

Econ 118: Development Economics

Autumn Quarter 2009

Instructor: Prof. Seema Jayachandran (jayachan@stanford.edu)
Lectures: Monday and Wednesday, 9 to 10:50 am, Landau 140
Office hours: Wednesday, 4:00 to 6:00 pm, 230 Landau Economics Building
Teaching asst: George Bulman (gbulman@stanford.edu)
Sections: Friday 9:00 am and 1:00 pm, location TBD
TA office hours: Friday 2:00 to 4:00 pm, location TBD

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 improved. The emphasis will be on microeconomic issues.

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?

Another important objective is to learn how to use both the theoretical and empirical tools of economics to investigate the questions above. Therefore, econometric techniques and theoretical models will feature prominently in the course.

Prerequisites

The prerequisites are Econ 50, 52, and 102B. The prerequisites are strictly enforced by the Economics Department.

The readings and lectures will draw upon a fair amount of econometrics and economic theory. You probably will not enjoy the class very much if you are not comfortable with technical material. On the flip side, by the end of the quarter you hopefully will have a solid microeconomic framework within which to analyze important issues in development.

Textbook, online readings, and software

- The textbook is *Development Economics* by Debraj Ray. It is available at the bookstore.
- The reading list also includes academic journal articles, policy reports, etc., and in lieu of a photocopied course reader, electronic copies of these readings are available through the course website. There are a few exceptions and, for these readings, hard copies will be distributed in class or a hard copy will be available for you to borrow from the course's administrative assistant (Kelly Carson, Landau 252) to photocopy. Details will be provided later in the quarter.
- The problem sets will ask you to use Stata, a statistical software package. Student versions at a discounted rate are available through the [Stata "Grad Plan"](#). You will need "Intercooled Stata" rather than "Small Stata." Stata is also available at several computer clusters on campus.

Requirements

- **Readings.** The first requirement is to do the starred 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. You’ll also understand lectures better if you have done the reading. The unstarred readings are optional.

Your grade for the course will be determined as follows:

- **30%: Problem Sets**
 - There will be 5 problem sets during the quarter which will be due at *noon* on the following Mondays: Oct 5, Oct 19, Nov 2, Nov 16, and Nov 30. They will each carry equal weight toward your grade. The assignment will be distributed one week or more before the due date.
 - Completed problem sets can be turned in either by handing it to your TA at the beginning of lecture or by delivering it to Kelly Carson in Landau 252.
 - Collaboration with others is allowed, but the work you submit should reflect a good deal of individual effort. Each individual should turn in a problem set and indicate with whom he or she worked.
 - The data analysis problems will require you to use Stata software. On the Friday of the first week of class, the TA will give a 1-hour Stata tutorial.
- **25%: Midterm Exam**
 - There will be an in-class midterm exam on Wednesday, October 28.
- **40%: Final Exam**
 - The final exam will be held, as scheduled by the registrar.
- **5%: Class Participation**
 - Class participation in lecture and section is highly encouraged.

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. In the case of a medical problem, you must provide a letter from a doctor stating explicitly that the medical problem prevents you from taking the exam. 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://economics.stanford.edu/undergraduate/economics-common-syllabus>.
- **Requests for re-grading:** The [department common syllabus](#) also lays out the process that must be followed to request re-grading of an assignment or exam. All re-grade requests should be submitted in writing, to the professor, copying the director of undergraduate studies (doubleh@stanford.edu), within a week from when we return your work. Students must not approach either instructor or TA with an oral request before making their written request. Please read the full department policy carefully, as we will only re-grade problem sets and exams if the request complies with it.
- **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.

- **Students with documented disabilities:** Students who may need an academic accommodation based on the impact of a disability must initiate the request with the Student Disability Resource Center (SDRC) located within the Office of Accessible Education (OAE). SDRC staff will evaluate the request with required documentation, recommend reasonable accommodations, and prepare an *Accommodation Letter* for faculty dated in the current quarter in which the request is being made. Students should contact the SDRC as soon as possible since timely notice is needed to coordinate accommodations. The OAE is located at 563 Salvatierra Walk (phone: 723-1066).
- **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.
- **Attendance:** While attendance at lectures is not required, you forfeit the right to use office hours if you don't come to class.
- **Office hours:** The first hour of my office hours will be first-come, first-served. For the second hour, I will post a sign-up sheet on my door (posted each week for the following week) for four 15-minute slots. If any of those slots are not filled in advance, I will meet with students on a first-come, first-served basis during those times.
- **Email:** The best way to get help from me is to visit me during office hours. I will try to respond to questions over email if they are concise and clear, but I am likely to ask you to come to office hours to have your question answered. 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:** Copies of the lecture slides will be handed out in class and posted on the course website after class. Occasionally we will run out of time before finishing the slides and we will pick up where we left off during the next class. In such cases, please bring the previous lecture's handout to the next class so that we do not waste paper by printing them again.

