

## **Econ 730 Economic Development I**

Fall 2006

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The goal of this course is to explore the application of microeconomic analysis to issues of development in poor countries. The focus of this course is the study of household behavior and the analysis of rural institutions. The course will cover the neoclassical agricultural household model and criticisms of that model, human capital, the structure of rural factor markets (concentrating on the effects of risk and information problems), general equilibrium analyses of village economies, household savings and investment, issues of health and nutrition, and technological innovation.

We will assume that you have taken the first-year graduate sequences in microeconomics and econometrics.

### Course Requirements:

A primary goal of this course is a critical reading of the current literature on the empirical microeconomics of development. We expect you to do all of the required reading and to participate in class discussion. You will also present and lead the discussion of one of the papers on the reading list. There will be required problem sets, and a final examination at the end of the course.

Deaton's *The Analysis of Household Surveys: A Microeconometric Approach to Development Policy* is a useful reference, and we'll use a couple of the chapters. A few of the chapters of Bardhan and Udry, *Development Microeconomics*, will also be useful to you.

### Further Background References:

Debraj Ray, *Development Economics*. We will not use it for the course, but it is the best undergraduate text in development economics. He provides excellent non-technical explanations of many of the issues we will study.

Dasgupta, Partha. 1993. *An Inquiry into Well-Being and Destitution*. New York: Oxford.

Basu, K. 1997. *Analytical Development Economics*. Cambridge: MIT Press.

Deaton, Angus. 1993. "Data and Econometric Tools for Development Economics," in *Handbook of Development Economics*, Vol. III.

## 1. The Neoclassical Agricultural Household Model [Sept 8]

BU, Chapters 1 & 2.

Benjamin, D. 1992. "Household Composition, Labor Markets and Labor Demand: Testing for Separation in Agricultural Household Models." Econometrica.

Deaton, Angus and Christina Paxson. 1998. "Economies of Scale, Household Size and the Demand for Food." Journal of Political Economy. 106/5, pp. 897-930.

Deaton, Chapter 4.2

Dreze, Jean and Amartya Sen. 1989. Hunger and Public Action. Oxford: Oxford University, pp 50-61.

Pitt, M., M. Rosenzweig and MD. Nazmul Hassan. 1990. "Productivity, Health and Inequality in the Intrahousehold Distribution of Food in Low-Income Countries." American Economic Review. 80/5.

Oster, Emily. 2005. "Hepatitis B and the Case of the Missing Women." Journal of Political Economy. 113/6.

## 2. Non-Neoclassical Households [Sept 15]

\*Browning, M. and P.A. Chiappori. 1998. "Efficient Intra-Household Allocations: a General Characterization and Empirical Tests." Econometrica

\*Duflo, Esther. 2000. "Grandmothers and Granddaughters: Old Age Pension and Intra-Household Allocation in South Africa."  
<http://econ-www.mit.edu/faculty/eduflo/files/papers/safpap9.pdf>

\*Udry, Christopher. 1996. "Gender, Agricultural Productivity and the Theory of the Household." JPE.

\*Udry, Chris and Esther Duflo. 2003. "Intrahousehold Resource Allocation in Côte d'Ivoire: Social Norms, Separate Accounts and Consumption Choices"  
<http://www.econ.yale.edu/~udry/pdf/ivoire6.pdf>

Rangel, Marcos and Duncan Thomas. 2006. "Out of West Africa: Evidence on the Efficient Allocation of Resources within Farm Households"

Dubois, P. and E. Ligon. 2003. "Incentives and Nutrition for Rotten Kids: Intrahousehold Food Allocation in the Philippines"

### 3. Saving and Credit [Sept 22- 29]

Background reading:

Case, Townsend, Morduch and Besley. 1995. "Symposium on Consumption Smoothing in Developing Countries." Journal of Economic Perspectives.

BU, chapters 7 & 8

Deaton, chapter 6.

\*Paxson, C. 1992. "Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand." American Economic Review. 82/1.

\*Rosenzweig, M. and K. Wolpin. 2000. "Natural 'Natural Experiments' in Economics". Journal of Economic Literature. Section 4.

\*Townsend, R. and K. Ueda. 2003. "Financial Deepening, Inequality and Growth" [http://www.src.uchicago.edu/users/robt/workingpapers/gjempirical\\_61203.pdf](http://www.src.uchicago.edu/users/robt/workingpapers/gjempirical_61203.pdf)

\*Banerjee, Abhijit and Esther Duflo. 2004. "Do Firms Want to Borrow More?"

\*Deaton, Angus and Christina Paxson. 1994. "Intertemporal Choice and Inequality." Journal of Political Economy. 102/3.

