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## Development Economics: Syllabus

### Slide 1

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### WHY GO BEYOND ABU'S STORY?

Journalistic account tells us about:

- Health and nutrition
- Credit
- Land
- Insurance
- Unemployment

### Slide 2

We want to go beyond the journalistic account in two ways:

- Many implicit references to massive inefficiencies. But may be the poor are "poor but efficient" (Sol Tax \$Penny Capitalism: A Guatemalan Indian Economy' ), i.e. the market ensures the best allocation of (sparse) available resources, or are there market inefficiencies? Can we formalize and evaluate some of the arguments made in the journalistic account?
  - Many empirical facts, but a small sample (one observation): what does the evidence tell us?
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### YEAR-LONG SEQUENCE OBJECTIVES

- Discuss the "building blocks" of these processes (household, firms and markets): theory and evidence
- Integrate these building blocks in macro-models: theory and evidence
- Teach you some basic tools (theoretical and empirical) to be used in your own research.

### Slide 3

In the first semester we will concentrate mostly on the building blocks, and in the second semester we will concentrate mostly on how they play together. But macro/micro issues will keep creeping into each other. Generally, the topic are organized so that they go from the more micro (less equilibrium) to the more macro (more equilibrium).

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### 2. NUTRITION AND HEALTH (2 LECTURES)

- The interrelationship of nutrition and productivity is a prime example of a vicious circle of poverty  
*Dasgupta, Partha and Debraj Ray (1986), "Inequality as a Determinant of Malnutrition and Unemployment: Theory," The Economic Journal, Vol. 96 (384), pp. 1011-1034.*
  - However, to get a poverty trap, you need high elasticity of calorie with respect to income, and income with respect to Calories.  
*Srinivasan, T. N. (1994), "Destitution: A Discourse," Journal of Economic Literature, Vol. 32 (4), pp. 1842-55.*
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### Slide 4

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Ultimately, the argument is empirical...

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- Strauss, John and Duncan Thomas (1995), "Human Resources: Empirical Modeling of Household and Family Decisions." In Behrman, Jere and T.N. Srinivasan, eds., Handbook of Development Economics, Volume 3. Amsterdam: North Holland, pp. 1885-2023. **Reverse Causality**
- Subramanian, Shankar and Angus Deaton (1996), "The Demand for Food and Calories," Journal of Political Economy, Vol. 104 (1), pp 133-62. **Non parametric regressions**
- Miguel, Edward and Michael Kremer (2001), "Worms: Education and Health Externalities in Kenya". **Randomized experiment**

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### 3. EDUCATION (3 LECTURES)

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- How are education decisions made in the family? (role of returns, credit constraints, incomplete contracting within the family)
- Supply constraints and government intervention:  
Duflo, Esther (2001), "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment" **Program evaluation. Differences in Differences**
- Angrist, Joshua and Victor Lavy (1999), "Using Maimonides' Rule to Estimate the Effect of Class Size on Scholastic Achievement," **Regression Discontinuity Design**
- Private and social returns to Education  
Duflo, Esther (2000), "The Medium Run Consequences of Educational Expansion: Evidence from a Large School Construction Program in Indonesia,"

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### 4. LAND (2 LECTURES)

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- Sharecropping leads to a loss in productivity  
Shaban, Radwan (1987) "Testing between Competing Models of Sharecropping," **Fixed Effects**
- Then why does sharecropping arises? Can tenancy reform improve tenants' incentives?  
Banerjee, Abhijit, Paul Gertler and Maitresh Ghatak (2002), "Empowerment and Efficiency: Tenancy Reform in West Bengal," **contract theory**
- Land reform  
Banerjee, Abhijit (1999), "Prospects and Strategies for Land Reforms",  
Besley, Timothy and Robin Burgess (2000), "Land Reform, Poverty Reduction, and Growth: Evidence from India,"

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### 5. CREDIT (4 LECTURES)

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- Why do credit market function poorly? Banerjee, Abhijit (2002), "Contracting Constraints, Credit Markets and Economic Development", mimeo, MIT.
- The ( mis)allocation of capital  
→ Banerjee, Abhijit and Esther Duflo (2002), "Do Firms Want to Borrow More?"  
→ Banerjee, Abhijit and Kaivan Munshi (2002), "How Efficiently is Capital Allocated? Evidence from the Knitted Garment Industry in Tirupur,"
- Government intervention and Micro-credit  
→ Burgess, Robin And Rohini Pande, "Do Banks Matter?"  
→ Karlan, Dean (2002), "Social Capital and Group Banking,"  
→ Morduch, Jonathan (1999), "The Microfinance Promise,"  
→ Pitt, Mark and Shahidur Khandker (1998), "The Impact of Group-based Credit Programs on Poor Households in Bangladesh"

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## 6. REPUTATION (2 LECTURES)

Untangible barrier to entry (within and across countries)

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Tirole, Jean (1996), "A Theory of Collective Reputations (With Applications to the Persistence of Corruption and to Firm Quality)," *Review of Economic Studies*, Vol. 63 (1), pp.1-22.

Banerjee, Abhijit and Esther Duflo, "Reputation Effects and the Limits of Contracting: A study of the Indian Software Industry," *Quarterly Journal of Economics*, Vol. 115 (3), pp. 989-1017, 2000.

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## 7. GENDER AND FAMILY (2 LECTURES)

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→ Gender discrimination in investment

Garg, Ashish and Jonathan Morduch (1998), "Sibling Rivalry and the Gender Gap: Evidence from Child Health Outcomes in Ghana."

→ The family as a cooperative collective entity

→ Browning, Martin and Pierre-Andre Chiappori (1998), "Efficient Intra-household Allocations: A General Characterization and Empirical Tests,"

→ Duflo, Esther (2000), "Grandmothers and Granddaughters: Old Age Pension and Intra-household Allocation in South Africa,"

→ Failure of pareto efficiency within the family

→ Udry, Christopher (1996), "Gender, Agricultural Production, and the Theory of the Household,"

→ Duflo, Esther and Christopher Udry (2001), "Intrahousehold Resource Allocation in Côte d'Ivoire"

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## 8. TECHNOLOGY: MICRO AND MICRO ASPECTS

→ The macro picture

→ Klenow, P. and A. Rodriguez-Clare, "The Neoclassical Revival in Growth Economics: Has it Gone too Far?,"

→ Kremer, M., "The O-Ring Theory of Economic Development" *The Quarterly Journal of Economics*

→ Basu, Susanto and David N. Weil, "Appropriate Technology and Growth,"

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→ Learning and diffusion

→ Banerjee, A. "A Simple Model of Herd Behavior," *The Quarterly Journal of Economics*

→ Ellison, G. and D. Fudenberg, "Rules of Thumb for Social Learning," 1993.

→ Foster A.D. and M.R. Rosenzweig, "Learning by Doing and Learning from Others"

→ Incentives for innovators

→ Kremer, M., "Creating Markets for New Vaccines: Parts I & II Rationale"

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## 9. POPULATION

Slide 12

→ Malthus, T.R., Chapters 1 & 2, "Essay on the Principle of Population 1798,"

→ Kremer, M., "Population Growth and Technological Change: 1,000,000 B.C. to 1990,"

→ Galor, O., and David N. Weil, "The Gender Gap, Fertility, and Growth," *American Economic Review*, 86 (3), pp. 374-387, 1996.