

Syllabus for AAE/Econ 474

Economic Problems of Developing Areas

Professor Laura Schechter

Fall 2008

1 Administrative Details

Course meets: 290 Nutrition Science, MW 2:30-3:45
Office: 334 Taylor Hall
E-mail: lschechter@wisc.edu
Office Hours: T 11:00-12:00, F 2:30-3:30
Website: <http://www.aae.wisc.edu/aae474/main.asp>

2 Course Description

In 2005, one out of five people on this planet was living on less than \$1 per day. Half the world lives on less than \$2 per day. Health status, educational attainment, government quality, and many other indicators are substantially lower in developing countries than in developed countries. Why are so many people so poor and what constrains them from catching up? What strategies can be effective in moving people out of poverty?

We will begin the class by defining development, poverty, and inequality and looking at some general trends in these measures. We will move on to look at human capital within which we will cover health and nutrition, education, and population and fertility. After the midterm we will study corruption and social capital. We will then study intra-household sharing and inequality within households. After that we will look at risk coping mechanisms including traditional credit, microcredit, roscas, and microinsurance. We will end with a look at land and property rights.

Many of the papers we will read in this course will be empirical and one of the goals of this class will be to learn how to read, understand, and criticize empirical work. You do not need to have taken an econometrics course since we will cover the necessary tools in class.

This course will not cover macroeconomic topics such as growth, trade, globalization, and foreign aid. For students interested in those topics I recommend AAE 373 and 374, and Econ 364, 365, 464, and 475. There are also area studies classes focusing on Latin America (AAE/Econ 462), Africa (AAE/Econ 477), and East and Southeast Asia (AAE/Econ 473).

3 Prerequisites

One introductory course in economics (e.g., Econ 101,102, AAE 215) or a solid background in economic issues from other “development” oriented courses. Economic models and econometric tools are frequently used to provide a coherent explanation for some issues. On the other hand, these models should not be a major barrier to participation or successful achievement for students in this course.

4 Lecture Notes

Lecture notes will be posted on the course website after each class period.

5 Course Requirements

The distribution of points for the semester will be as follows:

- Four Problem Sets, 36% of total grade (9% each).
- Three Reading Reaction Papers, 12% of total grade (4% each).
- Midterm Exam 26% of total grade.
- Final Exam 26% of total grade.

5.1 Problem Sets

Homework assignments will include a variety of written and numerical exercises. Assignments will be handed out a week to a week and a half before they are due. Assignments are due at the beginning of class on the day they are due. Late homework assignments will be accepted but will lose 20% credit for each day they are late. (This means they lose 20% the first day late, 40% if two days late, 60% if three days late, 80% if four days late, and will receive no credit if handed in five or more days late.) The homework assignments will be due **Sep 24, Oct 13, Nov 17, and Dec 8**.

5.2 Reading Reaction Papers

Throughout the semester you will choose three of the readings in the reader about which to write a reaction paper. You cannot choose to write about a chapter in the textbook or about any of the articles which are four pages or shorter. (This means no articles from *The Economist*.) Your reaction paper is due at the beginning of class on the day we are discussing that article (the date in brackets next to the title of the reading in the list below). Reaction papers handed in after that time will **not** be accepted.

The reaction papers should be approximately two pages double-spaced with 12 point font. They should be well-organized and carefully written. The reaction papers will be graded according to how seriously you engage a reading and the rigor and clarity of your argument. You will not be graded on whether you are “right” or “wrong,” or whether you agree with my opinion on the issue. Around half of the reaction paper should summarize the authors’ main point. The rest of the paper should be dedicated to your reaction to the reading.

Some questions you may want to look at are: Did you agree or disagree with the reading? Did you find any flaws in the authors’ reasoning? What was the most interesting part of the reading for you? Did the reading make you rethink your opinion on the issue? How does the reading compare with readings you had in another class or other readings in this class? Are there other related issues or questions you would like to discuss in class? You do not have to answer all or any of these specific questions. I just put them here to get you thinking about what types of things you may want to discuss. I may mention points that you bring up in your reaction papers for others to learn from and discuss and hope that these papers will be useful for the entire class.

