

WWS 562b
Economic Analysis of Development
Spring 2008

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Course Description

Goal: To get a handle on the following questions:

Why are some countries rich and some poor?
How do people in poor countries make a living and how does that differ from those in rich?
Which market failures are most common in poor countries?
Which government failures?
What do people do when both fail?
How does “globalization” affect people in poor countries?

Recurrent themes:

“Economics is good”: poor people don’t have much margin for error so “doing the best you can under constraints” is a good place to start an analysis.
“Life is a risky business”: weather, commodity prices, sickness, agricultural pests, an unreliable investment environment, among other risks, characterize lives of poor people.
“Policy matters”: Economic Development is “anything that happens in 5/6ths of the world” so we need to be selective. Topics with policy implications will be emphasized.
“People say the darndest things”: the moral imperative to do something to alleviate conditions of the poorest leads to all sorts of proposed panaceas. Having a soft heart is good. Letting it spread to your head is bad. There is a lot of that going around.

Pre-requisites: WWS511b and WWS507b

Requirements

Midterm (20%)
Paper (25%)
Final (25%)
Problem sets (20%)
Class participation (10%)

The paper will focus on one country (or a contrast of a pair of countries that have something in common) and bring class material to bear on its core policy problems and possible solutions. There is an awful lot of overgeneralization in this field. The purpose of the paper is to adapt common themes to specific circumstances.

Texts:

William Easterly, *The Elusive Quest for Growth*, MIT Press, 2002.

Banerjee, Benabou and Mookherjee (BBM), *Understanding Poverty*, Oxford UP, 2006.

Backup text:

Debraj Ray, *Development Economics*, Princeton UP, 1998. (too wordy for my taste but comprehensive – readings will often be in the optional list in case you want a textbook treatment of some topics)

Books of readings on reserve:

Bardhan and Udry: *Readings in Development Economics Volume II: Empirical Microeconomics*, MIT Press, 2000

Behrman and Srinivasan: *Handbook of Development Economics, Volume 3A&B*, Elsevier, 1995

Required reading are marked with a *. Optional readings are too technical, too long or too specialized to be required. Or they are particularly good examples of “People say the darndest things”.

The following schedule is only indicative. First, dates will slip. Second, topics can be dropped, shrunk, expanded or added as per class preferences (there’s too much to cover anyway – you might as well like what we do). The first assignment will help focus the mind on options.

Topic I (4 classes): The Big Picture and a little theory

The big picture:

*www.gapminder.org : Go to: “go to the graph” and play with this for at least an hour

*Angus Maddison: *The World Economy, Volume 1*, Chapters 1 and 3 (and skim – for obvious reasons - whatever else you like)

*Ray: Chapter 2 (skim, look at the pictures, read if you want)

*Easterly, Chapter 1

A little theory:

*Charles I. Jones, *Introduction to Economic Growth*, Chapters 2-4

*Easterly: Chapters 2, 3

Ray, Chapters 3-5

Robert Lucas, “The Mechanics of Economic Development”, *Journal of Monetary Economics*, July 1988.

Robert Lucas, “Why Doesn’t Capital Flow from Rich Countries to Poor Countries?”, *American Economic Review*, May 1990.

Mankiw, Romer and Weil, “A contribution to the empirics of economic growth” *Quarterly Journal of Economics*, 1992

A little more theory: Multiple equilibria

Wherein the class discusses whether the equation $\Delta k = s \times A \times f(k) - (n + \delta) \times k$ is useful or not, decides (without any help from the instructor) it isn’t sure, but thinks it might be a good organizational device regardless.

*Acemoglu, Johnson and Robinson, “Understanding Prosperity and Poverty: Geography, Institutions and the Reversal of Fortune”, in BBM.

*Jones, Chapter 7

*Easterly: Chapter 8

Michael Kremer, “The O-ring theory of economic development”, *Quarterly Journal of Economics*, August 1993

Acemoglu, Johnson and Robinson, “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution”, *Quarterly Journal of Economics*, 2002

_____ “The Colonial Origins of Comparative Development: an Empirical Investigation”, *American Economic Review*, 2001.

Knack and Keefer, “Institutions and Economic Performance: Cross-country tests using alternative institutional measures”, *Economics and Politics*, November 1995.

Rao and Walton (eds.), *Culture and Public Action*, Stanford UP, 2004. Chapters 1 (Rao and Walton), 3 (Appadurai) and 6 (Kuran).

*Aghion and de Aghion, “New Growth Approaches to Poverty Alleviation” in BBM

United Nations Development Program, *Human Development Report*, 1993 (cover), 1996
Srinivasan, “Human Development: A new paradigm or the re-invention of the wheel?” *American Economic Review*, May, 1994.

Ravallion, “Good and Bad Growth: The Human Development Reports”, *World Development*, 1997.

Topic II (4 classes): Poverty and Income Distribution: measurement and policy

*Angus Deaton, “Measuring Poverty” in BBM

*Deaton: “Welfare, poverty and distribution” chapter 3 of *The Analysis of Household Surveys*, Baltimore, Johns Hopkins UP, 1997.

