

# Econ 118: Development Economics

Autumn Quarter 2006

**Instructor:** Prof. Seema Jayachandran (jayachan@stanford.edu)  
**Lectures:** Tuesday and Thursday, 9 to 10:50 am, Bishop Auditorium, GSB  
**Office hours:** Friday, 3 to 5 pm, 230 Landau Economics Building  
**Teaching assts:** Rodrigo Barros (rbarros@stanford.edu)  
TBD  
**Sections:** TBD  
**TA office hours:** TBD  
**Website:** <http://coursework.stanford.edu>

## Course objectives

The aim of this course is to better understand why some countries are poor and how their level of economic development can be raised. The emphasis will be on microeconomic issues.

Some of the questions we will investigate include: Why don't individuals in poor countries invest more in health and education? Why do markets often function inefficiently in poor countries? To what extent are informal institutions able to fill this gap? What types of public policy can be used to spur economic development? What are some of the obstacles to effective policymaking in poor countries?

An important objective of this course is to teach you how to use both the theoretical and empirical tools of economics to investigate the questions above. The course therefore will cover econometric techniques and theoretical models, and the material will be challenging.

## Prerequisites

The prerequisites for this class are Econ 50, 52, and 102B. Having completed these classes is a strict requirement. Please see me if you feel you have an exceptional case AND have completed comparable quantitative classes, but I anticipate granting no or very few exceptions. The course material includes published research that uses advanced econometric techniques, and the problem sets will include regression analysis using statistical software. Both the textbook and the other readings also emphasize theoretical models. In short, you probably will not enjoy this class very much, and probably will not do well in it, if you are not comfortable with technical material. The goal of this approach is to provide a solid microeconomic framework within which students can analyze important issues in development.

## Textbook, online readings, and software

- The textbook is *Development Economics* by Debraj Ray. It is available at the bookstore and elsewhere.
- The reading list also includes published academic papers and working papers, both review articles and articles reporting original research. (NB: The latter category of academic papers will be the most challenging of the readings.) The readings are also drawn from policy reports, business school cases, and articles from the popular press. In lieu of a photocopied course reader, electronic copies of these readings are available through the course website.
- The problem sets will require you to use Stata, a statistical software package. Student versions are available through [Stanford Software Licensing](#). You will need “Intercooled Stata” rather than “Small Stata.”

## Requirements

- **Readings.** The first requirement is to do the readings for each lecture which are listed below in the “Schedule” section. While I cannot directly enforce this requirement, the problem sets and exams will assume knowledge of the readings, and you will understand lectures better if you have done the reading. (A few of the readings, marked with the symbol  $\Delta$ , are optional.)

Your grade for the course will be determined as follows:

- **35%: Problem Sets**
  - There will be 5 problem sets during the quarter which will be due at *noon* on Oct 10, Oct 24, Nov 9, Nov 21, and Dec 7. The problem sets will be handed out in class one week (or more) before the due date.
  - The problem sets will be of varying length, and they will not all count equally toward your grade. The total points for the 5 problem sets will be 350, and when a problem set is handed out, it will state how many points it is worth. My best guess is that the problem sets, in order, will be worth 60, 75, 85, 75, and 60 points.
  - Collaboration with others is allowed, but the work you submit should reflect a good deal of individual effort. Please indicate on your problem set with whom you worked.
  - The data analysis problems will require you to use Stata software. The first section (next week) will include a Stata tutorial which I recommend attending.
- **25%: Midterm Exam**
  - There will be an in-class midterm exam on November 2.
- **40%: Final Exam**
  - The final exam will be on December 14 from 12:15 to 3:15 pm.
- **Class Participation.** Class participation is encouraged. Your participation in lecture and section will be considered in borderline cases.