Udry, C. 1994. "Risk and Insurance in a Rural Credit Market: An Empirical Investigation in Northern Nigeria," Review of Economic Studies. 61(3), no. 208, pp. 495-526.

\*Townsend, R. 1994. "Risk and Insurance in Village India." Econometrica. 62:539-592.

### 4. Agrarian Technology [Oct. 6]

\*BU, Chapter 12

\*Foster, Andrew, Mark Rosenzweig. 1995. "Learning by Doing and Learning from Others: Human Capital and Technical Change in Agriculture." Journal of Political Economy.

\*Conley, Timothy and Chris Udry. 2005. "Learning About a New Technology: Pineapple in Ghana." Manuscript: Yale. <http://www.econ.yale.edu/~udry/pdf/learn.pdf>

## 5. Human Capital, Development and Productivity [Oct. 13 -20]

### a. Health

Strauss, John, “Does Better Nutrition Raise Farm Productivity?” Journal of Political Economy, April 1986, 297-320.

Weil, David N., “Accounting for the Effect of Health on Economic Growth,” Department of Economics. Brown University. March, 2005.

Behrman, Jere R. and Mark Rosenzweig, “Returns to Birthweight,” Review of Economics and Statistics, May 2004.

Duncan Thomas and John Strauss, "Health, Nutrition and Economic Development," Journal of Economic Literature, June 1998.

Miguel, Ted and Michael Kremer: “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities”, Econometrica, 2004, 72 (1), 159-217

### B. Schooling

Welch, Finis, “Education in Production,” Journal of Political Economy, January-February 1970.

Rosenzweig, Mark, “Why Are There Returns to Schooling?” American Economic Review, Vol. 85, May 1995.

Foster, Andrew D. and Mark R. Rosenzweig, "Technical Change and Human Capital Returns and Investments: Evidence from the Green Revolution," American Economic Review, September 1996.

Jere R. Behrman, Andrew. D. Foster, Mark R. Rosenzweig, and P. Vashishtha, “Female Schooling, Home Teaching, and Economic Growth,” Journal of Political Economy, August 1999

Munshi, Kaivan and Mark R. Rosenzweig, “Traditional Institutions Meet the Modern World: Caste, Gender and Schooling Choice in a Globalizing Economy,” BREAD Working Paper No. 038, July 2003 (forthcoming, American Economic Review).

Schultz, T. Paul, “School Subsidies for the Poor: Evaluating the Mexican *Progressa* Poverty Program,” Journal of Development Economics 74(1), 2004, 199-250.

Todd, Petra and Kenneth I. Wolpin, "Using a Social Experiment to Validate a Dynamic Behavioral Model of Child Schooling and Fertility: Assessing the Impact of a School Subsidy Program in Mexico," PIER Working Paper 03-022, University of Pennsylvania

Duflo, Esther, "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment," American Economic Review, Vol. 91, No. 4, September 2001, pp. 795-813.

Jacoby, Hanan G., "Is There an Intrahousehold 'Flypaper Effect'? Evidence From a School Feeding Programme," The Economic Journal, Vol. 112, pp. 196-221, 2002

## **6. Labor and Land Markets and Contractual Interlinking [Oct 27 and Nov 10]**

Dasgupta, Partha and Debraj Ray, "Inequality as a Determinant of Malnutrition and Unemployment: Theory," The Economic Journal 96, December 1986, 1011-1034.

Behrman, Jere R. and Anil Deolalikar, "Will Developing Country Nutrition Improve with Income? A Case Study for Rural South Asia," Journal of Political Economy 95, 1987, 492-505.

Thomas, Duncan and John Strauss, "Health and Wages: Evidence on Men and Women in Urban Brazil," Journal of Econometrics, Vol. 77, 1997, pp. 159-85.

Eswaran, Mukesh and Ashok Kotwal, "A Theory of Two-Tier Labor Markets in Agrarian Economies," American Economic Review, March 1985, 162-177.

Foster, Andrew and Mark R. Rosenzweig, "Comparative Advantage, Information, and the Allocation of Workers to Tasks: Evidence from an Agricultural Labor Market," Review of Economic Studies 63, November 1996, 347-374.

Otsuka, Keijiro, Hiroyuki Chuma, and Yujiro Hayami, "Land and Labor Contracts in Agrarian Economies," Journal of Economic Literature 30, December 1992, 1965-2018.

Eswaran, Mukesh and Ashok Kotwal, "A Theory of Contractual Structure in Agriculture," American Economic Review, June 1985, 352-366.

Banerjee, Abhijit, Paul Gertler and Maitreesh Ghatak, "Empowerment and Efficiency: Tenancy Reform in West Bengal," Journal of Political Economy, 110(2), 2002, 239-280.