*Kanbur, R., “Globalization, Growth and Distribution: Framing the Questions”, www.growthcommission.org/storage/cgdev/documents/ThemesPapers/Paper%20Kanbur.pdf

- *Piketty, “The Kuznets Curve, Yesterday and Tomorrow” in BBM
- *The World Bank, *World Development Report 2006*, Chapters 2,3

Ray, chapters 6,7

Peter Menzel, *Material World: A Global Family Portrait*, San Francisco, Sierra Club Books, 1994 (just look at the pictures)

P. Sainath, *Everybody Loves a Good Drought: stories from India's poorest districts*, Penguin Books, 1996 (insights on what it really means to be poor – read it someday).

Topic III (4 classes): Agriculture, market failures and the transition out (s, f, k)

Agricultural markets/ land

*Eswaran and Kotwal, “The role of agriculture in development”, in BBM

*Ray, Chapters 11, 12.3

Shaban, “Testing Alternative Theories of Sharecropping” in Bardhan and Udry (or *Journal of Political Economy*, 1987)

Ray, the rest of chapter 12

Savings, credit and insurance

*Ray, Section 8.4.1

*Paxson, “Using weather variability to estimate the response of savings to transitory income in Thailand”, in Bardhan and Udry (or *American Economic Review*, 1992)

* *Journal of Economic Perspectives*, Summer 1995:

*Morduch “Income Smoothing and Consumption Smoothing”

*Townsend, “Consumption Insurance: An evaluation of risk bearing systems in low-income countries”

*Besley, “Non-market institutions for credit and risk sharing in low-income countries”

*Morduch, “Micro-insurance: The next revolution?” in BBM

*Townsend, “Credit, Intermediation and Poverty Reduction” in BBM

Ray 13-15 (Labor, Credit, Insurance)

Gersovitz, “Saving and Development”, *Handbook of Development Economics*, Volume I (a bit dated but a useful early summary)

Besley, “Savings, Credit and Insurance” in Behrman and Srinivasan, *Handbook of Development Economics Vol. 3A*

Rosenzweig and Wolpin, “Credit market constraints, consumption smoothing and the accumulation of production assets in low-income countries: investments in bullocks in India” in Bardhan and Udry (or *Journal of Political Economy* 1993)

Morduch, “The Micro-Finance Promise” *Journal of Economic Literature*, 1999

Udry, “Credit Markets in northern Nigeria: Credit as insurance in a rural economy” *World Bank Economic Review*, 1990.

Labor

*Ray, section 13.4

*Srinivasan, Destitution: a Discourse, *Journal of Economic Literature*, 1994

Eswaran and Kotwal, "Real wage growth in LDC's" *Journal of Development Economics*
Dasgupta, *An Inquiry into Well-Being and Destitution*, 1995

Midterm

Topic IV (4 classes): Human Capital: contributions and market failures (f, k, n)

Physical and Human Capital

*Jimenez, "Human and Physical Infrastructure: Investment and Pricing Policies in Developing Countries" in Behrman and Srinivasan, *Handbook of Development Economics* Vol. IIIb

Population (fertility, migration and urbanization)

Fertility

*Schultz, "Fertility and Income" in BBM
*Eswaran, "Fertility in Developing Countries" in BBM
*Easterly, Chapter 5
Ray, Chapter 9

Migration and Urbanization

*Ray, section 10.3, 10.4
*Henderson, Shalizi and Venables, "Geography and Development", *Journal of Economic Geography*, v. 1, 2001

World Bank, *World Development Report 1994, Infrastructure and Development*
Williamson, Migration and Urbanization, *Handbook of Development Economics Vol. I*
(dated but there isn't a lot of literature out there)

Intra-household decisions

*Thomas, "Intrahousehold resource allocation: an inferential approach" in Bardhan and Udry (or *Journal of Human Resources*, 1990)
*Case and Deaton, "Large Cash Transfers to the Elderly in South Africa", *Economic Journal*, September 1998.
*Duflo, "Grandmothers and Granddaughters: Old Age Pensions and Intra-Household Allocation in South Africa", *World Bank Economic Review*, 2003.

Agnes Quisumbing, *Household Decisions, Gender and Development: a synthesis of recent research*, Washington, International Food Policy and Research Institute, 2003.

Education

*Case, "The Primacy of Education" in BBM
*Hanushek, Eric. 1996. "Interpreting recent research on schooling in developing countries," *World Bank Research Observer*
*Easterly Chapter 4
*Pritchett, "Does Learning to Add Add Up?" in *Handbook of Education Economics*.

Glewwe, Schools and Skills in Developing Countries: Education Policies and Socioeconomic Outcomes, *Journal of Economic Literature*, June, 2002.

Health

*Deaton, "Health, Inequality and Economic Development", *Journal of Economic Literature*, 2003.

*Strauss and Thomas, "Health, Nutrition and Economic Development", *Journal of Economic Literature*, 1998.

