In Gustav Ranis and Lakshmi K. Raut, editors, *Trade, growth and development: Essays in honor of Professor T. N. Srinivasan*, pages 363-393. Elsevier Science North-Holland, New York and Oxford, 1999.
- Strauss, John. 1986. “The Theory and Comparative Statics of Agricultural Household Models: A General Approach”, in I. Singh, L. Squire and J. Strauss, *Agricultural Household Models*. Johns Hopkins.
- de Janvry, A., M. Fafchamps and E. Sadoulet. 1991 “Peasant Household Behavior with Missing Markets: Some Paradoxes Explained”, *Economic Journal* 101 (409) pp 1400-17
- Fafchamps, M. 1993. “Sequential Labor Decisions under Uncertainty: An Estimable Household Model of West African Farmers.” *Econometrica* 61, 1173-1198.
- Foster, A. and M. Rosenzweig. 2002. “Household Division and Rural Economic Growth.” *Review of Economic Studies*, 69(4): 839-869

2.2 Intra-Household Allocations

- * Deaton , Chapter 4.2

- *Udry, C., 1996. Gender, agricultural production, and the theory of the household. *Journal of Political Economy* 104, 1010-1046
- Browning, M. and PA. Chiappori. 1998. "Efficient Intra-Household Allocations: A General Characterization and Empirical Tests." *Econometrica* 66(6): 1241-1278.
- * Duflo, E. 2003. "Grandmothers and Granddaughters: Old Age Pension and Intra-household Allocation in South Africa." *World Bank Economic Review* 17(1), 1-25.
- Duflo, E. and C. Udry, 2001. Intrahousehold Resource Allocation in Cote d'Ivoire: Social Norms, Separate Accounts and Consumption Choices. Manuscript, Yale University.
- Bergstrom, H. B. A survey of Theories of the family, in: Handbook of Population and Family Economics, M. Rosenzweig and O. Stark, eds. Amsterdam: Elsevier/North Holland. Required reading: Sections 1-3
- Goldstein, M. and C. Udry. 2008. "The Profits of Power: Land Rights and Agricultural Investment in Ghana." *Journal of Political Economy*, 116(6), pp 981-1022
- Kazianga, H. and Z. Wahhaj. 2011. "Social Norms, Gender and Household Production in Burkina Faso", Forthcoming, *Economic Development and Cultural Change*
- Case, A. and A. Deaton. 1998. "Large Cash Transfers to the Elderly in South Africa." *Economic Journal* 108:1330-1361.
- McElroy, M. and M. Horney. 1981. "Nash-Bargained Household Decisions: Towards a Generalization of the Theory of Demand." *International Economic Review*, 22(2).
- Guyer, J. 1981. "Household and Community in African Studies." *African Studies Review* 24.

3 Program Evaluation

- * Duflo, E., R. Glennerster, and M. Kremer. 2008. "Using Randomization in Development Economics Research: A Toolkit," in *Handbook of Development Economics*, ed. by T. P. Schultz, and J. A. Strauss, vol. 4, pp. 3895-3962. Elsevier.
- * Angrist, J and Krueger. 2001. "Instrumental Variables and the Search for Identification: From Supply to Demand to Natural Experiments." *Journal of Economic Perspectives* 15(4): 69-85.

- Lee, M. 2005. *Micro-Econometrics for Policy, Program, and Treatment Effects*. Oxford University Press
- Rosenzweig, M. and K. Wolpin. 2000. “Natural “Natural Experiments” in Economics.” *Journal of Economic Literature*. 38(4) pp 827-874
- Deaton, A. 2010. “Instruments, Randomization, and Learning about Development.” *Journal of Economic Literature*, 48(2) pp 424-455
- Heckman, J., and S. Urzua. 2009. “Comparing IV With Structural Models: What Simple IV Can and Cannot Identif.” *NBER Working Paper, No. 14706*.
- Imbens, G. W. 2010. “Better LATE Than Nothing: Some Comments on Deaton (2009) and Heckman and Urzua (2009).” *Journal of Economic Literature*, 48(2): 399-423.

