

Course Overview

This course surveys a selection of topics in development economics. The goal is not to provide a comprehensive survey of the field, but rather to introduce a few core topics in some detail. Attention will also be given to some newer developments in the field.

Instructor: Bryan S. Graham, 665 Evans Hall, tel: 2-4752, e-mail: BGRAHAM@ECON.BERKELEY.EDU.

Time and Location: Thursdays 9:00AM - 11:00AM, 597 Evans Hall.

Course Webpage: [HTTP://WWW.ECON.BERKELEY.EDU/~BGRAHAM/](http://www.econ.berkeley.edu/~bgraham/).

Office Hours: Wednesdays 1:30 to 3PM.

Prerequisites: Ec201a,b, Ec202a,b, and Ec240a,b or equivalent. I will assume familiarity with microeconomic theory at the level of Varian's *Microeconomic Analysis*, basic exposure to dynamic programming (Sargent and Ljungqvist's *Recursive Macroeconomic Theory*, MIT Press, is a reasonably accessible introduction), matrix algebra, probability and statistics and econometrics at the level of Casella and Berger's *Statistical Inference* and Goldberger's *A Course in Econometrics*. For students conducting empirical work I recommend concurrent enrollment in the Ec241a,b sequence and also taking Ec244. For students interested in writing applied theory theses in development I recommend taking Ec209a,b and Ec206.

Enrollment policies: Please see Phil Walz (PHIL@ECON.BERKELEY.EDU) if you have any questions about enrollment policies.

Textbook(s): DM: *Development Microeconomics* (Pranab Bardhan & Christopher Udry, Oxford University Press), ANS: *The Analysis of Household Surveys* (Angus Deaton, John Hopkins University Press).

Grading: There will be 4 assignments, each worth 25 percent of your total course grade. I may also hand out, from time to time, additional ungraded problem sets to aid in the preparation for the field exam in development.

Course Policies

1. Class will typically last two hours, with a short break in the middle. On occasion class may run longer. I will try to provide advance warning if this will be the case.
2. In general auditors are welcome to sit in on the class with the understanding that class resources, such as scarce chairs and my time, are reserved primarily for registered students. Any prospective auditor should send me a short e-mail telling me (a) their name (b) their academic background. I reserve the right to review this policy if the presence of a large number of auditors becomes a distraction.
3. Assignments are due by 4PM on the due date and should be placed in my mailbox on the 5th floor. Late assignments will be marked down one point per day late.
4. Please limit the use of e-mail to short administrative matters. Typically yes/no questions and the scheduling appointments. Short substantive matters may be dealt with immediately before or after class, all other issues should be dealt with in office hours.
5. As a rule I *will not post* lecture notes online. Please take good class notes.
6. Potential advisees should review the document "Guidelines for current and potential advisees", available on the course webpage.

An overview of the Assignments

1. **Constructing a consumption aggregate (due February 21st):** Following the general guidelines of Deaton and Zaidi (2002) you will pick an World Bank LSMS survey of your choice (or another survey with detailed expenditure data) and construct a theoretically sound measure of household consumption. You will use your constructed aggregate to estimate equivalence scales, the poverty rate and various inequality indices.
2. **Dynamic models (due March 20th):** This assignment will involve analyzing a simple life-cycle model along the lines of Jacoby and Skoufias (1997) or Deaton (1992).
3. **Program evaluation (due April 17th):** This assignment will involve an empirical analysis similar to that undertaken in Duflo (2001).
4. **Project prospectus (due May 8th):** A ten page prospectus describing a development research project.

Course outline & reading list

- [T] – theoretical paper
- [E] – empirical paper
- [M] – methodological paper
- [S] – survey paper
- [C] – a classic
- [B] – background
- (*) – will be emphasized in lecture

Reference

- (DM) Bardhan, Pranab and Christopher Udry. (1999). *Development Microeconomics*. Oxford: Oxford University Press.
- (WBD) Dasgupta, Partha. (1993). *An Inquiry into Well-Being and Destitution*. Oxford: Oxford University Press.
- (UC) Deaton, Angus. (1992). *Understanding Consumption*. Oxford: Clarendon Press.
- (AHS) Deaton, Angus. (1997). *The Analysis of Household Surveys*. Baltimore: Johns Hopkins University Press.
- (DE) Ray, Debraj. (1998). *Development Economics*. Princeton: Princeton University Press.

