

Syllabus for AAE 730

Professor Laura Schechter

Spring 2012

1 Administrative Details

Course meets: B30 Taylor Hall, MW 11:00-12:15
Office: 334 Taylor Hall
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Office Hours: By appointment
Website: <http://www.aae.wisc.edu/aae730/main.asp>

2 Course Description

This class is one of four graduate level courses on development economics. We will begin by looking at issues in the measurement of poverty and inequality. These concepts are, arguably, the basis of all development economics and so deserve proper attention.

After that we will move on to look at risk-coping mechanisms, both across people and across time. We will begin with risk sharing agreements across people, both with and then without commitment. After that we will look at savings and credit which are used to smooth risk across time.

We will continue on to social networks. We will study how networks are used to share risk, find jobs, and learn about new technologies. In terms of technology adoption, we will study both the more traditional literature on technology adoption without social networks and the newer literature which incorporates social networks.

From there we will move on to study education, health, and, if we get to it, corruption. Before the education section there will be a detour related to impact analysis.

3 Prerequisites

A PhD level microeconomic theory course and a PhD level econometrics course are prerequisites for this class. Taking this course without that may be difficult for you. If you are not a Ph.D. student enrolled in either Economics or AAE you must obtain my consent to take the course for credit.

4 Course Requirements

The due dates for assignments and distribution of points for the semester are given below.

Homework assignment #1	10%	Feb 6
Research idea #1	2.5%	Feb 13
Homework assignment #2	10%	Feb 20
Research idea #2	2.5%	Feb 29
Homework assignment #3	10%	Mar 7
Homework assignment #4	10%	Mar 28
Research idea #3	2.5%	Apr 11
Research idea #4	2.5%	Apr 25
Homework assignment #5	10%	May 7
Referee report and presentation	12%	Assorted Dates
Final exam	28%	May 14, 10:00-12:00

4.1 Research Ideas

You will write a 1-2 page (maximum) statement on a research idea 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 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 data set.

4.2 Referee Report and Presentation

Each of you will have to write a 3-5 page referee report and give a 30 minute presentation on a different paper. Each of the papers fits into a different section of the syllabus. Please e-mail me your first, second, and third choice papers by Saturday January 28. Most of these are job market papers of students on the job market this year, while a few are papers of students who were on the job market last year.

There are two documents posted on this course's website which explains how one should write a referee report (one is thanks to Alain de Janvry and Elisabeth Sadoulet while the other is thanks to William Thomson). I will also send you real examples of referee reports I have received by e-mail.

A referee report should include approximately one or two paragraphs of summary and then longer sections on larger concerns and more minor concerns. I have found that most 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.

The presentations should be approximately thirty minutes long and will be held on the day of class on which we are discussing the topic into which the paper fits. 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. (These numbers are all quite approximate. You may vary them as you feel comfortable.) After your presentation there will be another five minutes for discussion with everyone. You should hand in your referee report on the same day as your presentation is scheduled. The papers from which you can choose, and the dates that go along with them, are listed below:

- \approx Feb 15 Jakiela, P. and O. Ozier (2011), “[Does Africa Need a Rotten Kin Theorem? Experimental Evidence from Village Economies](#),” Current Working Paper.
- \approx Feb 22 Kaur, S. (2011), “[Nominal Wage Rigidity in Village Labor Markets](#),” Current Job Market Paper.
- \approx Feb 27 Schaner, S. (2011), “[Intrahousehold Preference Heterogeneity, Commitment, and Strategic Savings: Theory and Evidence from Kenya](#),” Current Working Paper.
- \approx Mar 12 Breza, E. (2011), “[Peer Effects and Loan Repayment: Evidence from the Krishna Default Crisis](#),” Current Job Market Paper.
- \approx Mar 19 Chandrasekhar, A. (2011), “[Informal Insurance, Social Networks, and Savings Access: Evidence from a Lab Experiment in the Field](#)” Current Working Paper.
- \approx Mar 21 Hjort, J. (2011), “[Ethnic Divisions and Production in Firms](#),” Current Job Market Paper.
- \approx Mar 26 Cai, J. (2011), “[Social Networks and the Decision to Insure: Evidence from Randomized Experiments in China](#),” Current Job Market Paper.
- \approx Apr 9 Bryan, G. (2011), “[Ambiguity and Insurance](#),” Current Working Paper.
- \approx Apr 16 Zeitlin, A. (2011), “[Understanding Heterogeneity: Risk and Learning in the Adoption of Agricultural Technologies](#),” Current Job Market Paper.
- \approx Apr 18 Dell, M. (2011), “[Trafficking Networks and the Mexican Drug War](#),” Current Job Market Paper.
- \approx Apr 23 Solis, A. (2011), “[Credit Access and College Enrollment](#),” Current Job Market Paper.
- \approx Apr 30 Leon, G. (2011), “[Turnout, Political Preferences and Information: Experimental Evidence from Peru](#),” Current Job Market Paper.

