

DEVELOPMENT MICROECONOMICS

Monsoon 2017

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Office Hours: Tu Thu 11 am-12 noon or by appointment

Class Time and Location: Tu Thu 2 pm-3.30 pm, B305

Description of the Course: This is a one semester course that will cover a variety of topics concerning the microeconomics of economic development. The course will first provide an overview of poverty, and discuss some current important microeconomic issues in development economics. We will then review the empirical methods that are used by development economists to analyze the behavior of individuals and households. After that, in detail, we will examine various areas of development microeconomics including health, education, savings and credit, and corruption. In addition, we may also briefly cover topics on gender issues in relation to development economics, if time permits.

Textbooks: I will not follow any particular text book for this course. However, you might find the following development economics textbooks useful for extending the understanding of the concepts/materials covered in class:

1. Ray, D. (1998), *Development Economics*, New Delhi: Oxford University Press.
2. Bardhan, P., and Udry, C. (1999), *Development Microeconomics*, NY: Oxford University Press.
3. Banerjee, A.V., Benabou, R., and Mukherjee, D. (2006), *Understanding Poverty*, NY: Oxford University Press.

For empirical methods, you can refer to the following books:

1. Angrist, J., and Pischke, J.-S. (2009). *Mostly Harmless Econometrics*, NJ: Princeton University Press.
2. Angrist, J., and Pischke, J.-S. (2014). *Mastering 'Metrics*, NJ: Princeton University Press.

Grading: Grades will be based on attendance, participation in class, class presentations, and an *original* term paper:

Attendance and class participation	10%
Class Presentation I	20%
Class Presentation II	20%
Class Presentation III	20%
Term Paper (Research Proposal)	30%

Attendance: Attendance will be taken randomly throughout the semester. Note, if your attendance falls below 70%, I am not obliged to grade your term paper.

Exams: There will be no exams for this course.

Class Presentations: Each class presentation will be of 40 minutes duration (including Q&A). You are expected to choose papers from the reading list, and prepare your presentations based on those (you can find all the papers in electronic format on my website: <http://punarjitroyc.weebly.com>). Each student will have to prepare three such presentations over the semester (and hence is required to choose three papers from the reading list). You should prepare your presentations either using Microsoft Powerpoint or Latex (Beamer). The aspects of a particular research paper you are expected to cover in your presentation are:

- What is the research question?
- Why is the question important (i.e., why do we care about this question)?
- Where do the data come from (i.e. the source of the data)?
- What is the identification strategy or what is the experimental design?
- What are the main findings?
- What are the policy implications (if any)?

You are *not* expected to fully understand the technicalities of the econometric strategy/experimental design of the papers. Understanding and presenting just the intuition underlying the econometric strategy/econometric design of the papers should be sufficient. Further, note that the aim of these presentations is not only to train you to read and understand scientific papers, but also to enable you to communicate economics research to the scientific community and general audience in a precise and clear way. This will enhance your ability to present your own research papers/projects at seminars and conferences. You will be presenting the papers that you choose in front your friends (classmates) and myself. So, do not feel shy for any reason! You will not be graded on how well you can speak English (this is not a course on spoken English!), but rather on how professional your presentation looks (by that I mean your presentation should look nice and be free of typos; avoid using templates/designs/effects which may distract the audience), how well you have been able to cover the main points of the paper in your presentation, and how well you can explain the paper to your classmates and to me.

Term Paper: You are required to write a (short) term paper for this course. It should be an original research idea related to any area of development microeconomics. The paper should consist of the following sections:

- Introduction: Here you describe the research question, discuss why this question is important, briefly summarize your empirical strategy that you wish to adopt, and highlight the main contributions of your work.
- Literature review: In this section, you summarize a few important papers related to your work (if you wish, instead of making a separate literature review section, you can discuss the related papers in a couple of paragraphs in the introduction as well)
- Data source(s): Discuss the source(s) from where you intend to get the data. You are *not* expected to acquire the data (i.e., you do not have to actually download any data or collect your own data from the field). However, list the variables that you would potentially be using.
- Empirical Strategy/Experimental Design: Briefly describe your empirical strategy. No technical details required. However, you should be able to justify why you wish to use the strategy that you wish to, and provide the identifying assumptions.
- References: List the papers that you have referred to. Follow the referencing style of the *American Economic Review*.

