

## DEVELOPMENT ECONOMICS – JEM 0123

*Version: September, 13, 2024*

### Basic information

**Lecturer:** Prof. Michal Bauer, Ph.D. DSc. (MB)

**Teaching assistants:** Mgr. Dominika Rečková (DR)

**Location:** Lectures - Tuesday 9:30-10:50 in the room 206 (every week), Seminars (exercises) – Tuesday 11:00-12:20 in the room 206 (three weeks).

**Office hours:** Michal Bauer: By appointment via email [bauerm@fsv.cuni.cz](mailto: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, fertility decision-making, education, nutrition, institutions, access to finance and psychological effects of poverty. We will also discuss how the existing empirical evidence speaks to some of the key issues. Most of the evidence will be based on field experiments.

**Eligibility:** This is an MA-level course. Knowledge of BA-level intermediate microeconomics and macroeconomics is expected.

BA-level students can enroll if they passed Microeconomics II and Macroeconomics II courses at IES (or their equivalent elsewhere) and if there is a free course capacity.

**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 “eldec”.

### Requirements

1. **Final exam.** Format of the final exam will be the following: (a) you will not be asked broad open questions and supposed to write an essay, (b) the exam will be composed of: exercises similar to those that you cover during the seminars, specific questions about understanding of the main ideas/concepts covered during the lectures and brief questions about the main ideas and results from the papers we discussed during the class. (c) the exam will be closed-book, pen and paper. You will be allowed to ask clarification questions.

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, for four lectures I have selected several research papers (typically three) that students are expected to read before the class. These papers are marked with +. Such prior reading should allow an informed follow-up discussion about the papers during the class when we will put them in a broader context. Furthermore, students are required to prepare a brief written summary of one of those papers for each of these topics.

The summary will contain a brief description of the motivation of the paper or chapter. Since virtually all these papers are describing frontier empirical research, the student should summarize 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 critically engage with the paper. What do you like or dislike about the article? 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 they are due before the corresponding topic is covered during the class. 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 summaries: 20%
- Final exam: 80% (exam dates: Dec 17, Jan 29, Feb 7)
- Total: 100%

### **Outline of the course**

(Timing of different lectures, seminars and exam terms can be found on the course website on Moodle)

#### **Topic 1: Introduction**

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

#### **Literature**

- Ray Debraj (1998): Development Economics, ch.1-2, pp. 2-42.
- 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

#### **Topic 2: Persistence of poverty, poverty traps**

- Solow model
- Conditional and unconditional convergence
- Poverty traps: savings trap, capital threshold, population-based trap, ....
- Policy implications of poverty trap models
- Different approaches to foreign aid

## 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.
- +Banerjee and Duflo (2011). Poor economics. chapter 1 - Think again, again
- +Easterly, William (2006) " Planners vs. Searchers in Foreign Aid " Asian Development Review, Vol. 23, No. 2, 1-35, 2006,
- De Mel, McKenzie, Woodruff (2008): Returns to capital in microenterprises: evidence from a field experiment. Quarterly Journal of Economics

## Topic 3: Complementarities and persistence

- Complementarities and multiple equilibria
- Applications: technology adoption, social norms, paying taxes

## 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.
- Dulfo, Kremer and Robinson (2006): Why don't farmers use fertilizers: Evidence from field experiments in Kenya. American economic review
- Bursztyn, Leonardo, Alessandra L. González, and David Yanagizawa-Drott. 2020. "Misperceived Social Norms: Women Working Outside the Home in Saudi Arabia." American Economic Review 110 (10): 2997–3029.

## Topic 4: Population growth and fertility decision-making

- Demographic transition
- Potential causes of high fertility rates: benefits, costs, externalities, social norms

## Literature

- Ray, D. 1998: Development Economics. ch. 8, pp. 249-338. Library folder.
- Sen, A. (1992): Missing women. BMJ 1992;304: 586-7(free registration required).
- Sen, A. (2002): Missing women- revisited. BMJ 327:1297-1298 (6 December) (free registration required).
- Qian (2008): Missing women and the price of tea in China. Quarterly journal of economics.