4.3 Homework Assignments

There will be five homework assignments throughout the semester combining data analysis and theory. You will need to use Stata or some similar statistical package. The computers in the department's computer lab have Stata, and if you do not have an account for those computers please let me know and I will help you get one. There is a handout available on the class website giving you some introductory information on how to get started in Stata. If you have more questions after looking at that please feel free to contact me.

4.4 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 May 14 from 10-12 AM. If this time will not work for you please let me know before the end of February.

5 Course Outline and Readings

If you click on the title of any of the papers below it should take you directly to the paper. You may only be able to access these papers when you are logging on from a campus computer due to copyright issues. When I wrote this syllabus 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 really required to do the readings. The readings are all quite excellent, and discussing them in class is *not* a substitute for reading them yourself!

5.1 Measuring Poverty and Inequality (Jan 23, 25, and 30)

5.1.1 Poverty

- Sen, A. (1976), [“Poverty: An Ordinal Approach to Measurement,”](#) *Econometrica* 44(2), 219-231.
- Foster, J. Greer, J. & Thorbecke, E. (1984), [“A Class of Decomposable Poverty Measures,”](#) *Econometrica* 52(3), 761-766.
- Hagenaars, A. (1987), [“A Class of Poverty Indices,”](#) *International Economic Review* 28(3), 583-607.
- **(R, up through page 66)** Ravallion, M. (1992), [“Poverty Comparisons: A Guide to Concepts and Methods,”](#) LSMS Working Paper No. 88, The World Bank.

5.1.2 Inequality

- Dalton, H. (1920), “The Measurement of the Inequality of Incomes,” *Economic Journal* 30(119), 348-361.
- (R) Atkinson, A. B. (1970), “On the Measurement of Inequality,” *Journal of Economic Theory* 2, 244-63.
- Shorrocks, A. F. (1980), “The Class of Additively Decomposable Inequality Measures,” *Econometrica* 48(3), 613-626.
- Shorrocks, A. F. (1982), “Inequality Decomposition by Factor Components,” *Econometrica* 50(1), 193-212.

5.2 Risk Sharing and Informal Insurance (Feb 1, 6, 8, 13, and 15)

5.2.1 Overview

- Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford University Press, [chapter 8](#).

5.2.2 Full Insurance

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

5.2.3 Limited Commitment

- Fafchamps, M. (1992), “Solidarity Networks in Pre-Industrial Societies: Rational Peasants with a Moral Economy,” *Economic Development and Cultural Change* 41(1), 147-174.
- (R) Coate, S. & Ravallion, M. (1993), “Reciprocity Without Commitment: Characterization and Performance of Informal Insurance Arrangements,” *Journal of Development Economics* 40(1), 1-24.
- (R) Ligon, E., Thomas, J. P. & Worrall, T. (2002), “Informal Insurance Arrangements with Limited Commitment: Theory and Evidence from Village Economies,” *Review of Economic Studies* 69(1), 209-244.
- Genicot, G. & Ray, D. (2003), “Group Formation in Risk-Sharing Arrangements,” *Review of Economic Studies* 70(1), 87-113.

5.2.4 Assorted Empirical Results

- Rosenzweig, M. R. & Stark, O. (1989), “Consumption Smoothing, Migration and Marriage: Evidence from Rural India,” *Journal of Political Economy* 97(4), 905-926.
- (R) Udry, C. (1994), “Risk and Insurance in a Rural Credit Market: An Empirical Investigation in Northern Nigeria,” *Review of Economic Studies* 61(3), 495-526.
- Rosenzweig, M. R. & Munshi, K. (2009), “Why is Mobility in India so Low? Social Insurance, Inequality, and Growth,” Unpublished Working Paper.

5.2.5 Assorted Experimental Results

- Barr, A. & Genicot, G. (2008), “Risk Sharing, Commitment, and Information: An Experimental Analysis,” *Journal of the European Economic Association* 6(6), 1151-1185.
- (R) Robinson, J. (2011), “Limited Insurance Within the Household: Evidence from a Field Experiment in Kenya,” Unpublished Working Paper.

