

Syllabus for AAE 730: Development Economics 1

Professor Laura Schechter

Spring 2024

1 Administrative Details

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|---------------------|---|
| Course meets: | B-30 Taylor Hall, MW 1:00-2:15 |
| Office: | 334 Taylor Hall |
| E-mail: | lschechter@wisc.edu |
| Office Hours: | By appointment |
| Website: | https://canvas.wisc.edu/courses/395867 |
| Instructional mode: | Face-to-face |
| Credits: | 3 ¹ |

2 Course Description

This class is one of two graduate level ‘frontier’ courses on development economics covering multiple topics. The general order for many of these topics will be to look at the economic theory related to the topic, an empirical study related to the topic, an experimental study related to the topic, and a network paper related to the topic.

For the first half of the class we will study risk-coping mechanisms, both across people and across time. We will begin with risk sharing agreements across people. After that we will look at credit which is used to smooth risk across time. We will also look at issues of self-control over time. The second half of the class will cover other important topics in development including markets and governance. Interspersed will be segues on empirical topics such as measurement error, fixed effects, permutation analysis, and more.

3 Learning Objectives

In this course you can expect to learn how to:

¹This class meets for two 75-minute class periods each week over the spring semester and carries the expectation that students will work on course learning activities (reading, writing, problem sets, studying, etc) for about 3 hours out of classroom for every class period. This syllabus includes more information about meeting times and expectations for student work.

- construct models of credit and insurance markets in developing countries and measure their impacts empirically.
- measure corruption and governance and their impact on economic development.
- correctly use and evaluate econometric concepts including fixed effects, attenuation bias, and instrumental variables.
- think critically about empirical research and write a referee report.

4 Prerequisites

A PhD level microeconomic theory course (often Econ 711) and a PhD level econometrics course (often Econ 709) are prerequisites for this class. If you are not a Ph.D. student enrolled in either Economics or AAE you must obtain my consent to take the course.

5 Course Requirements

The due dates for assignments and distribution of points for the semester are given below. All assignments are due *before* the beginning of class on the date listed below unless you request an extension in advance. Please upload all assignments as pdfs on Canvas.

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|----------------------------------|------|--------------------|
| Research idea #1 | 2.5% | Feb 12 |
| Homework assignment #1 | 12% | Feb 19 |
| Homework assignment #2 | 12% | Mar 4 |
| Research idea #2 | 2.5% | Mar 11 |
| Homework assignment #3 | 12% | Apr 1 |
| Research idea #3 | 2.5% | Apr 10 |
| Homework assignment #4 | 12% | Apr 22 |
| Research idea #4 | 2.5% | Apr 29 |
| Discussion questions on readings | 5% | Assorted Dates |
| Referee report and presentation | 10% | Assorted Dates |
| Final exam | 27% | May 8, 10:00-12:00 |

5.1 Research Ideas

You will write a 1-2 page (maximum) write-up of a research question of your choice related to the themes that have been covered in class. It should include the following pieces: What is your specific question? What does theory say the answer should be? What data would you need to answer the question? What estimating equation would you use and what coefficients would you expect? What identification issues will you face and how would you deal with them? (You do need to do more than identifying an endogeneity problem and stating that you will find an instrument. If your strategy involves IV, specify what instrument you are thinking of using.)

Please don't cite previous literature. This assignment requires no literature review or searching on the internet. Just sit down and think about a research question and write about it. You can always check if somebody else already did it later on. Please don't spend time giving the background of the situation either. Focus on developing your research question. Also, you don't need to choose your question based on data that already exists. You can write about what you would do if you had the ideal feasible data set. (You must write about a data set that would be feasible to collect with time and money.)

5.2 Referee Report and Presentation

Each of you will be assigned one paper about which to both write a 3-5 page referee report and give a 30 minute presentation. Each of the papers fits into a different section of the syllabus and each student will be assigned a different paper. Please e-mail me your first, second, and third choice papers by Saturday January 27. They are all job market papers of students on the job market this year.

A referee report should include approximately one or two paragraphs of summary (in your own words) and then longer sections on larger concerns and more minor concerns. I have found that many students spend too much space on the summary, and not enough space on the critique. Make sure to have approximately two to four pages of detailed critiques. You should number your critiques. Referee reports should not include your recommendation of whether the editor should request a revision or reject the paper - that only goes in your anonymous letter to the editor.²

I posted a document on this course's website which explains how one should write a referee report (the first draft of this document is thanks to Emilia Tjernström). I also post real examples of referee reports I have received. (Please don't share these.)