You are *not* expected to do any regressions/empirical work. So, you do not have to have a separate section for results. Note that the term paper must be completely typed out in Microsoft Word and properly formatted

(use font size 12, double spacing, justified). Ideally, the paper should not be more than 12 - 15 pages long (papers shorter or longer than this will not be penalized as long your “good”).

You must get the topic of your term paper approved by me by October 10. Submission date of the term paper: December 5, 2017. Note that you need to submit your term paper electronically in pdf form only.

COURSE OUTLINE

I. *Development Microeconomics: An Overview*

- *Deaton, A. (2004). “Measuring Poverty,” In A.V. Banerjee, R. Benabou, and D. Mukherjee (eds.), *Understanding Poverty*, NY: Oxford University Press.
- *Banerjee, A.V., and Duflo, E. (2007). “The Economic Lives of the Poor,” *Journal of Economic Perspectives*, 21, 141-167.
- *Sen, A. K. (1990). “Development as capability expansion,” In K. Griffin, & J. Knight (eds.), *Human development and the international development strategy for the 1990s*, London: Macmillan.
- *Banerjee, A.V. (2009). “Big Answers for Big Questions: The Presumption of Macroeconomics,” In J. Cohen and W. Easterly (eds.), *What Works in Development?: Thinking Big and Small*, Washington, D.C.: Brookings Institution Press.
- *Banerjee, A.V. (2008). “Why fighting poverty is hard?”, mimeo, MIT.

II. *Toolbox for Empirical Development Economics: Overview of Causal Analysis; Randomized Control Trial (RCT); Fixed Effects (FE) Approach; Difference-in-Difference (DID); Regression Discontinuity Design (RDD); Instrumental Variable (IV) Methods*

- *Angrist, J., and Pischke, J.-S. (2009). *Mostly Harmless Econometrics*, NJ: Princeton University Press, Chapters 2, 4, 5, and 6.
- *Duflo, E., Glennerster, R., and Kremer, M. (2008). “Using Randomization in Development Economics Research: A Toolkit,” In T. Schultz and J. Strauss (eds.), *Handbook of Development Economics*, Vol. 4, Amsterdam: North Holland.
- Card, D., and Krueger, A. (1994). “Minimum Wages and Employment: A Case Study of the Fast-Food Industry New Jersey and Pennsylvania,” *American Economic Review*, 84, 772-793.
- Angrist, J.D., and Krueger, A.B. (1991), “Does Compulsory School Attendance Affect Schooling and Earnings,” *Quarterly Journal of Economics*, 106, 979-1014.

III. *Health and Development*

- *Strauss, J., and Thomas, D. (2008). “Health over the life course,” In T. Schultz and J. Strauss (eds.), *Handbook of Development Economics*, Vol. 4, Amsterdam: North Holland.
- *Strauss, J., and Thomas, D. (1998). “Health, Nutrition and Economic Development,” *Journal of Economic Literature*, 36, 766-817.
- *Bleakley, H. (2010). “Health, Human Capital and Development,” *Annual Review of Economics*, 2, 283-310.
- *Dupas, P., and Miguel, E. (2017). “Impacts and Determinants of Health Levels in Low-Income Countries,” In A.V. Banerjee and E. Duflo (eds.), *Handbook of Field Experiments*, Vol. 2, Amsterdam: North Holland.