4 Agrarian Economies

4.1 Labor Markets

- * Bardhan and Udry Chap 4
- * Benjamin, D. 1992. “Household Composition, Labor Markets and Labor Demand: testing for Separation in Agricultural Household Models”. *Econometrica* 60, 287-322.
- * Swamy, A.V. 1997. “A Simple Test of the Nutrition-Based Efficiency Wage Model”. *Journal of Development Economics* 53(1): 85-98.
- Bardhan, P. and T. N. Srinivasan. 1971. “ Cropsharing tenancy in agriculture: A theoretical and empirical analysis”. *American Economic Review*, 61(1):48-64,
- Stiglitz, J. 1975. “Incentives and risk sharing in sharecropping”. *Review of Economic Studies*, 41:219-255
- Braverman, A. and Joseph E. Stiglitz. 1982 “Sharecropping and the interlinking of agrarian markets.” *American Economic Review*, 72(4):695-715

4.2 Land Markets

- * Bardhan and Udry, Chapter 6

- * Besley, T. 1995. "Property Rights and Investment Incentives: Theory and Evidence from Ghana." *Journal of Political Economy* 103(5) pp 903-937.
- * Banerjee, A. and P. Pandey. 2005. "History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India." *American Economic Review* 95(4):1190-1213.
- Besley, T. and R. Burgess. 2000. "Land Reform, Poverty Reduction and Growth: Evidence from India." *Quarterly Journal of Economics* 115(2):389-430.
- Banerjee, A. V., P. J. Gertler and M. Ghatak (2002), "Empowerment and Efficiency: Tenancy Reform in West Bengal," *Journal of Political Economy* 110:2, pp 239-280.
- Deininger, K., and D. A. Ali. 2008. "Do overlapping land rights reduce agricultural investment? evidence from Uganda." *American Journal of Agricultural Economics*. 90(4), pp:869-882
- Aryeetey, E. and C. Udry. 2010. "Creating Property Rights: Land Banks in Ghana". Forthcoming, *American Economic Review Papers and Proceedings*
- Tseng, S. H. (2004) "Using the 1953 Taiwanese Land Reform to Estimate the Effect of Land Ownership Transfer on Productivity" Online

4.3 Technology Adoption

- * Bardhan and Udry, Chap 12
- * Foster, A. and M. Rosenzweig. 1995. "Learning by Doing and Learning from Others: Human Capital and Technical Change in Agriculture." *Journal of Political Economy*.
- * Conley, T. and C. Udry. 2010. "Learning About a New Technology: Pineapple in Ghana." *American Economic Review*, 100(1): 3569. Working paper version
- Andrew D. Foster & Mark R. Rosenzweig, 2010. "Microeconomics of Technology Adoption." *Annual Review of Economics*, 2(1), pp 395-424
- Bandiera, O. and I. Rasul. 2006. "Social Networks and Technology Adoption in Northern Mozambique." *Economic Journal* 116(514), pp 869-902

5 Financial Markets

5.1 Saving and Credit

- *Bardhan and Udry, Chapter 7
- * Deaton 6.1, 6.3, 6.6
- * Dean, K. and J. Zinman (2007) “Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts.” Online
- * Pitt, M. and S. Khandker. 1998. “The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of the Participants Matter?” *Journal of Political Economy* 106(5): 958-996.
- Burgess, R. and R. Pande. 2005. “Do Rural Banks Matter?: Evidence from the Indian Social Banking Experiment.” *American Economic Review* 95(3):780-795.
- Ashraf N., D. Karlan and W. Yin (2007) “Female Empowerment: Impact of a Commitment Savings Product in the Philippines.” Online
- Conning, J. and C. Udry (2007) “Financial Markets in Developing Countries”, in R. Evenson and P. Pingali, eds., Forthcoming *Handbook of Agricultural Economics*, Volume 3. Online
- Morduch. 1999. “The Microfinance Promise.” *Journal of Economic Literature*. 37, pp. 1569-1614

5.2 Risk and Insurance

- * Bardhan and Udry, Chapter 8
- * Deaton 6.4
- * Gertler P. and J. Gruber. 2002. “Insuring consumption against illness.” *American Economic Review* 92 (1) pp 51-70
- * Townsend, R. (1994) “Risk and Insurance in Village India.” *Econometrica* 62:539-592.
- Ravallion, M. and S. Chaudhuri. 1997. “Risk and Insurance in Village India: Comment.” *Econometrica* 65(1) pp 171-84.