5.3 Savings (Feb 20, 22, and 27)

5.3.1 Empirical Savings

- Deaton, A. (1991). “Saving and Liquidity Constraints,” *Econometrica* 59(5), 1221-1248.
- (R) Paxson, C. (1992), “Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand,” *American Economic Review* 82(1), 15-33.
- Rosenzweig, M. & K. Wolpin (1993), “Credit Market Constraints, Consumption Smoothing, and the Accumulation of Durable Production Assets in Low-Income Countries: Investments in Bullocks in India,” *Journal of Political Economy* 101(2), 223-244.
- Udry, C. (1995), “Risk and Saving in Northern Nigeria,” *American Economic Review* 85(5), 1287-1300.

5.3.2 Experimental Savings

- Ashraf, N., Karlan, D. & Yin, W. (2006), “Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines,” *Quarterly Journal of Economics* 121(2), 635-672.
- (R) 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) Dupas, P. & J. Robinson (2011), [“Why Don’t the Poor Save More? Evidence from Health Savings Experiments](#),” Unpublished working paper.

5.4 Credit (Feb 29 and Mar 5, 7, and 12)

5.4.1 Credit

- (R) Stiglitz, J. & A. Weiss (1981), [“Credit Rationing in Markets with Incomplete Information](#),” *American Economic Review* 71(3), 393-410.
- Aleem, I. (1990), [“Imperfect Information, Screening and the Costs of Informal Lending: A Study of a Rural Credit Market in Pakistan](#).” *World Bank Economic Review* 4(3), 329-349.
- Banerjee, A. & K. Munshi (2004), [“How Efficiently is Capital Allocated? Evidence from the Knitted Garment Industry in Tirupur](#),” *Review of Economic Studies* 71(1), 19-42.
- Burgess, R. & R. Pande (2005), [“Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment](#),” *American Economic Review* 95(3), 780-795.
- (R) Karlan, D. & J. Zinman (2009), [“Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment](#),” *Econometrica* 77(6), 1993-2008.

5.4.2 Microfinance

- Pitt, M. & S.R. Khandker (1998), [“The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter](#),” *Journal of Political Economy* 106(5), 958-996.
- Morduch, J. (1999), [“The Microfinance Promise](#),” *Journal of Economic Literature* 37(4), 1569-1614.
- Ghatak, M. & T.W. Guinnane (1999), [“The Economics of Lending with Joint Liability: Theory and Practice](#),” *Journal of Development Economics* 60(1), 195-228.
- (R) Banerjee, A. E. Duflo, R. Glennerster & C. Kinnan (2010), [“Group versus Individual Liability: Short and Long Term Evidence from Philippine Microcredit Lending Groups](#),” Unpublished working paper.

- (R) Giné, X. & D. Karlan (2011), “Group versus Individual Liability: Short and Long Term Evidence from Philippine Microcredit Lending Groups,” Unpublished working paper.

5.5 Social Networks (Mar 14, 19, 21, and 26)

5.5.1 Risk Sharing in Social Networks

- (R) Fafchamps, M. & Lund, S. (2003), “Risk-Sharing Networks in Rural Philippines,” *Journal of Development Economics* 71(2), 261-287.
- Bloch, F., Genicot, G. & Ray, D. (2008), “Informal Insurance in Social Networks,” *Journal of Economic Theory* 143(1), 36-58.
- (R) Karlan, D., Möbius, M. Rosenblat, T. & Szeidl, A. (2009), “Trust and Social Collateral,” *Quarterly Journal of Economics* 124(3), 1307-1361.

5.5.2 Labor and Credit Markets with Social Networks

- Greif, A. (1993), “Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Trader’s Coalition,” *American Economic Review* 83(3), 525-548.
- (R) Krishnan, P. & Sciubba, E. (2009), “Links and Architecture in Village Networks,” *Economic Journal* 119(537), 917-949.
- (R) Banerjee, A., A.G. Chandrasekhar, E. Duflo, and M.O. Jackson (2011), “The Diffusion of Microfinance,” Unpublished working paper.

5.6 Technology Adoption and Learning (Mar 28, and April 9)

5.6.1 Technology Adoption without Network Data

- Ellison, G. & Fudenberg, D. (1993), “Rules of Thumb for Social Learning,” *Journal of Political Economy* 101(4), 612-643.
- (R) Foster, A. & Rosenzweig, M. R. (1995), “Learning by Doing and Learning from Others: Human Capital and Technical Change in Agriculture,” *Journal of Political Economy* 103(6), 1176-1209.
- Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford University Press, [chapter 12](#).
- Munshi, K. (2004), “Social Learning in a Heterogeneous Population: Technology Diffusion in the Indian Green Revolution,” *Journal of Development Economics* 73(1), 185-213.