Readings

- Miguel, E., and Kremer, M. (2004). “Worms: Identifying impacts on Education and Health in the Presence of Treatment Externalities,” *Econometrica*, 159-217.
- Oster, E. (2005), “Sexually Transmitted Infections, Sexual Behavior and the HIV/AIDS Epidemic,” *Quarterly Journal of Economics*, 120, 467-515.
- Bleakley, H. (2007). “Disease and Development: Evidence from Hookworm Eradication in the American South,” *Quarterly Journal of Economics*, 122, 73-117.
- Cutler, D., Fung, W., Kremer, M., Singhal, M., and Vogl, T. (2010). “Early-life Malaria Exposure and Adult Outcomes: Evidence from Malaria Eradication in India,” *American Economic Journal: Applied Economics*, 2, 72-94.
- Dupas, P. (2011). “Do Teenagers Respond to HIV Risk Information? Evidence from a Field Experiment in Kenya”, *American Economic Journal: Applied Economics*, 3, 1-36.
- Tarozzi, A., Mahajan, A., Blackburn, B., Kopf, D., Krishnan, L., Yoong, J. (2014). “Micro-loans, Insecticide-Treated Bednets and Malaria: Evidence from a Randomized Controlled Trial in Orissa (India),” *American Economic Review*, 104, 1909-41
- Baird, S., Hicks, J.H., Kremer, M., and Miguel, E. (2016). “Worms at Work: Long-run impacts of a child health investment,” *Quarterly Journal of Economics*, 131, 1637-1680.
- Chong, A., Cohen, I., Field, E., Nakasone, E., and Torero, M. (2016). “Iron Deficiency and Schooling Attainment in Peru,” *American Economic Journal: Applied Economics*, 8, 222-255.
- Spears, D., and Lamba, S. (2016). “Effects of Early-Life Exposure to Sanitation on Childhood Cognitive Skills Evidence from India’s Total Sanitation Campaign,” *Journal of Human Resources*, 51, 298-327.
- Das, J., Chowdhury, A., Hussam, R., and Banerjee, A.V., Hussam, R. (2016). “The Impact of Training Informal Providers on Clinical Practice in West Bengal, India: A Randomized Controlled Trial,” *Science*, 354, aaf7384.
- Lavy, V., Schlosser, A., and Shany, A. (2016). “Out of Africa: Human Capital Consequences of In Utero Conditions,” Working Paper.
- Agüero, J.M., and Beleche, T. (2017). “Health shocks and their long-lasting impact on health behaviors: Evidence from the 2009 H1N1 pandemic in Mexico,” *Journal of Health Economics*, 54, 40-55.
- Baranov, V., and Kohler, H.-P. (2017). “The Impact of AIDS Treatment on Savings and Human Capital Investment in Malawi,” *American Economic Journal: Applied Economics*, forthcoming.

***** Presentation I *****

IV. ***Education and Development***

- *Case, A. (2006). “The Primacy of Education,” In A.V. Banerjee, R. Benabou, and D. Mukherjee (eds.), *Understanding Poverty*, NY: Oxford University Press.
- *Glewwe, P., and Kremer, M. (2006). “Schools, Teachers, and Education Outcomes in Developing Countries,” In E.A. Hanushek and F. Welch, *Handbook of Economics of Education*, Vol. 2, Amsterdam: North Holland.

- *Orazem, P.F., and King, E.M. (2008). “Schooling in Developing Countries: The Roles of Supply, Demand and Government Policy,” In T. Schultz and J. Strauss (eds.), *Handbook of Development Economics*, Vol. 4, Amsterdam: North Holland.
- Glewwe, P., and Muralidharan, K. (2016), “Improving Education Outcomes in Developing Countries: Evidence, Knowledge Gaps, and Policy Implications,” In E.A. Hanushek, S. Machin and L. Woessmann (eds.), *Handbook of the Economics of Education*, Vol. 5, Amsterdam: North Holland.