Besley, Timothy "Property Rights and Investment Incentives: Theory and Evidence from Ghana," Journal of Political Economy, Vol. 103, 1995, 903-37.

Rosenzweig, Mark R. and Kenneth I. Wolpin, "Specific Experience, Household Structure and Intergenerational Transfers: Farm Family Land and Labor Arrangements in Developing Countries," Quarterly Journal of Economics 100, Supplement 1985.

[replication] Grimard, Franque and Barton Hamilton, "Estimating the Elderly's Returns on the Farm: Evidence from Cote d'Ivoire," Journal of Development Economics 58, 1999, 513-531.

Shaban, Radwan, "Testing between Competing Models of Sharecropping," Journal of Political Economy, Vol. 95, 1987, 893-920.

Foster, Andrew and Mark R. Rosenzweig, "A Test for Moral Hazard in the Labor Market: Contractual Arrangements, Efficiency and Health," Review of Economics and Statistics, Vol. 76, 1994, 213-27.

## **7. Risk and Incomplete Markets and their Consequences [Nov. 17 - Dec 1]**

Ghatak, Maitreesh and Timothy Guinnane, "The Economics of Lending with Joint Liability: Theory and Practice," Journal of Development Economics, Vol. 60, p. 195-228.

Coleman, Brett E., "The Impact of Group Lending in Northeast Thailand," Journal of Development Economics, Vol. 60, p. 105-141.

Karlan, Dean and Jonathan Zinman, "Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment," mimeo, June 2006  
<http://aida.econ.yale.edu/karlan/papers/ObservingUnobservables.KarlanZinman.pdf>

Jacoby, Hanan and Emmanuel Skoufias, "Risk, Financial Markets and Human Capital in a Developing Country," Review of Economic Studies LXIV, 1997, 311-335.

Kochar, Anjini, "Smoothing Consumption by Smoothing Income: Hours-of-Work Responses to Idiosyncratic Agricultural Shocks in Rural India," Review of Economics and Statistics 81, February 1999, 50-61.

Rosenzweig, Mark R. and Hans Binswanger, "Wealth, Weather Risk and the Composition and Profitability of Agricultural Investments," Economic Journal, January 1993.

Rosenzweig, Mark R. and Kenneth I. Wolpin, "Credit Market Constraints and the Accumulation of Durable Production Assets in Low-Income Countries: Investments in Bullocks," Journal of Political Economy 101, 1993, 223-44.

Rosenzweig, Mark and Oded Stark, "Consumption Smoothing, Migration and Marriage: Evidence from Rural India," Journal of Political Economy, August 1989.

Rosenzweig, Mark and Kaivan Munshi, “Why is Mobility in India so Low? Social Insurance, Inequality, and Growth, BREAD Working Paper No. 097, July 2005.

Coate, Stephen and Martin Ravallion, “Reciprocity Without Commitment: Characterization and Performance of Informal Insurance Arrangements,” Journal of Development Economics, Vol.40, No.1, 1993, p.1-24.

#### 8. Student Presentations [Nov 3 and Dec 8]

	Dubois, P. and E. Ligon. 2003. “Incentives and Nutrition for Rotten Kids: Intrahousehold Food Allocation in the Philippines”	
	Jayachandran, Seema. 2005. “Selling Labor Low: Wage Responses to Productivity Shocks in Developing Countries.” Manuscript, UCLA.	
	Edmonds, Eric and N. Pavcnik. “The Effect of Trade Liberalization on Child Labor”, <i>Journal of International Economics</i> 65(2), March 2005,	
	Jacoby, Hanan and Emmanuel Skoufias, “Risk, Financial Markets and Human Capital in a Developing Country,” <u>Review of Economic Studies</u> LXIV, 1997, 311-335.	
	Ligon, Ethan, J. P. Thomas and T. Worrall “Informal Insurance Arrangements with Limited Commitment: Theory and Evidence from Village Economies” 2002. <u>Review of Economic Studies</u> 69(1):209-244	
	Deaton, Angus and Christina Paxson. 1994. "Intertemporal Choice and Inequality." <u>Journal of Political Economy</u> . 102/3.	
	Schechter, Laura. 2005. “Theft, Gift Giving and Trustworthiness: Honesty is its Own Reward in Rural Paraguay.” Manuscript: Wisconsin.	
	Kochar, Anjini, “Smoothing Consumption by Smoothing Income: Hours-of-Work Responses to Idiosyncratic Agricultural Shocks in Rural India,” <u>Review of Economics and Statistics</u> 81, February 1999, 50-61.	