

Maryland Economics 416 – Fall 2009

Instructor: Professor Raymond Guiteras

Teaching Assistant: Jojo Entsuah

Lectures: MW 2:00 pm – 3:15 pm, Tydings 2108

Guiteras office hours: Mon 6:30-7:30 PM, Thu 8:00-9:00 am; Tydings 3147c

Entsuah office hours: Mon: 10am-12n and Thu 10:00-11:30am; Preinkert 1224

### **Economics 416: Theory of Economic Development**

This course will cover fundamental issues in development economics. There will be three core topics: measurement of the extent and depth of global poverty (brief); macroeconomic growth theory; and microeconomic impediments to development, with some discussion of policy responses. Additional topics that may be covered (time permitting) include the impact of trade on development, the effectiveness of foreign aid, and issues in environmental economics. As the course title suggests, the emphasis will be on the use of economic theory to explore issues arising in developing countries; however, empirical studies providing motivation for or tests of theoretical developments will be included.

This course is designed for students with a serious interest in rigorous, technical economics, as practiced by researchers in universities and leading institutions (e.g., the World Bank, IMF, etc.). The course will provide a glimpse of the sort of economic science pursued during further study at the graduate level (M.A., Ph.D.) or during post-graduate work at research organizations such as the Jameel Poverty Action Lab, Innovations for Poverty Action, the Brookings Institution, among others. The science of economics today is (for better or worse) highly mathematical, and this course is designed accordingly.

**Prerequisites:** ECON325 (or ECON305 by permission of department) and ECON321 with a grade of C (2.0) or better. For ECON majors only. Credit will be granted for only one of the following: ECON315 or ECON416. Since ECON 300 is a prerequisite for ECON 325, by transitivity ECON 300 is also a prerequisite for this course, and students should be comfortable with the material covered there, especially: constrained optimization, probability and decision-making under uncertainty.

**Course requirements and grading:** The course requirements are satisfactory completion of all problem sets, a midterm exam and a final exam. The grading will be as follows: 1/3 problem sets, 1/3 midterm exam, 1/3 final exam.

Problem sets will be graded on a check-plus, check, check-minus “honest effort” basis. That is, students who, in the judgement of the grader, make a reasonable effort at *all parts of all questions* will receive a check. A check-plus will be awarded for exceptionally good work; a check-minus for barely adequate work. No credit will be awarded for incomplete or poor effort problem sets. There will be 6 total problem sets, due on September 16, September 30, October 14, November 4, November 18 and December 2. Problem sets are due at 2:00 PM sharp, i.e. at the beginning of

class. *No late problem sets will be accepted* except in the event of serious illness and a doctor's note must be provided (see *Illness* section below). You are permitted (indeed, encouraged) to collaborate on problem sets, but each student must write up and submit an individual solution unless specific instruction to the contrary is given on the problem set.

The midterm exam will be held in class on Wednesday, October 21. There will be a review session in class on Monday, October 19. No makeup or rescheduled midterm exam will be permitted except in the event of serious illness (see *Illness* section below).

The final exam will be held at the standard scheduled exam time of Thursday, December 17 from 1:30 pm – 3:30 pm in Tydings 2108, with a review session in class on Wednesday, December 10 (the last scheduled lecture of the semester). Students whose class schedule requires them to take more than three final examinations on the same day have the right to reschedule examinations so they have no more than three on a given day. The student must take responsibility for initiating the rescheduling or be responsible for taking the examinations as scheduled. When rescheduling is necessary, the student should first contact the instructor. Students wishing to reschedule a final examination under this rule should contact the instructor by November 9, 2009 (the deadline for dropping courses).

**Course website:** [https://elms.umd.edu/bin/common/course.pl?course\\_id=\\_288699\\_1](https://elms.umd.edu/bin/common/course.pl?course_id=_288699_1)

The course website will be the central source for materials for the course (problem sets, readings, etc.). Please be sure you have access and check it regularly.