Readings

- Duflo, E. (2001). “Schooling and labor market consequences of school construction in Indonesia: Evidence from an unusual policy experiment,” *American Economic Review*, 91, 795-813.
- Schultz, T.P. (2004). “School subsidies for the poor: evaluating the Mexican Progresa poverty program,” *Journal of Development Economics*, 74, 199-250.
- Duflo, E., Dupas, P., and Kremer, M. (2011). “Peer Effects, Teacher Incentives, and the Impact of Tracking: Evidence from a Randomized Evaluation in Kenya,” *American Economic Review*, 101, 1739-1774.
- Malamud, O., and Pop-Eleches, C. (2011). “Home Computer Use and the Development of Human Capital,” *Quarterly Journal of Economics*, 126, 987-1027.
- Muralidharan, K., and Sundararaman, V. (2011). “Teacher Performance Pay: Experimental Evidence from India,” *Journal of Political Economy*, 119, 39-77.
- Oster, E., and Thornton, R. (2011). “Menstruation, Sanitary Products and School Attendance: Evidence from Randomized Evaluation,” *American Economic Journal: Applied Economics*, 3, 91-100.
- Jackson, C.K. (2012) “Single-sex schools, student achievement, and course selection: Evidence from rule-based student assignments in Trinidad and Tobago” *Journal of Public Economics*, 96, 173–187.
- Hidalgo, D., Onofa, M., Oosterbeek, H., and Ponce, J. (2013). “Can provision of free school uniforms harm attendance? Evidence from Ecuador,” *Journal of Development Economic*, 103, 43-51.
- Mo, D., Zhang, L., Yi, H., Luo, R., Rozelle, S., and Brinton, C. (2013). “School Dropouts and Conditional Cash Transfers: Evidence from a Randomised Controlled Trial in Rural China's Junior High Schools,” *Journal of Development Studies*, 49, 190-207.
- Jayachandran, Seema (2014) “Incentives to teach badly: After-school tutoring in developing countries,” *Journal of Development Economics*, 108, 190-205.
- Glewwe, P., Park, A., and Zhao, M. (2016). “A Better vision for development: Eyeglasses and academic performance in rural primary schools in China,” *Journal of Development Economics*, 122, 170-182.
- Banerji, R., Berry, J., Shotland, M. (2017). “The Impact of Mother Literacy and Participation Programs on Child Learning: Evidence from a Randomized Evaluation in India,” *American Economic Journal: Applied Economics*, forthcoming.
- Duflo, E., Dupas, P., and Kremer, M. (2017). “The Impact of Free Secondary Education: Experimental Evidence from Ghana,” Working Paper.
- Muralidharan, K., and Prakash, N. (2017). “Cycling to School: Increasing Secondary School Enrollment for Girls in India,” *American Economic Journal: Applied Economics*, forthcoming.

***** Presentation II *****

V. *Savings and Credit*

- *Morduch, J. (1999). "The Microfinance Promise," *Journal of Economic Literature*, 37, 1569-1614.
- *Karlan, D., and Morduch, J. (2010). "Access to Finance," In D. Rodrik and M. Rosenzweig (eds.), *Handbook of Development Economics*, Vol. 5, Amsterdam: North Holland.
- *Karlan, D., Ratan, A.L., and Zinman, J. (2014). "Savings by and for the Poor: A Research Review and Agenda," *Review of Income and Wealth*, 60, 36-78.
- *Banerjee, A.V., Duflo, E., Glennerster, R., and Kinnan, C. (2015). "The Miracle of Microfinance? Evidence from a Randomized Evaluation," *American Economic Journal: Applied Economics*, 7, 22-53.
- *Field, E., Holland, A., and Pande, R. (2016). "Microfinance: Points of Promise," In J. Kimmel (ed.), *Award Winning Economists Speak on Contemporary Economic Issues*, MI: W.E. Upjohn Institute for Employment Research.