5.3 Exams

The following dates for the mid-term and final exams have been set:

- Mid-term: In class on **Monday, Oct 20th** from 2:30-3:45.
- Final: **Tuesday, Dec 16th** from 2:45-4:45. Location TBA.

5.4 Required Texts

Debraj Ray, *Development Economics*, Princeton University Press, 1998. We will only be reading selected pieces of this text. If you do not want to purchase the book, I have placed two copies on reserve at Steenbock Memorial Library (550 Babcock Drive) so you can photocopy the relevant pages.

There is also one course reader with articles available at Underground Textbook Exchange, 664 State St.

5.5 Important Things to Note

Problem sets must be handed in at the beginning of class on the day they are due. Late homework assignments will be accepted up to four days late but will lose 20% credit for each day they are late as discussed above. You may work with other students on the problem sets, but the written answers must be in your own words. If you copy someone else’s answer, that is cheating.

There are no scheduled make-up exams. Students who miss a midterm and who have an excuse meeting University standards will be required to complete an additional assignment. If it is completed acceptably, they will have the final exam weighted proportionately more.

Excuses must be approved within 24 hours of the scheduled exam. If you cannot take the final at the scheduled time, do not take this course!

Cheating and plagiarism will not be tolerated. If you are caught cheating or plagiarizing, you will get a 0 on the assignment and appropriate University Conduct Code sanctions will be taken against you.

If you require special accommodations for exams due to learning or other disability, you must speak with me before October 1st. You will need to obtain the evaluation form from the McBurney Disability Resource Center (<http://www.mcburney.wisc.edu/>).

6 Course Outline and Readings

I expect you to have done the reading before class on the bold date in brackets to the left of the reading. There is usually one reading per day of class unless the reading is very short or very interesting. Remember that if you are going to hand in a reaction paper on one of the readings you must hand it in at the beginning of class on the day in bold brackets for that reading.

1. Poverty, Inequality, and Other Measures of Development (Sep 3, 8, 10, 15, and 17).
 - [Sep 8] Banerjee, A. V. & E. Duflo (2007), “The Economic Lives of the Poor,” *Journal of Economic Perspectives* 21(1), 141–167.
 - [Sep 8] RAY: Sections 8.1-8.3 and Chapter 8 appendix.
 - [Sep 10] “Adios to poverty, hola to consumption” and “Destitute no more,” *The Economist* August 18, 2007.
 - [Sep 10] RAY: Chapter 6.
 - [Sep 15] Streeten, P. (1994), “Human Development: Means and Ends,” *American Economic Review* 84(2), 232–237.
 - [Sep 15] *Human Development Report* (2007/2008), “Technical Note 1,” 355–361.
 - [Sep 17] *World Development Report* (2006), “Equity and Development, Overview,” 1–18.
2. Regression Analysis (Sep 22).
 - [Sep 22] RAY: Appendix 2.
3. Health, Education, and Conditional Cash Transfers (Sep 24, 29, and Oct 1, 6, and 8).
 - [Sep 24] RAY: Section 8.4.2 (272–279) and Section 13.4 (489–504).
 - [Sep 24] “A Drop of Pure Gold,” *The Economist*, October 15, 2005.
 - [Sep 29] Thomas, D. and E. Frankenberg (2002), “Health, Nutrition, and Prosperity: A Microeconomic Perspective,” *Bulletin of the World Health Organization* 80(2), 106–113.

- [Sep 29] Thomas, D. et al (2006), “Causal Effect of Health on Labor Market Outcomes: Experimental Evidence,” Unpublished Manuscript.
- [Oct 1] Duflo, E. (2001), “Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment,” *American Economic Review* 91(4), 795–813.
- [Oct 6] Pratham, “Fighting Poverty: What Works?” 2006
- [Oct 6] Kremer, M. (2003), “Randomized Evaluations of Educational Programs in Developing Countries: Some Lessons,” *American Economic Review* 93(2), 102–106.
- [Oct 8] Rawlings, L. B. & G. M. Rubio (2005), “Evaluating the Impact of Conditional Cash Transfer Programs,” *World Bank Research Observer* 20(1), 29–55.
- [Oct 8] “New Thinking About an Old Problem” and “Not Always with us,” *The Economist*, September 17, 2005.
- [Oct 8] “Happy Families,” *The Economist*, February 9, 2008.

