

# Syllabus for AAE 730

Professor Laura Schechter

Spring 2008

## 1 Administrative Details

Course meets: B30 Taylor Hall, MW 11:00-12:15  
Office: 334 Taylor Hall  
E-mail: [lschechter@wisc.edu](mailto:lschechter@wisc.edu)  
Office Hours: T 11:30-12:30, F 2:30-3:30  
Website: <http://www.aae.wisc.edu/aae730/main.asp>

## 2 Course Description

This class is one of two graduate level courses on microeconomics in development. It complements the other one, AAE 732, taught by Michael Carter. We will begin by looking at issues in the measurement of poverty, inequality, and vulnerability. These concepts are, arguably, the basis of all development economics and so deserve proper attention.

After that we will move on to look at social interactions. We will begin with risk sharing agreements, both with and without commitment. 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 and the newer literature which incorporates social networks.

From there we will move on to study education, institutions, and corruption. In the education section there will be a detour related to impact analysis. These sections will study both the macro cross-country literature on these topics, and the micro within-country literature on these topics. We will conclude with a section on psychology and experiments in development economics.

## 3 Prerequisites

A graduate level microeconomic theory course and a graduate 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. Late assignments will not be accepted.

Research idea #1	2%	Feb 4
Homework assignment #1	11%	Feb 11
Research idea #2	2%	Feb 20
Paper and presentation on current development topic	11%	Feb 25, 6-8 PM
Homework assignment #2	11%	Mar 5
Research idea #3	2%	Mar 26
Homework assignment #3	11%	Apr 14
Research idea #4	2%	Apr 21
Homework assignment #4	11%	May 7
Referee report and presentation	11%	Assorted Dates
Final exam	26%	May 12, 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 a presentation of the issue (including an explanation of why it is important), a statement of why the issue comes about (constraints, heterogeneity, trade-offs), a testable hypothesis, and the strategy (data needed, estimation strategy) that would be followed to test the hypothesis. Please make sure you include all four of those pieces.

### 4.2 Paper and Presentation on Current Development Topic

You will write a short (5 pages maximum) report on a current development issue and give a 10 minute presentation in class. You will draw your topic randomly out of a hat. More information on this assignment can be found in a separate document on the course website.

### 4.3 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 Sunday January 27. The majority of these papers are job market papers of students on the job market this year. They are all unpublished working papers written by economists who have received their PhD in the last few years. There are two documents posted on this course's website which explain how one should write a referee report (thanks to Alain de Janvry and Elisabeth Sadoulet).

The presentations should be approximately thirty minutes long and will be held on the last class day 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 of the paper, 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 approximate dates that go along with them, are listed below:

- $\approx$  Feb 13 Fischer, G. (2008), "Contract Structure, Risk Sharing and Investment Choice," Current Job Market Paper.
- $\approx$  Feb 18 Wahhaj, Z. (2007), "Social Norms and Individual Savings in the Context of Informal Insurance," Current Job Market Paper.
- $\approx$  Mar 3 Beaman, L. (2007), "Social Networks and the Dynamics of Labor Market Outcomes: Evidence from Refugees Resettled in the U.S.," Unpublished Working Paper.
- $\approx$  Mar 12 Shastry, G. K. (2007), "Human Capital Response to Globalization: Education and Information Technology in India," Current Job Market Paper.
- $\approx$  Mar 24 Goyal, A. (2007), "Information Technology and Rural Markets: Theory and Evidence from a Unique Intervention in Central India," Current Job Market Paper.
- $\approx$  Mar 28 Lafortune, J. (2008), "Making Yourself Attractive: Pre-Marital Investments and the Returns to Education in the Marriage Market," Current Job Market Paper.
- $\approx$  Apr 4 Kaufmann, K. (2007), "Understanding the Income Gradient in College Attendance in Mexico: The Role of Heterogeneity in Expected Returns to College," Current Job Market Paper.
- $\approx$  Apr 7 Dinkelman, T. (2008), "The Effects of Rural Electrification on Employment: New Evidence from South Africa," Current Job Market Paper.
- $\approx$  Apr 9 Bennett, D. (2007), "Clean Water Makes You Dirty: Water Supply and Sanitation Behavior in the Philippines," Current Job Market Paper.
- $\approx$  Apr 16 Wang, S. (2008), "Credit Constraints, Job Mobility and Entrepreneurship: Evidence from a Property Reform in China," Current Job Market Paper.
- $\approx$  Apr 28 Vicente, P. C. (2007), "Is Vote Buying Effective? Evidence from a Field Experiment in West Africa," Current Job Market Paper.
- $\approx$  May 5 Jakiela, P. (2007), "How Fair Shares Compare: Experimental Evidence from Two Cultures," Current Job Market Paper.

## 4.4 Homework Assignments

There will be four 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.

## 4.5 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 May 12 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, Inequality, and Vulnerability (Jan 23, 28, 30, and Feb 4, and 6)

### 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.

- Ravallion, M. (1996), “Issues in Measuring and Modelling Poverty,” *Economic Journal* 106(438), 1328-43.