Schedule of lectures

Mon Sept 21 Introduction

- Course overview: topics, requirements, policies
- Basics facts about economic development
- Interpreting empirical results

★ *Ray, Chapter 2*

Wed Sept 23 Income and health

- Effect of income on health
- Effect of health on income

★ *Thomas et al, "Causal Effect of Health on Labor Market Outcomes: Experimental Evidence," working paper, UCLA, 2006*

Mon Sept 28 Empirical analysis

- Review of causal estimation and instrumental variables
- ★ *Ray, Appendix 2*
- ★ *Re-read the treatment of these topics in your econometrics textbook. I recommend Mostly Harmless Econometrics by Angrist and Pischke.*

Wed Sept 30 Nutritional poverty traps and inequality

- Inequality in developing countries
 - Effects of inequality
 - Theory of nutritional poverty traps
- ★ *Ray, Chapters 6*
★ *Ray, Chapter 8 + pp 489–504*

Mon Oct 5 HIV and other infectious diseases

- Impact of AIDS, malaria, tuberculosis, and other diseases
 - Pharmaceutical R&D incentives
- ★ *Graff Zivin, Thirumurthy and Goldstein, “AIDS Treatment and Household Spillover Benefits: Children’s Nutrition and Schooling in Kenya,” Journal of Public Economics, 93, 1008-1015, 2009*
- *Kremer, “Pharmaceuticals and the Developing World,” Journal of Economic Perspectives 16(4): 67–90, 2002*

Wed Oct 7 Quality of education and health care

- Absenteeism at schools and health clinics
 - Viewing of “The Name of the Disease” (documentary)
- ★ *Chaudhury et al, Missing in Action: Teacher and Health Worker Absence in Developing Countries, Journal of Economic Perspectives 20(1): 91–116, 2006*

Mon Oct 12 Health and education

- Effect of health on education
 - Effect of education on health
- ★ *Miguel and Kremer, “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities,” Econometrica 72(1): 159-217, 2004*

Wed Oct 14 Education

- Basic facts about education in developing countries
- Modeling how the family decides how much schooling to invest in
- ★ *Edmonds and Pavcnik, “Child Labor in the Global Economy,” Journal of Economic Perspectives 19(1): pp 199–220, 2005*
- *Public Report on Basic Education in India (PROBE), Chapter 3, 1999*

Mon Oct 19 Returns to education

- Estimating the economic returns to schooling
- ★ *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*

Wed Oct 21 Guest lecture: Prof. Erica Field (visiting professor from Harvard)

- The effects of marrying at a young age
- ★ *Field and Ambrus, “Early Marriage, Age of Menarche, and Female Schooling Attainment in Bangladesh” Journal of Political Economy 116(5): 881-930, 2008 (skip section 6)*

Mon Oct 26 Gender

- “Missing women” and gender bias
- Parental spending on children
- ★ *Duflo, “Grandmothers and Granddaughters: Old Age Pension and Intra-Household Allocation in South Africa,” World Bank Economic Review 17(1):1–25, 2003*
- ★ *Ray, pp. 279–288*
- *Sen, “More Than 100 Million Women Are Missing,” New York Review of Books 37(2), December 20, 1990*

Wed Oct 28 Midterm exam**Mon Nov 2 Microcredit**

- Theory of credit markets
- Evidence on microcredit
- ★ *Ray, Chapter 14*
- ★ *Karlan, Economic Journal, 117(February), F52–F84, 2007*
- *Morduch “The Microfinance Promise.” Journal of Economic Literature 37(4):1569-1614, 1999*
- *Bruck, “Millions for Millions,” New Yorker, October 2006*

Wed Nov 4 Risk and insurance

- Risks faced by the poor

- Informal insurance

★ *Ray, Chapter 15*

Mon Nov 9 Land, agriculture, and incentives

- Theory of land ownership and incentives
- Evidence on land ownership and land reform

★ *Ray, Chapters 11 and 12 (can skip 12.4)*

★ *Banerjee, Gertler, and Ghatak, "Empowerment and Efficiency: Tenancy Reform in West Bengal," Journal of Political Economy 110(2): 239-280, 2002 (skip theoretical model)*

Wed Nov 11 Civil war and development

★ *World Bank, "Chapter 1: Civil War as Development in Reverse," Breaking the Conflict Trap, 2003*

★ *Bellows and Miguel, "War and Local Collective Action in Sierra Leone," UC Berkeley mimeo, 2008*

Mon Nov 16 Corruption

- Theory of corruption
- Evidence on corruption

★ *Fisman, "Estimating the Value of Political Connections," American Economic Review, 91(4), 1095-1102, 2001.*

★ *DiTella and Schargrodsky, "The Role of Wages and Auditing during a Crackdown on Corruption in the City of Buenos Aires," Journal of Law and Economics, 46(1), 269-292, 2003.*

Wed Nov 18 TBD

Mon Nov 23 Thanksgiving week

Wed Nov 25 Thanksgiving week

Mon Nov 30 Technology

- Agricultural technology
- Information technology

★ *Jensen, "The Digital Provide: Information (Technology), Market Performance and Welfare in the South Indian Fisheries Sector," Quarterly Journal of Economics, 122(3), 2007*

- *Duflo, Kremer, and Robinson, "Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya," National Bureau of Economic Research working paper, July 2009.*

Wed Dec 2 Wrap-up