4. Population (Oct 13 and 15).

- [Oct 13] RAY: Chapter 9.
- [Oct 15] Easterly, W. (2002), “Cash for Condoms,” Ch. 5 in *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*, Cambridge: MIT Press.
- [Oct 15] “Kissing Cousins, Missing Children,” *The Economist*, February 9, 2008.

MIDTERM 1, IN CLASS (Oct 20).

5. Corruption, Trust, and Social Capital (Oct 22 and 27).

- [Oct 22] “Blood Money,” *The Economist*, October 22, 2005.
- [Oct22] Wade, R. (1982), “The System of Administrative and Political Corruption: Canal Irrigation in South India,” *Journal of Development Studies* 18(3), 287–328.
- [Oct27] Olken, B. (2007), “Monitoring Corruption: Evidence from a Field Experiment in Indonesia,” *Journal of Political Economy* 115(2), 200–249.

6. Household Economics (Oct 29 and Nov 3 and 5).

- [Oct 29] Thomas, D. (1990), “Intra-Household Resource Allocation: An Inferential Approach,” *Journal of Human Resources* 25(4), 635–664.
- [Nov 3] Duflo, E. (2003), “Grandmothers and Granddaughters: Old-Age Pensions and Intrahousehold Allocation in South Africa,” *World Bank Economic Review* 17(1), 1–25.

- [Nov 5] Edmonds, E. & N. Pavcnik (2005), “Child Labor in the Global Economy,” *Journal of Economic Perspectives*, 19(1), 199–220.

7. Credit (Nov 10, 12, and 17).

- [Nov 10] RAY: Sections 14.1-14.3.
- [Nov 12] Karlan, D. & J. Zinman (2008), “Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment, Unpublished Manuscript.
- [Nov 12] Banerjee, A. & E. Duflo (2004), “What do Banks (not) do?,” Unpublished Manuscript.
- [Nov 17] Udry, C. (1990), “Credit Markets in Northern Nigeria: Credit as Insurance in a Rural Economy,” *World Bank Economic Review* 4(3), 251–269.

8. Microfinance and Roscas (Nov 19, 24, and 26).

- [Nov 19] Morduch, J. (1999), “The Microfinance Promise,” *Journal of Economic Literature* 37(4), 1569–1614.
- [Nov 24] Karlan, D. (2007), “Social Connections and Group Banking,” *Economic Journal* 117(517), F52–F84.
- [Nov 24] Littlefield, E. & R. Rosenberg (2004), “Microfinance and the Poor,” *Finance and Development* 41(2), 38–40.
- [Nov 24] Hung, G. N. T. (2004), “Bank on Wheels,” *Finance and Development* 41(2), 41–43.
- [Nov 26] Anderson, S. & J. M. Baland (2002), The Economics of ROSCAs and Intrahousehold Resource Allocation, *Quarterly Journal of Economics* 117(3), 963–995.

9. Microinsurance (Dec 1).

- [Dec 1] Townsend, R. (1995), “Consumption Insurance: An Evaluation of Risk-Bearing Systems in Low-Income Economies,” *Journal of Economic Perspectives* 9(3), 83–102.

Class Cancelled on December 3rd. Use the time to get caught up and study.

10. Land and Property Rights (Dec 8 and 10).

- [Dec 8] RAY: Sections 12.1, 12.2, 12.4, and 12.5.
- [Dec 10] Field, E. (2005), “Property Rights and Investment in Urban Slums,” *Journal of the European Economic Association* 3(23), 279–290.
- [Dec 10] Woodruff, C. (2001), “Review of de Soto’s “The Mystery of Capital”,” *Journal of Economic Literature* 39(4), 1215–1223.