5.6.2 Technology Adoption With Network Data

- Bandiera, O. & Rasul, I. (2006), “[Social Networks and Technology Adoption in Northern Mozambique](#),” *Economic Journal* 116(514), 869-902.
- Miguel, E. & Kremer, M. (2007), “[The Illusion of Sustainability](#),” *Quarterly Journal of Economics* 122(3): 1007-1065.
- (R) Conley, T. & Udry, C. (2010), “[Learning About a New Technology: Pineapple in Ghana](#),” *American Economic Review* 100(1): 35-69.

5.7 Impact Analysis (April 11 and 16)

- (R) Duflo, E. (2002), *Lecture Notes on Empirical Methods*.
- Duflo, E., Glennerster, R. & Kremer, M. (2008), “[Using Randomization in Development Economics Research: A Toolkit](#),” in T.P. Schultz and J.A. Strauss, ed., *Handbook of Development Economics*, volume 4, Elsevier, chapter 61.
- (R) Imbens, G.W. & Wooldridge J.M. (2009), “[Recent Developments in the Econometrics of Program Evaluation](#),” *Journal of Economic Literature* 47(1), 5-86.

5.8 Education (April 18, 23, and 25)

5.8.1 The Returns to Schooling

- (R) 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.
- (R) Krueger, A.B. & Lindhal, M. (2001), “[Education for Growth: Why and For Whom?](#),” *Journal of Economic Literature* 39(4), 1101-1136.
- Heckman, J. J., Lochner, L. J. & Todd, P. E. (2006) “[Earnings Equations and Rates of Return: The Mincer Equation and Beyond](#),” in E. Hanushek and F. Welch, ed., *Handbook of the Economics of Education*, North Holland, chapter 7.

5.8.2 Non-Random and Random Evaluation of Education

- Case, A. & Deaton, A. (1999), “[School Inputs and Educational Outcomes in South Africa](#),” *Quarterly Journal of Economics* 114(3), 1047-84.
- (R) Angrist, J. & Lavy, V. (1999), “[Using Maimonides’ Rule to Estimate the Effect of Class Size on Scholastic Achievement](#),” *Quarterly Journal of Economics* 114(2), 533-575.

- Glewwe, P. & Kremer, M. (2006), “[Schools, Teachers, and Education Outcomes in Developing Countries](#),” in E. Hanushek and F. Welch, ed., *Handbook of the Economics of Education*, North Holland, chapter 16.

5.9 Health (April 30 and May 2)

- Strauss, J. & Thomas, D. (1995), “[Human Resources: Empirical Modeling of Household and Family Decisions](#),” In Behrman, J. & T.N. Srinivasan, eds., *Handbook of Development Economics*, Volume 3. Amsterdam: North Holland, chapter 34.
- (R) Subramanian, S. & Deaton, A. (1996), “[The Demand for Food and Calories](#),” *Journal of Political Economy* 104(1), 133-62.
- (R) Miguel, T. & Kremer, M. (2004), “[Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities](#),” *Econometrica* 72(1), 159-217.
- Jensen, R.T. & Miller, N.H. (2011), “[Do Consumer Price Subsidies Really Improve Nutrition?](#),” *Review of Economics and Statistics*, 93(4), 1205-1223.

5.10 Corruption (May 7 and 9)

- Banerjee, A. (1997), “[A Theory of Misgovernance](#),” *Quarterly Journal of Economics* 112(4), 1289-1332.
- Fisman, R. (2001), “[Estimating the Value of Political Connections](#),” *American Economic Review* 91(4), 1095-1102.
- (R) Olken, B. A. (2007), “[Monitoring Corruption: Evidence from a Field Experiment in Indonesia](#),” *Journal of Political Economy* 115(2), 200-249.
- Bertrand, M., Djankov, S., Hanna, R., & Mullainathan, S. (2007), “[Obtaining a Driver’s License in India: An Experimental Approach to Studying Corruption](#),” *Quarterly Journal of Economics* 122(4), 1639-1676.
- (R) Ferraz, C. & Finan, F. (2008), “[Exposing Corrupt Politicians: The Effect of Brazil’s Publicly Released Audits on Electoral Outcomes](#),” *Quarterly Journal of Economics* 123(2), 703-745.