

# Syllabus for AAE 730: Development Economics 1

Professor Laura Schechter

Spring 2018

## 1 Administrative Details

Course meets:	B30 Taylor Hall, MW 11:00-12:15
Office:	334 Taylor Hall
E-mail:	lschechter@wisc.edu
Office Hours:	By appointment
Website:	<a href="https://canvas.wisc.edu/courses/90538">https://canvas.wisc.edu/courses/90538</a>
Instructional mode:	Face-to-face
Credits:	3 (Credit hours met by traditional Carnegie definition)

## 2 Course Description

This class is one of two graduate level ‘frontier’ courses on development economics. We will cover multiple topics within development economics. The general order for many of these topics will be to look at the economic theory related to the topic, some empirical studies 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, both with and then without commitment. 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 health, governance, and learning.

## 3 Learning Objectives

In this course you can expect to learn:

- how to construct models of credit and insurance markets in developing countries.
- how to measure empirical impacts of credit and insurance on welfare.

- ways which have been used to measure corruption and governance and their impact on economic development.
- how social networks affect the three above-mentioned bullet points.
- how to correctly use and evaluate econometric techniques and concepts including: fixed effects, attenuation bias, and instrumental variables.
- how to write a referee report which could be sent to a journal.
- how to think critically about empirical research in development economics.

## 4 Prerequisites

A PhD level microeconomic theory course and a PhD level econometrics course 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 in class at the beginning of class.

Research idea #1	2.5%	Feb 5
Homework assignment #1	12.5%	Feb 14
Homework assignment #2	12.5%	Mar 5
Research idea #2	2.5%	Mar 12
Homework assignment #3	12.5%	Apr 2
Research idea #3	2.5%	Apr 9
Homework assignment #4	12.5%	Apr 25
Research idea #4	2.5%	May 2
Referee report and presentation	12%	Assorted Dates
Final exam	28%	May 9, 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?

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 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 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 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. You should number your critiques. There are three documents posted on this course's website which explain how one should write a referee report (one is thanks to Alain de Janvry and Elisabeth Sadoulet, one is thanks to William Thomson, and one is thanks to Emilia Tjernström). I will also post real examples of referee reports I have received.

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. 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 hand in his or her referee report on the same day as the presentation is scheduled. The papers from which you can choose, and the dates that go along with them, are listed below:

- $\approx$  Feb 7 Walker, M. (2017), "[Informal Taxation and Cash Transfers: Experimental Evidence from Kenya](#)," Current Job Market Paper.
- $\approx$  Feb 12 Montero, E. (2017), "[Cooperative Property Rights and Agricultural Development: Evidence from Land Reform in El Salvador](#)," Current Job Market Paper.
- $\approx$  Feb 21 Vera-Cossio, D.A. (2017), "[Targeting Credit Through Community Members](#)," Current Job Market Paper.

- $\approx$  Feb 26 Rigol, N., R. Hussam, & B. Roth (2017), “Targeting High Ability Entrepreneurs Using Community Information: Mechanism Design in The Field,” Current Job Market Paper.
- $\approx$  Feb 28 Carlson, S. (2017), “Dynamic Incentives in Credit Markets: An Exploration of Repayment Decisions on Digital Credit in Africa,” Current Job Market Paper.
- $\approx$  Mar 19 de Rochambeau, G. (2017), “Monitoring and Intrinsic Motivation: Evidence from Liberia’s Trucking Firms,” Current Job Market Paper.
- $\approx$  Apr 11 Kreindler, G. (2017), “The Welfare Effect of Road Congestion Pricing: Experimental Evidence and Equilibrium Implications,” Current Job Market Paper.
- $\approx$  Apr 16 Neggers, Y. (2017), “Enfranchising Your Own? Experimental Evidence on Bureaucrat Diversity and Election Bias in India,” Current Job Market Paper.
- $\approx$  Apr 23 Colonnelli, E. & M. Prem (2017), “Corruption and Firms: Evidence from Randomized Audits in Brazil,” Current Job Market Paper.
- $\approx$  Apr 30 Baysan, C. (2017), “Can More Information Lead to More Voter Polarization? Experimental Evidence from Turkey,” Current Job Market Paper.

### 5.3 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 for some of them. 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.

### 5.4 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 Wednesday May 9 from 10-12 AM. If this time will not work for you please let me know before the end of February.

## 6 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 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 required to do these readings. The readings are all quite excellent, and discussing them in class is *not* a substitute for reading them yourself!

## 6.1 Insurance (Jan 24, 29, 31, and Feb 5, 7, and 12)

### 6.1.1 Overview

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

### 6.1.2 Full Insurance

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

### 6.1.3 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.

### 6.1.4 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. (2016), “[Networks and Misallocation: Insurance, Migration, and the Rural-Urban Wage Gap](#),” *American Economic Review* 106(1), 46-98.