Health and nutrition

- [S] WBD, Chapters 14 - 17.
- [M] AHS, Chapter 4
- [T] DM, Chapter 4
- [E] (*) Behrman, Jere R. and Anil B. Deolalikar. (1987). “Will developing country nutrition improve with income? A case study for rural south India,” *Journal of Political Economy* 95 (3): 492 - 507.
- [T] Bliss, Christopher and Nicholas Stern. (1978). “Productivity, wages and nutrition : Part I: the theory,” *Journal of Development Economics* 5 (4): 331 - 362.
- [E] (*) Case, Anne and Christina Paxson. (2006). “Stature and status: height, ability and labor market outcomes,” *Mimeo*.
- [T] (*) Dasgupta, Partha and Debraj Ray. (1986). “Inequality as a determinant of malnutrition and unemployment: theory,” *Economic Journal* 96 (384): 1011 - 1034.
- [T] (*) Dasgupta, Partha and Debraj Ray. (1987). “Inequality as a determinant of malnutrition and unemployment: policy,” *Economic Journal* 97 (385): 177 - 188.
- [M] Dasgupta, Partha. (1997). “Nutritional status, the capacity for work, and poverty traps,” *Journal of Econometrics* 77 (1): 5 - 37.

- [S] Deaton, Angus. (2007). "Health, height and development," *Proceedings of the National Academy of Sciences of the United States of America* 104 (33): 13232 - 13237.
- [C] Mirlees, James A. (1975). "A pure theory of underdeveloped economies," *Agriculture in Development Theory* (L.A. Reynolds, Eds.). New Haven: Yale University Press.
- [C] Reutlinger, Shlomo and Marcelo Selowsky. (1976). *Malnutrition and Poverty: Magnitude and Policy Options*. Baltimore, MA: Johns Hopkins University Press.
- [C] Stiglitz, Joseph E. (1976). "The efficiency wage hypothesis, surplus labor, and the distribution of income in L.D.C.s," *Oxford Economic Papers* 28 (2): 185 - 207.
- [S] Strauss, John and Duncan Thomas. (1995). "Human resources: empirical modeling of household and family decisions," *Handbook of Development Economics* 3 (1): 1883 - 2023. (J. Behrman & T.N. Srinivasan). Amsterdam: North-Holland.
- [E] (*) Strauss, John and Duncan Thomas. (1997). "Health and wages: evidence on men and women in urban Brazil," *Journal of Econometrics* 77 (1): 159 - 185.
- [S] Strauss, John and Duncan Thomas. (1998). "Health, nutrition, and economic development," *Journal of Economic Literature* 36 (2): 766 - 817.
- [E] (*) Subramanian, Shankar and Angus Deaton. (1996). "The demand for food and calories," *Journal of Political Economy* 104 (1): 133 - 162.
- [S] Thomas, Duncan and Elizabeth Frankenberg. (2002). "Health, nutrition and economic prosperity," *Bulletin of the World Health Organisation* 80 (2): 106 - 113.

Measuring consumption, poverty & the welfare implications of price reforms

- [M] AHS, Chapter 3
- [M] (*) Benjamin, Dwayne and Angus Deaton. (1993). "Household welfare and the pricing of cocoa and coffee in Côte d'Ivoire: lessons from the Living Standards Surveys," *World Bank Economic Review* 7 (3): 293 - 318.
- [M] Deaton, Angus. (1989). "Rice prices and income distribution in Thailand: a non-parametric analysis," *Economic Journal* 99 (395): 1 - 37.
- [M] (*) Deaton, Angus and Salman Zaidi. (2002). "Guidelines for Constructing Consumption Aggregates for Welfare Analysis," *LSMS Working Paper No. 135*.
- [M] (*) Deaton, Angus S. and John Muellbauer. (1986). "On measuring child costs: with applications to poor countries," *Journal of Political Economy* 94 (4): 720 - 744.
- [M] Hentschel, Jesko, Jean Olson Lanjouw, Peter Lanjouw, Javier Poggi. (1998). "Combining census and survey data to study spatial dimensions of poverty and inequality," *World Bank Economic Review* 14 (1): 147 - 165.
- [M] Lanjouw, Peter and Martin Ravallion. (1995). "Poverty and Household Size," *Economic Journal* 105 (433): 1415 - 1434.
- [E] Olken, Benjamin. (2005). "Revealed community equivalence scales," *Journal of Public Economics* 89 (2-3): 545 - 566.
- [M] (*) Tarozzi, Alessandro and Angus Deaton. (2007). "Using census and survey data to estimate poverty and inequality for small areas," *Mimeo*.

Saving, investment, consumption and risk

- [T] DM, Chapter 8
- [S] UC, Chapter 6
- [M] AHS, Chapter 6
- [T] (*) Banerjee, Abhijit. (2003). "The two poverties," *Insurance Against Poverty*: 59 - 75 (S. Dercon, Ed.). Oxford: Oxford University Press.
- [E] (*) Banks, James, Richard Blundell and Agar Brugiavini. (2001). "Risk pooling, precautionary savings and consumption growth," *Review of Economic Studies* 68 (4): 757 - 779.
- [S] Dercon, Stefan. (2002). "Income risk, coping strategies, and safety nets," *World Bank Research Observer* 17 (2): 141 - 166.
- [E] (*) Jacoby, Hanan G. and Emmanuel Skoufias. (1997). "Risk, financial markets, and human capital in a developing country," *Review of Economic Studies* 64 (3): 311 - 335.

