

Syllabus for AAE/Econ 474

Economic Problems of Developing Areas

Professor Laura Schechter

Spring 2016

1 Administrative Details

Course meets:	MW 2:30-3:45	1120 Biochemistry Building
E-mail:	lschechter@wisc.edu	
Office Hours:	T 11:00-12:00	7430 Social Sciences
	F 3:00-4:00	334 Taylor Hall
Website:	Learn@UW	

2 Course Description

In 2012, one out of seven people in the developing world was living on less than \$1.90 per day. One out of three people in the developing world was living on less than \$3.10 per day. Health status, educational attainment, and government quality 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? The intention of this course is to explore the causes and correlates of global poverty, and discuss policies used to address it.

We will begin the class by defining development, poverty, and inequality and looking at some general trends in these measures. We will then look at human capital within which we will cover health, nutrition, education, population, and fertility. After that we will look at finance including informal insurance, traditional credit, microcredit, roscas, and savings. From there we will move on to look at big-picture issues such as institutions, corruption, the environment, property rights, and foreign aid.

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.

The approach of the course is microeconomic, meaning that we focus on individual and household behaviors, as well as market failures which lead to sub-optimal choices by these individuals. This course will not cover macroeconomic topics such as growth, trade, or globalization. This is not because these are not important topics, but rather because there

are other courses at UW which are entirely dedicated to them. 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). Economic models and econometric tools are frequently used to provide a coherent explanation for some issues but you do not have to have taken econometrics to be successful in this course.

4 Materials

You are required to purchase one book for this class. It is titled Poor Economics by Abhijit Banerjee and Esther Duflo, with a paperback version published by Public Affairs Press in 2012. You can buy it in the bookstore or wherever else you would like. Chapters in this book will be denoted **BD** on the reading list. All other reading materials will be posted on Learn@UW. Study questions and lecture slides will be posted on the course website before 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).
- Quizzes, 12% of total grade.
- Midterm Exam, 26% of total grade.
- Final Exam, 26% of total grade.

Final grades are assigned in the following manner: the top five scores from the class are averaged. This average is subtracted from 100, and the remainder added to everyone's score. (Naturally, this means that 2 or 3 people receive "more than" 100%). Final grades are then assigned using the following scale:

$\geq 93\%$	A
$< 93\% \ \& \ \geq 88 \%$	AB
$< 88\% \ \& \ \geq 83 \%$	B
$< 83\% \ \& \ \geq 78 \%$	BC
$< 78\% \ \& \ \geq 70 \%$	C
$< 70\% \ \& \ \geq 60 \%$	D
$< 60\%$	F

5.1 Problem Sets

Homework assignments will include a variety of written and numerical exercises. Assignments will be posted on Learn@UW at least a week before they are due. The homework assignments will be due **Feb 10, Feb 29, Apr 6, and Apr 25**.

Late homework assignments will be accepted but will lose 20% credit for each 24 hours they are late. (This means they lose 20% the first 24 hours 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.) Homeworks count as late if they are not received by the end of class on the day they are due.

Anything that you hand in to me should contain grammatically correct, complete sentences (this is also true for email). You are expected to type the answers to your problem sets. When applicable, the problem set will state that you can hand-write things like equations or graphs.

You may work together but your answers must be your own. If two students' answers are exactly the same then both students will get half credit.

5.2 Quizzes

In order to incentivize your pre-class study of material, study questions will be assigned for each day's reading. Very frequently (though not every two classes) you will be required to answer one of these questions in a quiz during class. In order to account for the fact that people are occasionally ill or have other reasonable excuses for missing class, you will be allowed to drop two of your quiz grades over the course of the semester.

5.3 Exams

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

- Mid-term: In class on **Monday, Mar 7th** from 2:30-3:45.
- Final: In class on **Wednesday, May 4th** from 2:30-3:45.

The exams are not cumulative. There are no scheduled make-up exams. If you cannot take the exams at the scheduled times, do not take this course.

5.4 Important Things to Note

If you require special accommodations for exams due to learning or other disability, you must speak with me before Feb 10. You will need to obtain the evaluation form from the McBurney Disability Resource Center (<http://www.mcburney.wisc.edu/>).

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. I am a stickler about this, and every year tend to report at least one case to the Dean's office.

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.

1. Poverty, Inequality, and Other Development Measures (plus a detour on regressions) (Jan 20, 25, and 27, and Feb 1, 3, and 8).
 - (a) Introduction
 - [Jan 25] BD Chapter 1: “Think Again, Again” (first half only, through page 9, stop at section heading “Trapped in Poverty”).
 - [Jan 25] Banerjee, A. V. & E. Duflo (2007), “The Economic Lives of the Poor,” *Journal of Economic Perspectives* 21(1), 141–167.
 - (b) Human Development Index
 - [Jan 25] *Human Development Report* (2007/2008), “Technical Note 1,” 355–356.
 - [Jan 25] *Human Development Report* (2010), “Technical Note 1,” 216–217.
 - [Jan 25] Blog debate on the Human Development Index.
 - (c) Poverty
 - [Jan 27] Banerjee et al (eds.): Chapter 1, Deaton, A. “Measuring Poverty.”
 - [Jan 27] Haughton and Khandor (2009) “Measuring Poverty”, Handbook on Poverty and Inequality, pages 67–73, The World Bank Institute.
 - (d) Inequality
 - [Feb 1] RAY: Chapter 6, “Economic Inequality.”
 - [Feb 3] *World Development Report* (2006), “Equity and Development, Overview,” 1–18.
 - (e) Regressions
 - [Feb 8] Sykes, A.O. (1992) “An Introduction to Regression Analysis,” The Inaugural Coase Lecture.
2. Human Capital: Health, Education, Child Labor, Population and Fertility (Feb 10, 15, 17, 22, 24, and 29, and Mar 2 and 9).
 - (a) Health