### 6.1.5 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.
- Mobarak, A. M. & Rosenzweig, M. R. (2012), “[Selling Formal Insurance to the Informally Insured](#),” Unpublished Working Paper.

### 6.1.6 Network Papers

- (R) Karlan, D., Möbius, M. Rosenblat, T. & Szeidl, A. (2009), “[Trust and Social Collateral](#),” *Quarterly Journal of Economics* 124(3), 1307-1361.
- (R) Chandrasekhar, A.G., Kinnan, C. & Larreguy, H. (2017), “[Social Networks as Contract Enforcement: Evidence from a Lab Experiment in the Field](#),” *American Economic Journal: Applied Economics* Forthcoming.

## 6.2 Catch-up Day (Feb 14)

## 6.3 Credit (Feb 19, 21, and 26)

### 6.3.1 Credit

- Stiglitz, J. & A. Weiss (1981), “[Credit Rationing in Markets with Incomplete Information](#),” *American Economic Review* 71(3), 393-410.
- (R) Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford University Press, [chapter 7](#).
- 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.

### 6.3.2 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.

### 6.3.3 Experimental Results

- Banerjee, A. E. Duflo, R. Glennerster & C. Kinnan (2015), “[The Miracle of Microfinance? Evidence from a Randomized Evaluation,](#)” *American Economic Journal: Applied Economics* 7(1), 22-53.
- Giné, X. & D. Karlan (2014), “[Group versus Individual Liability: Short and Long Term Evidence from Philippine Microcredit Lending Groups,](#)” *Journal of Development Economics* 107, 65-83.
- Beaman, L., D. Karlan, B. Thuysbaert, & C. Udry (2015), “[Selection into Credit Markets: Evidence from Agriculture in Mali,](#)” Unpublished working paper.

### 6.3.4 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.](#)]

## 6.4 Catch-up Day (Feb 28)

## 6.5 Detour on Fixed Effects (Mar 5)

- (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.]

## 6.6 Self Control (Mar 7, 12, 14, and 19)

### 6.6.1 Theory

- (R) Banerjee, A.V. & S. Mullainathan (2010), “[The Shape of Temptation: Implications for the Economic Lives of the Poor,](#)” Unpublished working paper.

### 6.6.2 Experimental Results

- 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.
- 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.
- Dupas, P. & J. Robinson (2013), “[Why Don’t the Poor Save More? Evidence from Health Savings Experiments](#),” *American Economic Review* 103(4), 1138-1171.
- (R) Schilbach, F. (2017), “[Alcohol and Self-Control: A Field Experiment in India](#),” Unpublished working paper.
- (R) Kaur, S., M. Kremer, & S. Mullainathan (2015), “[Self-Control at Work](#),” *Journal of Political Economy* 123(6), 1227-1277.
- (R) Casaburi, L. & R. Macchiavello (2016), “[Firm and Market Response to Saving Constraints: Evidence from the Kenyan Dairy Industry](#),” Unpublished working paper.

## 6.7 Catch-up Day (Mar 21)

## 6.8 Health and Nutrition (Apr 2 and 4)

### 6.8.1 Non Experimental Results

- 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.
- Subramanian, S. & Deaton, A. (1996), “[The Demand for Food and Calories](#),” *Journal of Political Economy* 104(1), 133-62.

### 6.8.2 Experimental Results

- (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.
- (R) Mani, A., S. Mullainathan, E. Shafrir, & J. Zhao (2013), “[Poverty Impedes Cognitive Function](#),” *Science* 341(6149), 976-980.
- Schofield, H. (2014), “[The Economic Costs of Low Caloric Intake: Evidence from India](#),” Unpublished working paper.



## 6.9 Catch-up Day (Apr 9)

## 6.10 Governance (April 11, 16, and 18)

- 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.
- 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.
- (R) Finan, F. & L. Schechter (2012), “Vote-Buying and Reciprocity,” *Econometrica* 80(2), 863-881.
- (R) Casey, K., R. Glennerster, & E. Miguel (2012), “Reshaping Institutions: Evidence on Aid Impacts Using a Pre-Analysis Plan,” *Quarterly Journal of Economics* 127(4), 1755-1812.

## 6.11 Catch-up Day (Apr 23)

## 6.12 Belief Updating (Apr 25 and 30)

- (R) Atkin, D., A. Chaudhry, S. Chaudhry, A. Khandelwal, & E. Verhoogen (2017), “Organizational Barriers to Technology Adoption: Evidence from Soccer-Ball Producers in Pakistan,” *Quarterly Journal of Economics* 132(3), 1101-1164.
- Dizon-Ross, R. (2017), “Parents’ Beliefs about their Children’s Academic Ability: Implications for Educational Investments,” Unpublished working paper.
- (R) Barham, B.L., J.P. Chavas, D. Fitz, & L. Schechter (2017), “Receptiveness to Advice, Cognitive Ability, and Technology Adoption: An Economic Experiment with Farmers,” Unpublished working paper.

## 6.13 Catch-up Day (May 2)