The presentations should be approximately thirty minutes long³ and will be held on the day of class listed below. Around twenty minutes of the presentation should be spent explaining what the paper does. Five minutes should be spent discussing the main contributions and the main shortcomings of the paper. The last five minutes should be spent discussing questions which are left open for future researchers on related topics. While these numbers are approximate, you must make sure to cover these last two points. Often students summarize the paper and forget to add in a critical analysis of shortcomings of the research and remaining research questions. After your presentation there will be another five minutes for discussion with everyone.

All students are expected to read the introduction of the job market paper before class the day it is presented. The presenter should upload his or her referee report to canvas *before* class on the day the presentation is scheduled. The papers from which you can choose, and the dates that go along with them, are listed below:

²You are not writing a letter to the editor for this class, I just mention it because your recommendation does not belong in the referee report you submit to me.

³A general rule is that you should have fewer slides than minutes, so no more than 30 slides. Probably 20 slides is better.

- Feb 21 Jain, R., & V. Khandelwal (2024), “[Silent Networks: The Role of Inaccurate Beliefs in Reducing Useful Social Interactions](#),” Current Job Market Paper.
- Mar 13 Buchmann, N., C. Meyer, & C.D. Sullivan (2023), “[Paternalistic Discrimination](#),” Current Job Market Paper.
- Apr 8 Patel, D. (2024), “[Learning About a Warming World: Attention and Adaptation in Agriculture](#),” Current Job Market Paper.
- Apr 15 Bordeu, O. (2023), “[Commuting Infrastructure in Fragmented Cities](#),” Current Job Market Paper.
- Apr 24 Molina, C. (2023), “[Electoral Transhumance: Voter Registration Shifting and Corruption Engagement Before Election Day](#),” Current Job Market Paper.
- May 1 Lobel, F. (2023), “[Who Benefits from Payroll Tax Cuts? Market Power, Tax Incidence and Efficiency](#),” Current Job Market Paper.

5.3 Problem Sets

There will be four problem sets throughout the semester combining data analysis and theory. You are welcome to collaborate and work in groups, but the final document you submit must be in your own words. Students will receive zero points for any answer that is the same as one of their classmate’s answers.

5.4 Discussion Questions

There are approximately 18 required readings on the syllabus for this class. For each of these required readings you will need to post two or three questions in the discussion tab of Canvas before class on the day the paper is assigned. These should be questions you had while reading the paper, and they can span the spectrum anywhere from the most big picture question to the most nit-picky question.

5.5 Final Exam

There will be a final exam at the end of this class. Because there was no exam time scheduled for this class I have chosen Wednesday May 8 from 10 AM -12 PM. If this time will not work for you please let me know before the end of February.

6 Children in the Classroom

UW Madison does not have a formal policy on children in the classroom so I adapted one from a Yale Business School class taught by Florian Ederer and Kevin Williams. These

guidelines were written for in-person classes, but the general idea for a synchronous online class still holds.

1. All babies (bottle-feeding, nursing,...) are welcome in class as often as is necessary.
2. For older children, I understand that unforeseen disruptions in childcare often place parents in the position of having to miss class to stay home. You are welcome to bring your child to class in order to cover gaps in care. This is not meant to be a long-term solution.
3. I ask that all students work together to create a welcoming environment that is respectful of all forms of diversity, including diversity in parenting status.
4. In all cases when your children come to class, please sit close to a door. This will allow you to step outside in case your child needs special attention.
5. I maintain the same standards and expectations for all students. However, please contact me if you are having difficulty with school-parenting balance.

7 Academic Misconduct

By virtue of enrollment, you agree to uphold the high academic standards of the University of Wisconsin-Madison; academic misconduct is behavior that negatively impacts the integrity of the institution. Cheating, fabrication, plagiarism, unauthorized collaboration, and helping others commit these previously listed acts are examples of misconduct which may result in disciplinary action. Examples of disciplinary action include, but are not limited to, failure on the assignment/course, written reprimand, disciplinary probation, suspension, or expulsion.

Examples of academic misconduct include:

- cheating on an examination,
- presenting work that is not in the student's own words,
- submitting a paper or assignment as one's own work when a part or all of the paper or assignment is the work of another,
- submitting a paper or assignment that contains ideas or research of others without appropriately identifying the sources of those ideas, and
- knowingly and intentionally assisting another student in any of the above.