- Dercon, S. and P. Krishna () “Risk Sharing and Public Transfers” *Economic Journal*, vol. 113(486), pp C86-C94
- Dercon S. and P. Krishnan. 2000. “In sickness and in health: Risk sharing within households in rural Ethiopia.” *Journal of Political Economy* 108 (4) pp 688-727
- Kazianga, H. and C. Udry .2006. “Consumption smoothing? Livestock, insurance and drought in rural Burkina Faso.” *Journal of Development Economics*. 79(2), pp 413-446
- Townsend, R. 1995. “Consumption Insurance: An Evaluation of Risk-Bearing Systems in Low-Income Economies.” *Journal of Economic Perspectives* 9(3): 83-102.
- Deaton, A. and C. Paxson. 1994. “Intertemporal Choice and Inequality.” *Journal of Political Economy* 102(3):437-67.
- Ligon, E. and T. Worrall. 2002. “Informal Insurance Arrangements with Limited Commitment: Theory and Evidence from Village Economies”. *Review of Economic Studies* 69(1): 209-44.
- Fafchamps, M. and S. Lund. 2003. “Risk-Sharing Networks in Rural Philippines.” *Journal of Development Economics* 71(2):261-87.
- Angelucci, M. and G. de Giorgi Indirect (2006) “Effects of an Aid Program: How do Cash Transfers Affect Non-Eligibles’ Consumption?” Online
- Coate, S. and M. Ravallion. 1993. “Reciprocity without Commitment: Characterization and Performance of Informal Insurance Arrangements.” *Journal of Development Economics* 40 (1), pp 124.

6 Human Resources

6.1 Education and Child Labor

- * Orazem, P. and E. M. King. 2008. “Schooling in Developing Countries: The Roles of Supply, Demand and Government Policy” in *Handbook of Development Economics*, ed. by T. P. Schultz, and J. A. Strauss, vol. 4, pp. 3475-3559. Elsevier.
- * Basu, K. and V. Pham Hoang, 1998. “The Economics of Child Labor.” *American Economic Review*. 88(3), pp: 412-27

- * Baland, J.M. and J. A. Robinson. 2000. “Is Child Labor Inefficient?” *Journal of Political Economy*, Vol. 108, No. 4, 2000
- Schultz, T. Paul (2004), “School Subsidies for the Poor: Evaluating the Mexican Progressa Poverty Program.” *Journal of Development Economics* 74(1) 199-250.
- Duflo, E. (2001) “Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment” *American Economic Review*
- Edmonds, Eric V. 2006. “Child labor and schooling responses to anticipated income in South Africa.” *Journal of Development Economics*. 81(2), pages 386-414
- Edmonds, E. V. 2008. “Child Labor” in *Handbook of Development Economics*, ed. by T. P. Schultz, and J. A. Strauss, vol. 4, pp. 3607-3709. Elsevier.
- Basu, K. 1999. “Child Labor: Cause, Consequence, and Cure, with Remarks on International Labor Standards.” *Journal of Economic Literature* 37(3) pp 1083–1119
- Pouliot, W. 2006. “Introducing uncertainty into Baland and Robinson’s model of child labour.” *Journal of Development Economics*. 79(1), pp 264-272
- Glewwe, P., and M.Kremer. 2006. “Schools, Teachers, and Education Outcomes in Developing Countries,” in *Handbook on the Economics of Education*, ed. by A. Hanusckek, and F. Welch, pp. 945-1014. Elsevier Press, New York.
- Udry, C. 2003. “Child Labor.” Working Papers 856, Economic Growth Center, Yale University.

6.2 Health and Nutrition

- * Bardhan and Udry, Chapter 10.
- * Galani, Gertler and Schargrodsky (2005) “Water for Life: The Impact of Privatization of Water Services on Child Mortality.” *Journal of Political Economy* 113(1):83-120.
- * Strauss, J. and D. Thomas. 1998. “Health, Nutrition and Economic Development.” *Journal of Economic Literature* 36(2): 766-817

- * Gersovitz, M. and J. Hammer. 2004. “The Economical Control of Infectious Diseases.” *Economic Journal* 114(492):1-27.
- * Gertler, P. (2004) “Do Conditional Cash Transfers Improve Child Health? Evidence from PROGRESAs Control Randomized Experiment.” *American Economic Review* 94(2):336-341.
- Acemoglu, D. and S. Johnson. 2007. “Disease and Development: The Effect of Life Expectancy on Economic Growth.” *Journal of Political Economy* 115(6) pp 925-985
- Gustavo J. Bobonis, G. J., E. Miguel and C. Puri-Sharma (2006) “Anemia and School Participation” *Working Paper, Department of Economics, UC, Berkeley*
- Mwabu, Germano, 2008. “Health Economics for Low-Income Countries,” in *Handbook of Development Economics*, ed. by T. P. Schultz, and J. A. Strauss, vol. 4, pp. 3305-3374. Elsevier.
- Thomas, D. and J. Strauss. 1997. “Health and Wages: Evidence on Men and Women in Urban Brazil.” *Journal of Econometrics*, 77, 159-185.
- Canning, David. 2006. “The Economics of HIV/AIDS in Low-Income Countries: The Case for Preventio.” *Journal of Economic Perspectives* 20(3), pp. 121-142.
- Thomas, Duncan, et al. 2005. “Iron Deficiency and the Well-Being of Older Adults: Early Results from a Randomized Nutrition Intervention.” Manuscript, UCLA.