### **Various necessary statements**

*Academic honesty:* you are required to abide by the standards of the University Honor Code, which prohibits students from cheating on exams, plagiarizing papers, submitting the same paper for credit in two courses without authorization, buying papers, submitting fraudulent documents, and forging signatures. For details on the requirements of the Honor Code, see <http://www.shc.umd.edu/code.html>. (Note: I find it ironic that faculty are encouraged to copy the preceding text from a UMD teaching resources website.) You are permitted (indeed, encouraged) to collaborate on problem sets, but each student must write up and submit an individual solution unless specific instruction to the contrary is given on the problem set.

*Illness:* Campus Senate policy (available here) requires students who are absent due to illness/injury to furnish documentary support to the instructor. I require students to contact me by email prior to class time in which you indicate that you have an illness or an injury. You must provide written documentation from a physician or other qualified health professional (e.g. registered nurse, physician's assistant) verifying your illness/injury immediately upon your return to class. You will not be allowed to turn in missed assignments or make up quizzes, tests, papers, etc., if you have not provided this documentation. Documentation not presented to me in a timely manner will not be accepted. In addition, if it is found that you have falsified the documentation provided, you will be referred to the University's Student Conduct Office.

*Religious observances:* I will make every effort to accommodate students' religious observances. By Monday, September 14, 2009, students must provide me in writing a request for accommodation

if some requirement of the class will conflict with a specific and required religious observance. Please specify the observance and date. For further details, refer to the Online Undergraduate Catalog Policy on Religious Observance.

*Students with disabilities:* I will make every effort to accommodate students who are registered with the Disability Support Services (DSS) Office and who provide me with a University of Maryland DSS Accommodation form which has been updated for the Fall 2009 semester. This form must be presented to me no later than Monday, September 14, 2009. I am not able to accommodate students who are not registered with DSS or who do not provide me with documentation which has been reviewed by DSS after Monday, September 14, 2009.

*Decorum:* Students are expected to treat each other with respect. Disruptive behavior of any kind will not be tolerated. Students who are unable to show civility with one another or with me will be subject to being referred to the Office of Student Conduct or to Campus Police. You are expected to adhere to the Code of Student Conduct at all times.

### **Texts:**

Recommended:

Debraj Ray. *Development Economics*. Princeton University Press, 1998

Abhijit V. Banerjee, Roland Benabou, and Dilip Mookherjee, editors. *Understanding Poverty*. Oxford, 2006

William Easterly. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. MIT Press, 2001

### **Course Outline**

Required readings marked \*\*. Recommended readings marked \*. Supplementary readings will be added during the semester. Readings marked # are more technically demanding and are provided for those with an interest in pursuing graduate study in economics. Note that to access some materials (in particular, journal articles) you may need to be on campus and / or log into the library's ResearchPort website: <http://researchport.umd.edu/>.

#### 1. Measuring Poverty

\*\* *World Development Indicators 2008: Poverty data*, World Bank, December 2008. <http://siteresources.worldbank.org/DATASTATISTICS/Resources/WDI08supplement1216.pdf>

\*\* Abhijit V. Banerjee and Esther Duflo. The economic lives of the poor. *The Journal of Economic Perspectives*, 21:141–167(27), Winter 2007. URL <http://www.ingentaconnect.com/content/aea/jep/2007/00000021/00000001/art00007>

See also the supplementary and updated tables for the Banerjee and Duflo paper available at <http://econ-www.mit.edu/files/3792>

\* Chap. 1 in Easterly, *The Elusive Quest for Growth*

\* Deaton, “Measuring Poverty,” Chap. 1 in Banerjee et al. [2006]

Angus Deaton and Valerie Kozel. Data and dogma: The great Indian poverty debate. *World Bank Research Observer*, 20:177–199, August 2005. URL [http://www.princeton.edu/~deaton/downloads/deaton\\_kozel\\_great\\_indian\\_poverty\\_debate\\_wbro\\_2005.pdf](http://www.princeton.edu/~deaton/downloads/deaton_kozel_great_indian_poverty_debate_wbro_2005.pdf)

*The Millennium Development Goals Report 2009*, United Nations, 2009. <http://www.un.org/millenniumgoals/pdf/MDG%20Report%202009%20ENG.pdf>