We will discuss plagiarism and explore examples of plagiarism early in the course. While students are welcome to work together on problem sets, the final written work submitted must be in the student's own words.

8 Course Outline and Readings

If you click on the title of any of the papers below, it should take you directly to the paper. For information on how to get access when you are off campus, see this website: <https://www.library.wisc.edu/help/off-campus-access/>. When I posted this syllabus on Canvas all of the links worked. Please let me know if any of them seem to be acting funny throughout the semester.

Although lectures may draw from any or all of these readings, you will only be required to do one reading for each class period. There is an **(R)** in front of the required readings. You are required to do these readings. The readings are all quite excellent, and discussing them in class is *not* a substitute for reading them yourself! You will have to post discussion questions for each reading on Canvas.

8.1 Introduction (Jan 24)

8.2 Insurance (Jan 29 and 31, and Feb 5 and 7)

8.2.1 Overview

- Bardhan, P. & C. Udry (1999), *Development Microeconomics*, New York: Oxford University Press. Chapter 8. Reading posted on Canvas.

8.2.2 Full Insurance

- **(R)** Townsend, R. (1994), “[Risk and Insurance in Village India](#),” *Econometrica* 62(3), 539-591.

8.2.3 Limited Commitment

- Coate, S. & M. Ravallion (1993), “[Reciprocity Without Commitment: Characterization and Performance of Informal Insurance Arrangements](#),” *Journal of Development Economics* 40(1), 1-24.
- **(R)** Ligon, E., J.P. Thomas, & T. Worrall (2002), “[Informal Insurance Arrangements with Limited Commitment: Theory and Evidence from Village Economies](#),” *Review of Economic Studies* 69(1), 209-244.
- Genicot, G. & D. Ray (2003), “[Group Formation in Risk-Sharing Arrangements](#),” *Review of Economic Studies* 70(1), 87-113.

8.2.4 Network Papers

- **(R)** Karlan, D., M. Möbius, T. Rosenblat, & A. Szeidl (2009), “[Trust and Social Collateral](#),” *Quarterly Journal of Economics* 124(3), 1307-1361.

- (R) Chandrasekhar, A.G., C. Kinnan, & H. Larreguy (2018), “[Social Networks as Contract Enforcement: Evidence from a Lab Experiment in the Field](#),” *American Economic Journal: Applied Economics* 10(4), 43-78.

8.2.5 Other Insurance

- Gadenne, L., S. Norris, M. Singhal, & S. Sukhtankar (2023). “[In-Kind Transfers as Insurance](#),” Unpublished working paper.

8.3 Catch-up Day and Plagiarism Discussion (Feb 12)

8.4 Credit (Feb 14 and 19)

8.4.1 Overview

- Bardhan, P. & C. Udry (1999), *Development Microeconomics*, New York: Oxford University Press. Chapter 7. Reading posted on Canvas.

8.4.2 Experimental Papers

- (R) Karlan, D. & J. Zinman (2009), “[Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment](#),” *Econometrica* 77(6), 1993-2008.

8.4.3 Network Papers

- (R) Banerjee, A., A.G. Chandrasekhar, E. Duflo, & M.O. Jackson (2013), “[The Diffusion of Microfinance](#),” *Science* 341(6144). [[Please also read supplementary materials here.](#)]

8.5 Catch-up Day (Feb 21)

8.6 Behavioral and Self Control (Feb 26 and 28 and March 4 and 6)

8.6.1 Self Control

- Ashraf, N., D. Karlan, & W. Yin (2006), “[Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines](#),” *Quarterly Journal of Economics* 121(2), 635-672.
- Banerjee, A.V. & S. Mullainathan (2010), “[The Shape of Temptation: Implications for the Economic Lives of the Poor](#),” Unpublished working paper.

- Duflo, E., M. Kremer & J. Robinson (2011), “Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya,” *American Economic Review* 101(6), 2350-2390.
- (R) Kaur, S., M. Kremer, & S. Mullainathan (2015), “Self-Control at Work,” *Journal of Political Economy* 123(6), 1227-1277.
- (R) Casaburi, L. & J. Willis (2018), “Time versus State in Insurance: Experimental Evidence from Contract Farming in Kenya,” *American Economic Review* 108(12): 3778-3813.
- Schilbach, F. (2019), “Alcohol and Self-Control: A Field Experiment in India,” *American Economic Review* 109(4), 1290-1322.
- Aggarwal, S., R. Dizon-Ross, & A. Zucker (2023), “Designing Incentives for Impatient People: An RCT Promoting Exercise to Manage Diabetes,” Unpublished working paper.