## Other course policies

- **Missed exam:** The Department of Economics has a common policy across courses that governs exam attendance. Students must take each exam on the scheduled date. Exam dates will not be changed for individual students to accommodate job interviews, family events, etc. Exceptions will be made only for serious medical reasons or in the event of a death in the family. If a student-athlete must be off-campus the day of an exam, he/she must take the exam on the scheduled exam date and supply his/her answers by fax on that date. Please read the guidelines at [http://www-econ.stanford.edu/academics/economics\\_department\\_course\\_management.pdf](http://www-econ.stanford.edu/academics/economics_department_course_management.pdf).
- **Requests for re-grading:** The [department policy on course management](#) also lays out the procedure that must be followed to request re-grading of an assignment or exam. All re-grade requests should be submitted in writing, to your TA, within a week from when we return your work. Please read the full policy carefully, as we will only re-grade problem sets and exams if the request complies with the department policy.
- **Late assignments:** Assignments can be turned in up to 1 day (24 hours) late but 40% of the total points possible on the problem set will be deducted from your grade. Problem sets turned in after 12 pm on the due date are considered a day late. Assignments will not be accepted more than 1 day (24 hours) after the due date/time.
- **Disabilities:** Students who have a physical or mental impairment that may necessitate an academic accommodation or the use of auxiliary aids and services in a class must initiate the request with the Disability Resource Center (DRC). The DRC will evaluate the request along with the required documentation, recommend the appropriate accommodations, and prepare a verification letter dated in the current academic term in which the request is being made. The student is responsible for arranging a proctor and location if necessary for the extended test period; timely notice is needed to arrange for appropriate accommodations. The DRC is located at 123 Meyer Library (phone 723-1066 voice; 725-1067 TTY).
- **Updates to syllabus:** I may make modifications to the syllabus during the quarter. Any such modifications will be announced in class, and an updated copy of the syllabus will be kept on the website.
- **Cell phones:** Please keep all cell phones, beepers, etc. turned off during class. If your cell phone rings during class, you are required to pay \$10 to me. These proceeds will be donated to [TamTam Africa](#), an NGO that distributes insecticide-treated bed nets to pregnant women in rural Kenya. This is a good cause, so I encourage the rest of the class to finger culprits.
- **Computer use:** Students are permitted to use computers during class for note-taking only. Those using computers during class for work not related to that class are required to pay \$10 to me. See above.
- **Attendance:** While attendance at lectures is not required, you forfeit the right to use office hours if you don't come to class.
- **Email:** The best way to get answers or help from me is to visit me during office hours. Email should not be your first or primary means of sending questions. I will try to respond

to questions over email if they are concise and clear, but as I will not be reading through my emails frequently, there may be some delay before I respond, and I am likely to request that you come to office hours for a discussion anyway. If you send me an email, please do so from your Stanford account, and please put “Econ 118” in the subject line.

- **Handouts of lecture notes:** Hard copies of some of my slides from lecture will be distributed in class to make note-taking easier for you. The full lecture notes will not be distributed, and the pages that are distributed will not in general be available in electronic format.

## Schedule of lectures

### Tu Sep 26 Introduction, Part I

- Course overview: topics, requirements, policies
- Broad overview of economic development

1. *Hartmann and Boyce, A Quiet Violence: View from a Bangladesh Village, Chapter 12, 1983*

### Th Sep 28 Introduction, Part II

- Broad overview of economic development (contd)
- Interpreting empirical results

1. *Ray, Chapter 2*

2. *Ray, Appendix 2*

### Tu Oct 3 Economic growth

- Patterns of economic growth
- Geography versus institutions debate

1. *Ray, Chapters 3 and 4 (skim)*

2. *Sachs, “Institutions Matter, But Not for Everything,” Finance and Development, June 2003 ([link](#))*

3. *Acemoglu, “Root Causes,” Finance and Development, June 2003 ([link](#))*

4. *Δ Rodrik, “The Primacy of Institutions,” Finance and Development, June 2003 ([link](#))*

### Th Oct 5 Inequality

- Inequality in developing countries
- Effects of inequality

1. Ray, Chapters 6 and 7
2.  $\Delta$  Deaton, "Health, Inequality and Economic Development," Journal of Economic Literature 41(1): 113–158, 2003

### **Tu Oct 10 Income and health**

- Effect of income on health
  - Effect of health on income
1. Thomas et al, "Causal Effect of Health on Labor Market Outcomes: Experimental Evidence," working paper, UCLA, 2006 ([link](#))
  2.  $\Delta$  Bloom, Canning, and Jamison, "Health, Wealth, and Welfare," Finance and Development, March 2004

### **Th Oct 12 Nutritional poverty traps**

- Theory of nutritional poverty traps
  - Other types of poverty traps
1. Ray, Chapter 8 + pp 489–504

### **Tu Oct 17 Burden of infectious disease**

- Impact of AIDS, malaria, tuberculosis, and other diseases
  - Pharmaceutical R&D incentives
1. Kremer, "Pharmaceuticals and the Developing World," Journal of Economic Perspectives 16(4): 67–90, 2002
  2. Podolny, Bahl, and Newsome, "HIV/AIDS in South Africa 2001: Background Note," Stanford GSB Case #IB-31, 2002