PROBLEM SET 1 DUE IN CLASS (Feb 10).

 - [Feb 10] BD Chapter 1.2: “Trapped in Poverty”
 - [Feb 10] BD Chapter 2: “A Billion Hungry People?”
 - [Feb 10] RAY: Section 8.4.2 (272–279) and 13.4.1 (489–499).

- [Feb 15] BD Chapter 3: “Low-Hanging Fruit for Better (Global) Health?”
- (b) Education
- [Feb 17] 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.
 - [Feb 22] BD Chapter 4: “Top of the Class”
- (c) Child Labor
- [Feb 24] Edmonds, E. & N. Pavcnik (2005), “Child Labor in the Global Economy,” *Journal of Economic Perspectives*, 19(1), 199–220.
- (d) Conditional Cash Transfers
- PROBLEM SET 2 DUE IN CLASS (Feb 29).**
- [Feb 29] Rawlings, L. B. & G. M. Rubio (2005), “Evaluating the Impact of Conditional Cash Transfer Programs,” *World Bank Research Observer* 20(1), 29-55.
 - [Feb 29] “Pennies from Heaven,” *The Economist*, October 26, 2013.
- (e) Population
- [Mar 2] RAY: Chapter 9.
- MIDTERM, IN CLASS (Mar 7).**
- [Mar 9] BD Chapter 5: “Pak Sudarno’s Big Family”
3. Finance: Insurance, Credit, and Savings (March 14, 16, 28, 30, and Apr 4 and 6).
- (a) Informal Insurance
- [Mar 14] BD Chapter 6: “Barefoot Hedge-Fund Managers”
- (b) Credit and Microcredit
- [Mar 16] BD Chapter 7: “The Men from Kabul...”
 - [Mar 28] Morduch, J. (1999), “The Microfinance Promise,” *Journal of Economic Literature* 37(4), 1569–1614.
 - [Mar 30] Banerjee, A. D. Karlan, & J. Zinman (2015), “Six Randomized Evaluations of Microcredit: Introduction and Further Steps,” *American Economic Journal: Applied Economics* 7(1), 1–21.
 - [Mar 30] BD Chapter 9: “Reluctant Entrepreneurs”
- (c) ROSCAs
- [Apr 4] Anderson, S. & J. M. Baland (2002), The Economics of ROSCAs and Intrahousehold Resource Allocation, *Quarterly Journal of Economics* 117(3), 963–995.
- PROBLEM SET 3 DUE IN CLASS (Apr 6).**

- (d) Savings
- [Apr 6] BD Chapter 8: “Saving Brick by Brick”
4. Big Picture Issues: Institutions, Corruption, the Environment, and Aid (April 11, 13, 18, 20, 25, 27).
- (a) Institutions
- [April 11] Banerjee et al (eds.): Chapter 2, Acemoglu, D., S. Johnson, & J. Robinson, “Understanding Prosperity and Poverty: Geography, Institutions, and the Reversal of Fortune.”
 - [April 11] BD Chapter 10: “Policies, Politics”
- (b) Corruption
- [April 13] Olken, B.A. and R. Pande (2012), “Corruption in Developing Countries,” *Annual Review of Economics* 4, 479–509.
- (c) Environment
- [April 18] de Janvry, A. and E. Sadoulet (2016), “Sustainable Development and the Environment,” Ch. 15 in *Development Economics: Theory and Practice*, London: Routledge.
- (d) Agriculture
- [April 20] *World Development Report* (2008), “Growth and Poverty Reduction in Agriculture’s Three Worlds,” 26–44.
- (e) Property Rights
- PROBLEM SET 4 DUE IN CLASS (Apr 25).**
- [April 25] Field, E. (2005), “Property Rights and Investment in Urban Slums,” *Journal of the European Economic Association* 3(23), 279–290.
 - [April 25] Woodruff, C. (2001), “Review of de Soto’s “The Mystery of Capital” ,” *Journal of Economic Literature* 39(4), 1215–1223.
- (f) Foreign Aid
- [April 27] de Janvry, A. and E. Sadoulet (2016), “Development Aid and its Effectiveness,” Ch. 19 in *Development Economics: Theory and Practice*, London: Routledge.
5. Catch-up Day (May 2).
- [May 2] BD: “In Place of a Sweeping Conclusion”
- FINAL, IN CLASS (May 4).**