*Human Development Report 2007-2008: Human Development Indicators*, United Nations Development Programme, 2008. [http://hdr.undp.org/en/media/HDR\\_20072008\\_EN\\_Complete.pdf](http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf)

# Chap. 2.1-2.4 in Ray [1998]

# Martin Ravallion, Shaohua Chen, and Prem Sangraula. Dollar a day revisited. World Bank Policy Research Working Paper 1415, 2008. URL [http://works.bepress.com/martin\\_ravallion/13/](http://works.bepress.com/martin_ravallion/13/)

# Angus Deaton. Measuring poverty in a growing world (or measuring growth in a poor world). *Review of Economics and Statistics*, 87(1):1–19, 2005. URL <http://www.mitpressjournals.org/doi/abs/10.1162/0034653053327612>

## 2. Macroeconomic Theories of Development

### (a) Neoclassical growth theories: Harrod-Domar and Solow

\* Chap. 3 in Easterly, *The Elusive Quest for Growth*

William J. Baumol. Productivity growth, convergence, and welfare: What the long-run data show. *The American Economic Review*, 76(5):1072–1085, 1986. ISSN 00028282. URL <http://www.jstor.org/stable/1816469>

J. Bradford De Long. Productivity growth, convergence, and welfare: Comment. *The American Economic Review*, 78(5):1138–1154, 1988. ISSN 00028282. URL <http://www.jstor.org/stable/1807174>

Lant Pritchett. Divergence, big time. *The Journal of Economic Perspectives*, 11(3): 3–17, 1997. URL <http://www.jstor.org/stable/2138181>

Mankiw, N. Gregory, Romer, David, and Weil, David N. A contribution to the empirics of economic growth. *The Quarterly Journal of Economics*, 107(2):407–437, May 1992. URL <http://www.jstor.org/stable/2118477>

Klenow, Peter J. and Rodriguez-Clare, Andrés. The Neoclassical revival in growth economics: Has it gone too far? *NBER Macroeconomics Annual*, 12:73–103, 1997. URL <http://www.jstor.org/stable/3585220>

# Chap. 3 in Ray [1998]

(b) New growth theory

\* Romer, Paul, "Economic Growth," in *The Concise Encyclopedia of Economics*. Available at <http://www.stanford.edu/~promer/EconomicGrowth.pdf>

\* Charles Jones and Paul Romer. The new Kaldor facts: Ideas, population and human capital. Working Paper, 2009. URL <http://www.stanford.edu/~chadj/Kaldor200.pdf>

Aghion and Armendariz de Aghion, "New Growth Approach to Poverty Alleviation," Chap. 5 in Banerjee et al. [2006]

# Paul M. Romer. Endogenous technological change. *The Journal of Political Economy*, 98(5):S71–S102, October 1990. ISSN 00223808. URL <http://www.jstor.org/stable/2937632>

# Chap. 4 in Ray [1998]

(c) Geography and Macroeconomic Poverty Traps

\* Jeffrey D. Sachs, John W. McArthur, Guido Schmidt-Traub, Margaret Kruk, Chandrika Bahadur, Michael Faye, and Gordon McCord. Ending Africa's poverty trap. *Brookings Papers on Economic Activity*, 2004(1):117–216, 2004. URL <http://www.jstor.org/stable/3217964>

Michael Kremer and Stephen A. O'Connell. Ending Africa's poverty trap: Comments and discussion. *Brookings Papers on Economic Activity*, 2004:217–240, 2004. URL <http://www.jstor.org/stable/3217965>

Jeffrey D. Sachs. Tropical underdevelopment. (8119), February 2001. URL <http://www.nber.org/papers/w8119>

3. Microeconomic Impediments to Development

(a) Agricultural land and labor markets: An introduction to the economics of risk and information

\* Chap. 11 and 12 in Ray [1998]

# Abhijit V. Banerjee, Paul Gertler, and Maitresh Ghatak. Empowerment and efficiency: Tenancy reform in West Bengal. *Journal of Political Economy*, 110(2):239–280, April 2002. URL <http://www.journals.uchicago.edu/cgi-bin/resolve?JPE110203PDF>

# Joseph Stiglitz. Incentives and risks in sharecropping. *Review of Economic Studies*, 41(2):215–255, 1974. URL <http://www.jstor.org/stable/2296714>