### 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.
- (R) Elbers, C., Lanjouw, J. O. & Lanjouw, P. (2003), “Micro-Level Estimation of Poverty and Inequality,” *Econometrica* 71(1), 355-64.

### 5.1.3 Vulnerability

- Ligon, E. & Schechter, L. (2003), “Measuring Vulnerability,” *Economic Journal* 113(486), 95-102.
- (R) Calvo, C. & Dercon, S. (2005), “Measuring Individual Vulnerability,” Oxford University, WPS No. 229.

## 5.2 Risk Sharing and Informal Insurance (Feb 11, 13, 18, and 20)

### 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.
- Foster, A. D. & Rosenzweig, M. R. (2001), “Imperfect Commitment, Altruism and the Family: Evidence from Transfer Behaviour in Low-Income Rural Areas,” *Review of Economics and Statistics* 83(3), 389-407.
- Rosenzweig, M. R. & Munshi, K. (2005), “Why is Mobility in India so Low? Social Insurance, Inequality, and Growth,” BREAD Working Paper No. 097.

### 5.3 Social Networks, Learning, and Technology Adoption (Feb 27, and Mar 3, 5, 10, 12, 24)

#### 5.3.1 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.
- Dercon, S. & DeWeerd, J. (2006), “Risk-Sharing Networks and Insurance Against Illness,” *Journal of Development Economics* 81(2), 337-356.
- (R) Bloch, F., Genicot, G. & Ray, D. (2008), “Informal Insurance in Social Networks,” *Journal of Economic Theory* Forthcoming.

#### 5.3.2 Job Search and Labor Markets in 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.

- Munshi, K. (2003), “Networks in the Modern Economy: Mexican Migrants in the U. S. Labor Market,” *Quarterly Journal of Economics* 118(2), 549-599.
- (R) Krishnan, P. & Sciubba, E. (2006), “Links and Architecture in Village Networks,” Birkbeck Working Paper.

### 5.3.3 General - Social Effects

- (R) Manski, C. (1993), “Identification of Endogenous Social Effects: The Reflection Problem,” *Review of Economic Studies* 60(3), 531-542.
- Udry, C. & Conley, T. (2005), Social Networks in Ghana, in C. B. Barrett, ed., *The Social Economics of Poverty: Identities, Groups, Communities and Networks*, London: Routledge, chapter 10.

### 5.3.4 Technology Adoption and Learning

- Ellison, G. & Fudenberg, D. (1993), “Rules of Thumb for Social Learning,” *Journal of Political Economy* 101(4), 612-643.
- Besley, T. & Case, A. (1994), “Diffusion as a Learning Process: Evidence from HYV Cotton,” RPDS Working Paper No. 174.
- (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.

### 5.3.5 Technology Adoption With Network Data

- (R) Conley, T. & Udry, C. (2007), “Learning About a New Technology: Pineapple in Ghana,” Unpublished Working Paper.
- 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.

## 5.4 Education (March 26, 28, and April 4)

*Note: I will be out of town on Monday March 31 and Wednesday April 2 and so class is rescheduled for Friday March 28 and Friday April 4 at the regular class time in the regular class room. Sorry for the inconvenience.*

### 5.4.1 The Returns to Schooling

- Foster, A. D. & Rosenzweig, M. R. (1996), “Technical Change and Human-Capital Returns and Investments: Evidence from the Green Revolution,” *American Economic Review* 86(4), 931-953.
- Behrman, J. R., Foster, A. D., Rosenzweig, M. R. & Vashishtha, P. (1999), “Women’s Schooling, Home Teaching, and Economic Growth,” *Journal of Political Economy* 107(4), 682-714.
- (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.
- 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.

### 5.4.2 Non-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.
- Kremer, M. Chaudhury, N., Rogers, F. H., Muralidharan, K. & Hammer, J. (2005), “Teacher Absence in India: A Snapshot,” *Journal of the European Economic Association* 3(2), 658-667.

### 5.4.3 Random Evaluation Related to Education

- Kremer, M. & Miguel, E. (2004), “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities,” *Econometrica* 72(1), 159-217.

- 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.
- Kremer, M., Miguel, E. & Thornton, R. (2007), “Incentives to Learn,” NBER Working Paper 10971.
- (R) Banerjee, A., Cole, S., Duflo, E. & Linden, L. (2007), “Remedying Education: Evidence from Two Randomized Experiments in India,” *Quarterly Journal of Economics* 122(3), 1235-1264.

## 5.5 Impact Analysis (April 7 and 9)

- Rosenzweig, M. R. & Wolpin, K. I. (2000) “Natural ‘Natural Experiments’ in Economics,” *Journal of Economic Literature* 38(4), 827-874.
- (R) Ravallion, M. (2001), “The Mystery of the Vanishing Benefits: An Introduction to Impact Evaluation,” *World Bank Economic Review* 15(1), 115-140.
- (R) Duflo, E. (2002), *Lecture Notes on Empirical Methods*.
- Duflo, E. Glennerster, R. & Kremer, M. (2006), “Using Randomization in Development Economics Research: A Toolkit,” Unpublished working paper.