Readings

- 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, 635-672.
- Burgess, R., and Pande, R. (2005). "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment," *American Economic Review*, 95, 780-795.
- Karlan, D. and Zinman, J. (2008). "Credit Elasticities in Less-Developed Economies: Implications for Microfinance," *American Economic Review*, 98, 1040-1068.
- Karlan, D., and Zinman, J. (2010). "Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts," *Review of Financial Studies*, 23, 433-464.
- Dupas, P., and Robinson, J. (2013). "Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya," *American Economic Journal: Applied Economics*, 5, 163-192.
- Dupas, P., and Robinson, J. (2013). "Why Don't the Poor Save More? Evidence from Health Savings Experiments," *American Economic Review*, 103, 1138-1171.
- Prina, S. (2015). "Banking the poor via savings accounts: Evidence from a field experiment," *Journal of Development Economics*, 115, 16-31.
- Dupas, P., Green, S., Keats, A., and Robinson, J. (2016). "Challenges in Banking the Rural Poor: Evidence from Kenya's Western Province," In S. Edwards, S. Johnson, and D. Weil (Eds.), *African Success, Volume III: Modernization and Development*, NBER, University of Chicago Press.
- Schaner, S. (2016). "The Cost of Convenience? Transaction Costs, Bargaining Power, and Savings Account Use in Kenya," *Journal of Human Resources*, 0815-7350R1.

VI. *Corruption*

- *Pande, R. (2008), "Understanding Political Corruption in Low Income Countries," In T. Schultz and J. Strauss (eds.), *Handbook of Development Economics*, Vol. 4, Amsterdam: North Holland.
- *Olken, B.A., and Pande, R. (2012). "Corruption in Developing Countries," *Annual Review of Economics*, 4, 479-509.

Readings

- Bertrand, M., Djankov, S., Hanna, R., and Mullainathan, S. (2007). “Obtaining a Driver’s License in India: An Experimental Approach to Studying Corruption,” *Quarterly Journal of Economics*, 122, 1639-1676.
- Hunt, J. (2007). “How corruption hits people when they are down,” *Journal of Development Economics*, 84, 574-589.
- Olken, B.A. (2007). “Monitoring corruption: evidence from a field experiment in Indonesia,” *Journal of Political Economy*, 115, 200-249.
- Ferraz, C., and Finan, F. (2008), “Exposing Corrupt Politicians: The Effects of Brazil’s Publicly Released Audits on Electoral Outcomes,” *Quarterly Journal of Economics*, 123, 703-745.
- Peisakhin, L. (2012). “Transparency and Corruption: Evidence from India,” *Journal of Law & Economics*, 55, 129-149.
- Babonis, G.J., Camara Fuentres, L.R., and Schwabe, R. (2016). “Monitoring Corruptible Politicians,” *American Economic Review*, 106, 2371-2405.
- Lewis-Faupel, S., Neggers, Y., Olken, B.A., and Pande, R. (2016). “Can Electronic Procurement Improve Infrastructure Provision? Evidence from Public Works in India and Indonesia,” *American Economic Journal: Economic Policy*, 8, 258-283.

***** **Presentation III** *****

ECO 605: Development Microeconomics - Tentative Course Schedule

August	
1	Introductory Class: Discussion of course structure, syllabus, and evaluation methods
3	Overview of Issues in Development Microeconomics
8	Overview of Issues in Development Microeconomics
10	Toolbox for Empirical Development Economics
15	Holiday
17	Toolbox for Empirical Development Economics
22	Toolbox for Empirical Development Economics
24	Toolbox for Empirical Development Economics
29	Health and Development
31	Health and Development
September	
5	Health and Development
7	Student Presentation I
12	Student Presentation I
14	Student Presentation I
19	Student Presentation I
21	Education and Development
26	Education and Development
28	Holiday
October	
3	Education and Development
5	Student Presentation II
10	Student Presentation II & last date for <i>initial</i> approval of term paper topic
12	Student Presentation II
17	Breeze
19	Midterm Break
24	Student Presentation II & last date for <i>final</i> approval of the topic of term paper
26	Savings and Credit
31	Savings and Credit
November	
2	Savings and Credit
7	Corruption
9	Corruption
14	Corruption
16	Student Presentation III
21	Student Presentation III
23	Student Presentation III
28	Student Presentation III
December	
5	Term Paper Submission