### **Th Oct 19 Health and education**

- Effect of health on education
  - Effect of education on health
1. Miguel and Kremer, "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities," Econometrica 72(1): 159–217, 2004
  2. Glewwe and Miguel, "The Impact of Child Health and Nutrition on Education in Less Developed Countries" draft book chapter, 2005

## Tu Oct 24 Education

- Basic facts about education in developing countries
- Modeling how the family decides how much schooling to invest in

1. *Public Report on Basic Education in India (PROBE), Chapter 3, 1999*

## Th Oct 26 Returns to education

- Estimating the economic returns to schooling

1. Duflo, “Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment,” *American Economic Review* 91(4): 795-813, 2001

## Tu Oct 31 Quality of education and health care

- Absenteeism at schools and health clinics
- Viewing of “The Name of the Disease” (documentary)

1. Chaudhury et al, *Missing in Action: Teacher and Health Worker Absence in Developing Countries*, *Journal of Economic Perspectives* 20(1): 91–116, 2006

## Th Nov 2 Midterm exam

## Tu Nov 7 Gender

- “Missing women” and gender bias
- Parental spending on children

1. Ray, pp. 279–288

2. Duflo, “Grandmothers and Granddaughters: Old Age Pension and Intra-Household Allocation in South Africa,” *World Bank Economic Review* 17(1):1–25, 2003.

3. Sen, “Many Faces of Gender Inequality,” *Frontline* 18(22), 2001 ([link](#))

4.  $\Delta$  Sen, “More Than 100 Million Women Are Missing,” *New York Review of Books* 37(2), December 20, 1990

## Th Nov 9 Children

- Conditional cash transfer programs
- Child labor

1. *Rawlings and Rubio, "Evaluating the Impact of Conditional Cash Transfer Programs,"* World Bank Research Observer 20(1):pp 29–55, 2005
2. *Edmonds and Pavcnik, "Child Labor in the Global Economy,"* Journal of Economic Perspectives 19(1): pp 199–220, 2005

### **Tu Nov 14 Risk and insurance**

- Risks faced by the poor
- Informal insurance

1. *Ray, Chapter 15*
2. *Townsend, "Financial Systems in Northern Thai Villages" Quarterly Journal of Economics* 110(4): 1011-1046, 1995

### **Th Nov 16 Microcredit**

- Theory of credit markets
- Evidence on microcredit

1. *Ray, Chapter 14*
2. *Morduch "The Microfinance Promise." Journal of Economic Literature* 37(4):1569-1614, 1999
3.  $\Delta$  *Hung, "Bank on Wheels," Finance and Development, June 2004*

### **Tu Nov 21 Property rights**

- Theory of property rights
- Evidence on effects of property rights

1. *Ray, Chapters 11 and 12*
2. *Banerjee et al, "Empowerment and Efficiency: Tenancy Reform in West Bengal" Journal of Political Economy* 110(2): 239-280, 2002
3. *Field, "Property Rights and Investment in Urban Slums," Journal of the European Economic Association, 3(2–3), 279-290, 2005*

### **Th Nov 23 Happy Thanksgiving**

### **Tu Nov 28 Politics**

- Role of democracy in development
- Civil war

1. Besley and Burgess, "The Political Economy of Government Responsiveness: Theory and Evidence from India," *Quarterly Journal of Economics* 117(4): 1415-1452, 2002
2. *Breaking the Conflict Trap*, book manuscript, World Bank, Chapters 1 and 3

### Th Nov 30 Corruption

- Theory of corruption
  - Evidence on corruption
1. Svensson, "Eight Questions about Corruption," *Journal of Economic Perspectives* 19(3): 19-42, 2005
  2. Wade, "The System of Administrative and Political Corruption: Canal Irrigation in South India," *Journal of Development Studies* 18(3): 287-328, 1982
  3.  $\Delta$  McMillan, "Angola's Mislaid Billions," Stanford GSB Case #IB-52, 2004

### Tu Dec 5 Technology

- Agricultural technology
  - Information technology
1. Jensen, "The Digital Provide: Information (Technology), Market Performance and Welfare in the South Indian Fisheries Sector," working paper, Harvard University, 2006
  2. Rockefeller Foundation, "Africa's Turn: A New Green Revolution for the 21st Century," report, July 2006

### Th Dec 7 Fertility or TBD

1. Readings to be determined