## 5.6 Institutions (April 14 and 16)

### 5.6.1 Cross-Country Results

- Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford University Press, chapter 17.
- (R) Acemoglu, D., Johnson, S. & Robinson, J. (2001), “The Colonial Origins of Comparative Development: An Empirical Investigation,” *American Economic Review* 91(5), 1369-1401.
- Glaeser, E., La Porta, R., Lopez-de-Silanes, F. & Shleifer, A. (2004), “Do Institutions Cause Growth?,” *Journal of Economic Growth* 9(3), 271-303.

### 5.6.2 Results within a Country

- Besley, T. (1995), “Property Rights and Investment Incentives: Theory and Evidence from Ghana,” *Journal of Political Economy* 103(5), 903-937.
- Besley, T. & Burgess, R. (2000), “Land Reform, Poverty Reduction, and Growth: Evidence from India,” *Quarterly Journal of Economics* 115(2), 389-430.

- Banerjee, A. & Iyer, L. (2005), “History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India,” *American Economic Review* 95(4), 1190-1213.
- Pande, R. & Udry, C. (2005), “Institutions and Development: A View from Below,” in the Proceedings of the 9th World Congress of the Econometric Society, edited by R. Blundell, W. Newey, and T. Persson, Cambridge University Press.
- (R) Field, E. (2007), “Entitled to Work: Urban Property Rights and Labor Supply in Peru,” *Quarterly Journal of Economics* 122(4), 1561-1602.

## 5.7 Corruption (April 21, 23, and 28)

### 5.7.1 Theory

- (R) Banerjee, A. (1997), “A Theory of Misgovernance,” *Quarterly Journal of Economics* 112(4), 1289-1332.
- Bardhan, P. (1997), “Corruption and Development: A Review of Issues,” *Journal of Economic Literature* 35, 1320-1346.

### 5.7.2 Corruption and Firms

- Fisman, R. (2001), “Estimating the Value of Political Connections,” *American Economic Review* 91(4), 1095-1102.
- Svensson, J. (2003), “Who Must Pay Bribes and How Much? Evidence from a Cross-Section of Firms,” *Quarterly Journal of Economics* 118(1), 207-230.
- Khwaja, A. I. & Mian, A. (2005), “Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market,” *Quarterly Journal of Economics* 120(4), 1371-1411.

### 5.7.3 Other Corruption Experiments

- Reinikka, R. & Svensson, J. (2004), “Local Capture: Evidence from a Central Government Transfer Program in Uganda,” *Quarterly Journal of Economics* 119(2), 679-705.
- (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. (2007), “Exposing Corrupt Politicians: The Effect of Brazils Publicly Released Audits on Electoral Outcomes,” *Quarterly Journal of Economics* Forthcoming.

## 5.8 Experiments and Psychology (April 30 and May 5 and 7)

### 5.8.1 Experiments

- Henrich, J., Boyd, R., Bowles, S., Camerer, C., Gintis, H., McElreath, R. & Fehr, E. (2001), “In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies,” *American Economic Review (Papers and Proceedings)* 91(2), 73-78.
- Hoff, K. & Pandey, P. (2006), “Discrimination, Social Identity, and Durable Inequalities,” *American Economic Review (Papers and Proceedings)* 96(2), 206-211.
- (R) Barr, A. & Genicot, G. (2008), “Risk Sharing, Commitment, and Information: An Experimental Analysis,” *Journal of the European Economic Association* Forthcoming.
- (R) Robinson, J. (2008), “Limited Insurance Within the Household: Evidence from a Field Experiment in Western Kenya,” Unpublished Working Paper.

### 5.8.2 Psychology in Development Overview

- Bertrand, M., Mullainathan, S. & Shafir, E. (2004), “A Behavioral-Economics View of Poverty,” *American Economic Review (Papers and Proceedings)* 94(2), 419-423.
- Bandiera, O., Barankay, I. & Rasul, I. (2005), “Social Preferences and the Response to Incentives: Evidence from Personnel Data,” *Quarterly Journal of Economics* 120(3), 917-962.
- Mullainathan, S. (2006), “Development Economics through the Lens of Psychology,” Proceedings of the Annual Bank Conference on Development Economics, Forthcoming.
- Camerer, C. F. (2006), “Comment on ‘Development Economics through the Lens of Psychology’ by Sendhil Mullainathan,” Proceedings of the Annual Bank Conference on Development Economics, Forthcoming.

### 5.8.3 Examples of Psychology in Development

- Miguel, E. (2005), “Poverty and Witch Killing,” *Review of Economic Studies* 72(4), 1153-1172.
- Duflo, E., Kremer, M. & Robinson, J. (2006), “Understanding Technology Adoption: Fertilizer in Western Kenya Evidence from Field Experiments,” Unpublished Working Paper.

- Bertrand, M., Karlan, D., Mullainathan, S., Shafir, E. & Zinman, J. (2006) “What’s Psychology Worth? A Field Experiment in the Consumer Credit Market,”
- **(R)** 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.