## Topic 5: Education

- Evidence-based approach studying development
- 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
- <sup>+</sup>Glewwe, P., Ilias, N., & Kremer, M. (2010). Teacher incentives. American Economic Journal: Applied Economics, 2(3), 205–227.
- <sup>+</sup>Jensen, R. (2010). The (perceived) returns to education and the demand for schooling. The Quarterly Journal of Economics, 125(2), 515-548.
- <sup>+</sup>Barrera-Orsorio, 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.

## **Topic 6: Poverty measures, nutrition, health**

- Poverty measures: introduction
- Nutrition-based poverty trap
- Pricing of health products

### **Literature**

- Ray, D. 1998: Development Economics. ch. 8-9, pp. 249-338. 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.
- <sup>+</sup>Baird, Sarah, Joan Hamory Hicks, Michael Kremer, and Edward Miguel. 2016. “Worms at Work: Long-Run Impacts of a Child Health Investment.” Quarterly Journal of Economics 131 (4): 1637–80.
- Field, Robles and Torero: The cognitive link between geography and development: Iodine deficiency and schooling attainment in Tanzania, working paper
- 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.
- <sup>+</sup>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.
- <sup>+</sup>Dupas, Pascaline. 2014. “Short-Run Subsidies and Long-Run Adoption of New Health Products: Evidence from a Field Experiment.” Econometrica 82 (1): 197–228.

## **Topic 7: Microcredit and asymmetric information**

- Why is it difficult to provide credit to the poor? Adverse selection, moral hazard, credit rationing
- Microcredit innovation, its key characteristics, links to theory
- Does greater access to microcredit help the poor in practice?

### **Literature**

- Armendariz DeAghion and Morduch (2005): Economics of microfinance. MIT, ch. 1-2, pp. 1-52. Library folder.

- +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.

## **Topic 8: Institutions and corruption**

- 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.
- Mehlum, Moene, Torvik (2006): Parasites. In: 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.
- Acemoglu, Daron, Simon Johnson, and Jonathan. A Robinson. 2001. “The Colonial Origins of Comparative Development: An Empirical Investigation.” American Economic Review 91 (5): 1369–1401.
- Engerman and Kenneth Sokoloff (2000): History lessons: Institutions, factor endowments, and paths of development in the new world. Journal of Economic Perspectives, vol. 14, n. 3.
- Fisman and Miguel: Corruption, norms and legal enforcement: evidence from diplomatic parking tickets. Journal of political economy. 2008.

## **Topic 9: Psychology of poverty**

- Behavioral poverty trap
- Does poverty affect cognitive function?
- Does thinking about poverty affects time preference?
- Does thinking about poverty affect productivity?

### **Literature**

- +Mani, S. Mullainathan, E. Shafir, J. Zhao, Poverty impedes cognitive function. Science 341(6149), 976-980 (2013).
- Haushofer, Johannes, and Jeremy Shapiro. 2016. “The Short-Term Impact of Unconditional Cash Transfers to the Poor: Experimental Evidence from Kenya.” Quarterly Journal of Economics, mimeo, 131 (4): 1973–2042. Haushofer, J., & Fehr, E. (2014). On the psychology of poverty. Science (New York, N.Y.), 344(6186), 862–7. doi:10.1126/science.1232491
- +Bartos, V., Bauer, M., Chytilova, J. and Levely, I. (2021): Psychological effects of poverty on time preference. Economic Journal.
- +Kaur, Supreet, Sendhil Mullainathan, Frank Schilbach, and Suanna Oh. 2019. “Does Financial Strain Lower Worker Productivity?” Working paper

## **Seminars: Exercises (DM)**

Seminar 1: growth models and complementarities

Seminar 2: poverty lines, population growth  
Seminar 3: credit, institutions