(b) Credit: Credit Constraints and Microcredit

i. Credit constraints

\* Chap. 14 in Ray [1998]

\* Section 2.1.1 in Abhijit V. Banerjee and Esther Duflo. Growth theory through the lens of development economics. In Philippe Aghion and Steven N. Durlauf, editors, *Handbook of Economic Growth*, volume 1, chapter 7, pages 473–552. Elsevier, 2005. URL [http://dx.doi.org/10.1016/S1574-0684\(05\)01007-5](http://dx.doi.org/10.1016/S1574-0684(05)01007-5)

# Abhijit V. Banerjee. Contracting constraints, credit markets, and economic development. In Mathias Dewatripoint, Lars Hansen, and Stephen Turnovsky, editors, *Advances in Economics and Econometrics: Theory and Applications, Eighth*

*World Congress of the Econometric Society*, volume III, chapter 1, pages 1–46. Cambridge University Press, 2004a. URL <http://web.mit.edu/14.771/www/con-dev-april-2002-v-6-23.pdf>

# Abhijit V. Banerjee. The two poverties. In Stefan Dercon, editor, *Insurance Against Poverty*, chapter 3. Oxford University Press, 2004b. URL [http://www.samfunnsforskning.no/files/NOPEC\\_2000\\_7.pdf](http://www.samfunnsforskning.no/files/NOPEC_2000_7.pdf)

ii. Microcredit

Beatriz Armendariz de Aghion and Jonathan Morduch. Microfinance: Where do we stand? In Charles Goodhart, editor, *Financial Development and Economic Growth: Explaining the Links*, chapter 5. Palgrave Macmillan, 2004. URL [http://www.nyu.edu/projects/morduch/documents/microfinance/Microfinance\\_Where\\_Do\\_We.pdf](http://www.nyu.edu/projects/morduch/documents/microfinance/Microfinance_Where_Do_We.pdf)

Abhijit V. Banerjee, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan. The miracle of microfinance? Evidence from a randomized evaluation. MIT Working Paper, May 2009. URL <http://econ-www.mit.edu/files/4161>

Jonathan Morduch. The microfinance promise. *Journal of Economic Literature*, 37(4):1569–1614, December 1999. URL <http://www.jstor.org/stable/2565486>

# Joseph Stiglitz. Peer monitoring and credit markets. *World Bank Economic Review*, 4(3):351–366, 1990. URL <http://www.jstor.org/stable/3989881>

(c) Health

i. The impact of poor health on development: microeconomic poverty traps

\* Chap. 8 and 13 in Ray [1998]

\* Duncan Thomas and Elizabeth Frankenberg. Health, nutrition and prosperity: a microeconomic perspective. *Bulletin of the World Health Organization*, 80(2):106–113, 2002. URL [http://www.who.int/bulletin/archives/80\(2\)106.pdf](http://www.who.int/bulletin/archives/80(2)106.pdf)

ii. Health and health care in LDCs

\* Abhijit Banerjee, Angus Deaton, and Esther Duflo. Wealth, health, and health services in rural Rajasthan. *The American Economic Review*, 94(2):326–330, 2004. URL <http://www.jstor.org/stable/3592904>

Abhijit V. Banerjee and Esther Duflo. Aging and death under a dollar a day. (13683), December 2007. URL <http://www.nber.org/papers/w13683>

(d) Risk, Savings and Insurance

\* Chap. 12 and 15 in Ray [1998]

\* Morduch, “Microinsurance,” Chap. 22 in Banerjee et al. [2006]

# Robert M. Townsend. Risk and insurance in village India. *Econometrica*, 62(3):539–591, May 1994. ISSN 0012-9682

# Stephen Coate and Martin Ravallion. Reciprocity without commitment: Characterization and performance of informal insurance arrangements. *Journal of Development Economics*, 40:1–24, 1990