World Development Report 1993 (tragi-comic relief)

Sachs, J. 2001, "Macroeconomics and Health: Investing in Health for Economic Development" *Report of the Commission on Macroeconomics and Health*, Geneva, WHO. (ditto)

Topic V (4 classes): Government Failure (f, δ , s)

*Laffont, "Corruption and Development" in BBM

*Besley: *Principled Agents?*, Oxford UP, 2006, Chapters 1 and 2 (skip 2.6)

*Bardhan, "Corruption and Development: A Review of Issues", *Journal of Economic Literature*, September 1997

*(maybe) Schleifer and Vishny, "Corruption", *Quarterly Journal of Economics*, August 1993

* Easterly, Chapter 12

*James C. Scott, *Seeing Like a State: How certain schemes to improve the human condition have failed*, Yale UP, 1998, chapter 8 (1, 6 and 7, too, if you like).

*Wade, "The market for public office: Why the Indian state is not better at development", *World Development*, April, 1985.

Scott, *Seeing Like a State*, rest of the book (I highly recommend you read the whole book someday but not necessarily for this class)

Wade, "The system of administrative and political corruption: canal irrigation in South India", *Journal of Development Studies*, April, 1982.

Easterly, Chapter 11

Application to health

*Filmer, et al "Weak Links in the Chain I: A Diagnosis of Health Policy in Developing Countries", *World Bank Research Observer*, August 2000

Das and Hammer, "Money for Nothing: the Dire Straits of Indian Medical Care" *Journal of Development Economics*, May 2007.

Keefer and Khemani, "Democracy, Public Expenditures and the Poor: Understanding Political Incentives for Providing Public Services", *World Bank Research Observer*, 2005.

Chaudhury et al, "Missing in Action: Teacher and Health Worker Absence in Developing Countries" *Journal of Economic Perspectives*, Spring 2006

Topic VI: (2 classes) Policy I – Balancing Market and Government Failures

*"World Development Report 2004: Making Services Work for Poor People" Ch. 3-6

Application to health

*Filmer et al, "Weak Links in the Chain II: A Prescription for Health Policy in Developing Countries", *World Bank Research Observer*, Spring 2002.

Topic VII: (2 classes) Policy II - What happens when both markets and governments fail?

When "Big" governments fail: decentralization

*J. Ahmad et al, Decentralization and Service Delivery, in E. Ahmad and G. Brosio, (eds.), *Handbook of Fiscal Federalism*, Elgar Publishing, 2006

*Bardhan and Mookerjee, "Decentralization, corruption and government accountability", in Rose-Ackerman (ed.), *International Handbook on the Economics of Corruption*, Elgar Publishing, 2006.

Application to health:

Hammer, Aiyar and Samji, "Understanding Government Failures in Public Health Services", *Economic and Political Weekly*, October 2007.

When any government fails:

*Kaivan and Munshi, "Non-market Institutions" in BBM

*Mansuri and Rao, "Community Based- and Drive- Development: A Critical Review", *World Bank Research Observer*, 2004.

Dixit, *Lawlessness and Economics: Alternative Modes of Governance*, Princeton UP, 2004.

E. Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge UP, 1990.

Platteau, "The risk of resource appropriation in community-driven development" World Development, 2003

Hammer and Pritchett, "Scenes from a Marriage: An Economist's View of 'Social Capital'" in A. Bebbington, M. Woolcock, S. Guggenheim and E. Olson (eds.) The Search for Empowerment: Social Capital as Idea and Practice at the World Bank, Kumarian Press, 2006.

Topic VIII: (however many classes are left) The Wider World

*Banerjee, “Globalization and all that”, in BBM

*Bardhan, “The Global Economy and the Poor” in BBM

Trade and Factor Flows

*Bhagwati: *In Defense of Globalization*, Oxford UP, 2004, chapters 1, 2, 5, 10

*D. Rodrik: *One Economics, Many Recipes: Globalization, Institutions and Economic Growth*, Princeton UP, 2007 Chapters 7-9

*Pritchett, *Let their people come: Breaking the gridlock on global labor mobility*, Center for Global Development, 2006. Chapters 1, 2.

Aisbett, “Why are the critics so convinced that globalization is bad for the poor?” and

Sala-i-Martin’s comments, in Harrison, (ed.), *Globalization and Poverty*,

NBER/University of Chicago Press, 2007. (browse other chapters if you’re interested).

Winters, McCulloch and McKay, “Trade liberalization and poverty: the evidence so far”, *Journal of Economic Literature*, 2004.

Aid

*Jeffrey Sachs, *The End of Poverty: Economic policies for our time*, Penguin Press, 2005, Chapters 13-18

*Easterly, Review of Sachs, *Journal of Economic Literature*, March 2006.

Easterly, Chapters 6, 7.

Technological Change

*Tirole, “Intellectual Property and Health in Developing Countries” in BBM

*Kremer, “Public Policies to Stimulate Development of Vaccines for Neglected Diseases” in BBM

*Jensen, “The Digital Divide: Information (Technology), Market Performance and Welfare in the South Indian Fisheries Sector”, *Quarterly Journal of Economics*, August 2007. (Just the introduction, data collection method and the graph on page 899).

Platteau, Mutual insurance as an elusive concept in traditional rural communities, *Journal of Development Studies*, August 1997

Easterly, chapter 9.