6.3 Fertility

- * Schultz, T. P. (1997) “Demand for Children in Low Income Countries”. In Mark R. Rosenzweig and Oded Stark, editors, *Handbook of Population and Family Economics*, volume 1A, pages 349-430. Elsevier Science B.V., Amsterdam
- Rosenzweig, M and K. Wolpin (1980). “Testing the quantity-quality fertility model: The use of twins as a natural experiment”. *Econometrica*, 48(1):227-240
- Angrist, J., V. Lavy, and A. Schlosser (2005) “New Evidence on the Causal Link Between the Quantity and Quality of Children”. *Working Paper W11835*, NBER
- Pop-Eleches, C. 2006. “The Impact of an Abortion Ban on Socioeconomic Outcomes of Children: Evidence from Romania.” *Journal of Political Economy*. 114(4) pp744-773

- Yoram Ben-Porath. 1976. “Fertility Response to Child Mortality: Micro Data from Israel.” *Journal of Political Economy* 84(S4)
- Shareen, J. and T. P. Schultz (2007) “Family Planning as an Investment in Development: Evaluation of a Programs Consequences in Matlab, Bangladesh.” *Center Discussion Paper No. 951.*, Economic Growth Center, Yale University
- Rosenzweig, M. and Robert E. Evenson. 1977 “Fertility, Schooling, and the Economic Contribution of Children in Rural India: An Econometric Analysis.” *Econometrica*, 45(5):1065-1079
- Rosenzweig, M. and J. Zhang.2006. “Do Population Control Policies Induce More Human Capital Investment? Twins, Birthweight, and China’s ‘One Child’ Policy.” *Discussion Paper 933*, Yale University, Economic Growth Center
- Foster, A. and M. Rosenzweig. 2006. “Does Economic Growth Reduce Fertility? The Indian Green Revolution Experience”. Mimeo, Brown University, 2006.
- Glick, P. A. Marini, and David E. Sahn 2007. “Estimating the Consequences of Unintended Fertility for Child Health and Education in Romania: An Analysis Using Twins Data.” *Oxford Bulletin of Economics and Statistics*, 69(5):667-691

7 Institutions

7.1 Institutions and Economic Development

- * Bardhan and Udry, Chap 17
- * Acemoglu, D. , S. Johnson, and J. Robinson. 2001. “Colonial Origins of Comparative Development: An Empirical Investigation.” *American Economic Review*. 91 (5) 1369-1401.
- Kudamatsu, M. 2009. “Has Democratization Reduced Infant Mortality in Sub-Saharan Africa? Evidence from Micro Data.” *working paper, London School of Economics*.
- * Pande, P. and C. Udry. 2005. “Institutions and Development:A View from Below.” Working Papers 928, Economic Growth Center, Yale University.

- Albouy, D. 2008. “The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data.” *NBER Working Papers* 14130, National Bureau of Economic Research, Inc.
- North, D. C, 1991. “Institutions.” *Journal of Economic Perspectives*, 5(2), 97-112.
- Acemoglu, D. and S. Johnson. 2005. “Unbundling Institutions.” *Journal of Political Economy*
- Yifu Lin, Justin and J. Nugent. 1995. “Institutions and economic development” in: Hollis Chenery and T.N. Srinivasan (ed.), *Handbook of Development Economics*, volume 3, pages 2301-2370.Elsevier.

7.2 Corruption

- * Olken, Ben (2006) “Monitoring Corruption: Evidence from a Field Experiment in Indonesia.” unpublished working paper. Online
- * Reinikka, Ritva, and Jakob Svensson (2004) “Local Capture: Evidence from a Central Government Transfer Program in Uganda”, *Quarterly Journal of Economics*, 119 (2) Online
- Pande, R. 2007. “Understanding Political Corruption in Low Income Countries.” *CEPR Discussion Papers* 6273, C.E.P.R.
- Fisman, Raymond (2001) “Estimating the Value of Political Connections”, *American Economic Review*, 91(4), 1095-1102.