## References

- Abhijit Banerjee, Angus Deaton, and Esther Duflo. Wealth, health, and health services in rural Rajasthan. *The American Economic Review*, 94(2):326–330, 2004. URL <http://www.jstor.org/stable/3592904>.
- Abhijit V. Banerjee. Contracting constraints, credit markets, and economic development. In Mathias Dewatripoint, Lars Hansen, and Stephen Turnovsky, editors, *Advances in Economics and Econometrics: Theory and Applications, Eighth World Congress of the Econometric Society*, volume III, chapter 1, pages 1–46. Cambridge University Press, 2004a. URL <http://web.mit.edu/14.771/www/con-dev-april-2002-v-6-23.pdf>.
- Abhijit V. Banerjee. The two poverties. In Stefan Dercon, editor, *Insurance Against Poverty*, chapter 3. Oxford University Press, 2004b. URL [http://www.samfunnsforskning.no/files/NOPEC\\_2000\\_7.pdf](http://www.samfunnsforskning.no/files/NOPEC_2000_7.pdf).
- Abhijit V. Banerjee and Esther Duflo. Growth theory through the lens of development economics. In Philippe Aghion and Steven N. Durlauf, editors, *Handbook of Economic Growth*, volume 1, chapter 7, pages 473–552. Elsevier, 2005. URL [http://dx.doi.org/10.1016/S1574-0684\(05\)01007-5](http://dx.doi.org/10.1016/S1574-0684(05)01007-5).
- Abhijit V. Banerjee and Esther Duflo. Aging and death under a dollar a day. (13683), December 2007. URL <http://www.nber.org/papers/w13683>.
- Abhijit V. Banerjee and Esther Duflo. The economic lives of the poor. *The Journal of Economic Perspectives*, 21:141–167(27), Winter 2007. URL <http://www.ingentaconnect.com/content/aea/jep/2007/00000021/00000001/art00007>.
- Abhijit V. Banerjee, Paul Gertler, and Maitresh Ghatak. Empowerment and efficiency: Tenancy reform in West Bengal. *Journal of Political Economy*, 110(2):239–280, April 2002. URL <http://www.journals.uchicago.edu/cgi-bin/resolve?JPE110203PDF>.
- Abhijit V. Banerjee, Roland Benabou, and Dilip Mookherjee, editors. *Understanding Poverty*. Oxford, 2006.
- Abhijit V. Banerjee, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan. The miracle of microfinance? Evidence from a randomized evaluation. MIT Working Paper, May 2009. URL <http://econ-www.mit.edu/files/4161>.
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- Stephen Coate and Martin Ravallion. Reciprocity without commitment: Characterization and performance of informal insurance arrangements. *Journal of Development Economics*, 40:1–24, 1990.

- Beatriz Armendariz de Aghion and Jonathan Morduch. Microfinance: Where do we stand? In Charles Goodhart, editor, *Financial Development and Economic Growth: Explaining the Links*, chapter 5. Palgrave Macmillan, 2004. URL [http://www.nyu.edu/projects/morduch/documents/microfinance/Microfinance\\_Where\\_Do\\_We.pdf](http://www.nyu.edu/projects/morduch/documents/microfinance/Microfinance_Where_Do_We.pdf).
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- Angus Deaton and Valerie Kozel. Data and dogma: The great Indian poverty debate. *World Bank Research Observer*, 20:177–199, August 2005. URL [http://www.princeton.edu/~deaton/downloads/deaton\\_kozel\\_great\\_indian\\_poverty\\_debate\\_wbro\\_2005.pdf](http://www.princeton.edu/~deaton/downloads/deaton_kozel_great_indian_poverty_debate_wbro_2005.pdf).
- William Easterly. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. MIT Press, 2001.
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- Klenow, Peter J. and Rodriguez-Clare, Andrés. The Neoclassical revival in growth economics: Has it gone too far? *NBER Macroeconomics Annual*, 12:73–103, 1997. URL <http://www.jstor.org/stable/3585220>.
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- Jonathan Morduch. The microfinance promise. *Journal of Economic Literature*, 37(4):1569–1614, December 1999. URL <http://www.jstor.org/stable/2565486>.
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- Debraj Ray. *Development Economics*. Princeton University Press, 1998.
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- Jeffrey D. Sachs. Tropical underdevelopment. (8119), February 2001. URL <http://www.nber.org/papers/w8119>.
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