

**N.B.: This is subject to (some) change**

**WWS 562b  
Economic Analysis of Development  
Spring 2009**

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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 5/6<sup>th</sup>s 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 (30%)  
Final (35%)  
Problem sets (25%)  
Class participation (10%)

**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

The syllabus is in two sections. Required reading are first. These are followed by optional readings that 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](http://www.gapminder.org) : Go to: “go to the graph” and play with this for at least an hour

\*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

**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.

Lant Pritchett, “Divergence, Big Time”, *Journal of Economic Perspectives*, 1997 (skim – the main point is clear)

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

Jones, Chapter 7

Easterly: Chapter 8

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

Angus Deaton, “Measuring Poverty” in BBM

One more TBD on standard measures

Banerjee and Duflo, “The Economic Lives of the Poor”, *Journal of Economic Perspectives*, 2006.

United Nations Development Program, *Human Development Report*, 1993 (cover) on blackboard

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

The World Bank, *World Development Report 2006*, Chapters 2,3

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

**Savings, credit and insurance**

Ray, Section 8.4.1

*Journal of Economic Perspectives*, Summer 1995:

Morduch “Income Smoothing and Consumption Smoothing”

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

Dichter, “Hype and Hope: The Worrisome State of the Microcredit Movement”. On blackboard

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

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

**Agricultural markets: Land, labor and risk**

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

Ray, Chapters 11, 12.3

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).

**Labor and the transition out**

Ray, section 13.4

Banerjee and Duflo, “The Economic Lives of the Middle Class” *Journal of Economic Perspectives*, 2008

**Topic IV (4 classes): Fixing 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 (sections to be determined)

World Development Report 1994 (chapters to be determined)

### **Urbanization**

World Development Report 2008 (sections to be determined)

### **Education (examples of education will be used to illustrate the next few sections)**

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

Hammer, “The Public Economics of Education” on blackboard

### **Topic V (4 classes): Government Failure (f, $\delta$ , s)**

Laffont, “Corruption and Development” in BBM

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.

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

“World Development Report 2004: Making Services Work for Poor People” Ch. 3-7

### **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

#### **When any government fails: Community action**

Kaivan and Munshi, “Non-market Institutions” in BBM

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

### **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 (tentative – may be replaced with a little standard trade theory)

**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.

Deaton, Maximum Prophet, *Lancet*, 2008

Moss, Petterson, van de walle “An Aid-Institutions Paradox?” in *Reinventing Foreign Aid*, Easterly (ed.) MIT Press 2008

## Optional Readings

### Topic I: The Big Picture and a little theory

#### The big picture:

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

#### A little theory:

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

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 Banerjee and Duflo, “Growth Theory through the lens of development”

### Topic II: Poverty and Income Distribution: measurement and policy

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

United Nations Development Program, *Human Development Report*, 1996

Srinivasan, “Human Development: A new paradigm or the re-invention of the wheel?” *American Economic Review*, May, 1994.

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

Ray, chapters 6,7

Piketty, “The Kuznets Curve, Yesterday and Tomorrow” in BBM

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: Agriculture, market failures and the transition out**

#### **Agricultural markets: Land, labor and risk**

Pinto, "Nigeria During and After the Oil Boom: A Policy Comparison with Indonesia", *World Bank Economic Review*, v. 1 n. 3, 1987

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**

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

Townsend, "Consumption Insurance: An evaluation of risk bearing systems in low-income countries" \* *Journal of Economic Perspectives*, Summer 1995

Aghion and Banerjee, *Volatility and Growth*, Oxford UP, 2005, Chapters 0-2

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**

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

### **Population (fertility, migration and urbanization) This includes topics that we don't have time for but which you might find interesting**

#### **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

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**

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: Government Failure**

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

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

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: Policy I – Balancing Market and Government Failures**

### **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: Policy II - When "Big" governments fail: decentralization**

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:**

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: The Wider World**

### **Trade and Factor Flows**

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**

Easterly, Chapters 6, 7.

The rest of Reinventing Foreign Aid