8.6.2 Decision Making Under Scarcity

- (R) Fehr, D., G. Fink, & B.K. Jack (2022), “Poor and Rational: Decision-Making under Scarcity,” *Journal of Political Economy* 130(11), 2771-3024.
- Kaur, S., S. Mullainathan, S. Oh, & F. Schilbach. (2022), “Do Financial Concerns Make Workers Less Productive?” Forthcoming *Quarterly Journal of Economics*.

8.6.3 Discrimination

- (R) Rao, G. (2019), “Familiarity Does Not Breed Contempt: Diversity, Discrimination and Generosity in Delhi Schools,” *American Economic Review* 109(3), 774-809.

8.7 Catch-up Days (Mar 11 and 13)

8.8 Fixed Effects and Spillovers (Mar 18 and 20)

- (R) Shah, M. & B.M. Steinberg (2017), “Drought of Opportunities: Contemporaneous and Long-Term Impacts of Rainfall Shocks on Human Capital,” *Journal of Political Economy* 125(2), 527-561. [Focus on use of different levels of fixed effects.]
- Miguel, T. & M. Kremer (2004), “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities,” *Econometrica* 72(1), 159-217.
- (R) Egger, D., J. Haushofer, E. Miguel, P. Niehaus, & M. Walker (2022), “General Equilibrium Effects of Cash Transfers: Experimental Evidence from Kenya,” *Econometrica* 90(6), 2603-2643.

[Spring Break March 25 - 29]

8.9 Catch-up Day (Apr 1)

8.10 Agricultural Markets (Apr 3 and 8)

8.10.1 Empirical Papers

- (R) Moscona, J. & K.A. Sastry (2022) “[Inappropriate Technology: Evidence from Global Agriculture](#),” Unpublished working paper.

8.10.2 Experimental Papers

- (R) Bergquist, L.F. & M. Dinerstein (2020), “[Competition and Entry in Agricultural Markets: Experimental Evidence from Kenya](#),” *American Economic Review*, 110(12), 3705-3747.

8.11 Catch-up Days (Apr 10 and 15)

8.12 Governance (April 17, 22, 24, and 29)

8.12.1 Elections

- (R) Ferraz, C. & F. Finan (2008), “[Exposing Corrupt Politicians: The Effect of Brazil’s Publicly Released Audits on Electoral Outcomes](#),” *Quarterly Journal of Economics* 123(2), 703-745.
- (R) Finan, F. & L. Schechter (2012), “[Vote-Buying and Reciprocity](#),” *Econometrica* 80(2), 863-881.

8.12.2 Corruption

- Olken, B.A. (2007), “[Monitoring Corruption: Evidence from a Field Experiment in Indonesia](#),” *Journal of Political Economy* 115(2), 200-249.

8.12.3 Taxes

- (R) Khan, A.Q., A. Khwaja, & B.A. Olken (2016), “[Tax Farming Redux: Experimental Evidence on Performance Pay for Tax Collectors](#),” *Quarterly Journal of Economics* 131(1): 219-271.
- Carrillo, P., D. Pomeranz, & M. Singhal (2017), “[Dodging the Taxman: Firm Misreporting and Limits to Tax Enforcement](#),” *American Economic Journal: Applied Economics* 9(2): 144-164.
- Kumler, T., E. Verhoogen, & J. Frías (2020), “[Enlisting Employees in Improving Payroll-Tax Compliance: Evidence from Mexico](#),” *Review of Economics and Statistics* 102(5): 881-896.

- Basri, M.C. M. Felix, R. Hanna, & B.A. Olken (2021), “Tax Administration versus Tax Rates: Evidence from Corporate Taxation in Indonesia,” *American Economic Review* 111(12): 3827-71.
- Balan, P., A. Bergeron, G. Tourek, & J. Weigel (2022), “Local Elites as State Capacity: How City Chiefs use Local Information to Increase Tax Compliance in the Democratic Republic of the Congo,” *American Economic Review* 112(3): 762-797.
- (R) Gadenne, L., T.K. Nandi, & R. Rathelot (2022), “Taxation and Supplier Networks: Evidence from India,” Unpublished working paper.
- Almunia, Miguel, Jonas Hjort, Justine Knebelmann, & Lin Tian (2024), “Strategic or Confused Firms? Evidence from ‘Missing’ Transactions in Uganda,” *Review of Economics and Statistics* Forthcoming.

8.13 Catch-up Day (May 1)