[T] Jayachandran, Seema. (2006). "Selling labor low: wage responses to productivity shocks in developing countries," *Journal of Political Economy* 114 (3): 538 - 575.

[E] Morduch, Jonathon. (2003). "Consumption smoothing across space: testing theories of risk-sharing in the ICRIAT study region of South India," *Insurance Against Poverty*: 38 - 58 (S. Dercon, Ed.). Oxford: Oxford University Press.

[E] Rosenzweig, Mark R. and Hans P. Binswanger. (1993). "Wealth, weather risk and the composition and profitability of agricultural investments," *Economic Journal* 103 (416): 56 - 78.

Program evaluation

[M] (*) Besley, Timothy and Anne Case. (2000). "Unnatural experiments? Estimating the incidence of endogenous policies," *Economic Journal* 110 (467): F672 - F694.

[M] (*) Rosenzweig, Mark R. and Kenneth I. Wolpin. (1986). "Evaluating the effects of optimally distributed public programs: child health and family planning interventions," *American Economic Review* 76 (3): 470 - 482.

Agricultural production functions

[E] Benjamin, Dwayne. (1995). "Can unobserved land quality explain the inverse productivity relationship?" *Journal of Development Economics* 46 (1): 51 - 84.

[M] (*) Griliches, Zvi and Jacques Mairesse. (1998). "Production functions: the search for identification," *Econometrics and Economic Theory in the 20th Century: The Ragnar Frisch Centennial Symposium*: 169 - 203. (S. Strøm, Ed.). Cambridge: Cambridge University Press.

[E] (*) Udry, Christopher. (1996). "Gender, agricultural production, and the theory of the household," *Journal of Political Economy* 104 (5): 1010 - 1046.

Urban growth & slums

[M] (*) Bajari, Patrick and C. Lanier Benkard. (2005). "Demand estimation with heterogeneous consumers and unobserved product characteristics: a hedonic approach," *Journal of Political Economy* 113 (6): 1239 - 1276.

[M] Bajari, Patrick and Matthew E. Kahn. (2005). "Estimating housing demand with an application to explaining racial segregation in cities," *Journal of Business and Economic Statistics* 23 (1): 20 - 33.

[M] Bartik, Timothy J. (1987). "The estimation of demand parameters in hedonic price models," *Journal of Political Economy* 95 (1): 81 - 88.

[B] Davis, Mike. (2006). *Planet of Slums*. London: Verso.

[M] Epple, Dennis. (1987). "Hedonic prices and implicit markets: estimating demand and supply functions for differentiated productions," *Journal of Political Economy* 95 (1): 59 - 80.

[E] Field, Erica. (2005). "Property rights and investment in urban slums," *Journal of the European Economic Association* 3 (2-3): 279 - 290.

[E] (*) Field, Erica. (2007). "Entitled to work: urban property rights and the labor supply in Peru," *Quarterly Journal of Economics* 122 (4): 1561 - 1602.

[S] Field, Erica and Michael Kremer. (2006). "Impact evaluation for slum upgrading," *Doing Impact Evaluation No. 3*. Washington, D.C. World Bank, PREM.

[E] Friedman, Joseph, Emmanuel Jimenez and Stephen K. Mayo. (1988). "The demand for tenure security in developing countries," *Journal of Development Economics* 29 (2): 185 - 198.

[E] (*) Kaufmann, Daniel and John M. Quigley (1987). "The consumption benefits of investment in infrastructure: the evaluation of sites-and-services programs in underdeveloped countries," *Journal of Development Economics* 25 (2): 263 - 284.

[E] (*) Lanjouw, Jean O. and Philip I. Levy. (2002). "Untitled: a study of formal and informal property rights in urban Ecuador," *Economic Journal* 112 (482): 986 - 1019.

[M] (*) Quigley, John M. (1982). "Nonlinear budget constraints and consumer demand: an application to public programs for residential housing," *Journal of Urban Economics* 12 (2): 177 - 201.

[B] UN-HABITAT. (2003). *Slums of the World: The face of urban poverty in the new millennium?* Nairobi: UN-HABITAT.

Education

- [S] (*) Card, David and Alan B. Krueger. (1996). "Labor market effects of school quality: theory and evidence," *Does Money Matter: The Effect of School Resources on Student Achievement and Adult Success*: 97 - 140 (G. Burtless, Ed.). Washington D.C.: Brookings Institution Press.
- [E] Card, David. (2001). "Estimating the return to schooling: progress on some persistent econometric problems," *Econometrica* 69 (5): 1127 - 1160.
- [E] (*) Case, Anne and Angus Deaton. (1999). "School inputs and educational outcomes in South Africa," *Quarterly Journal of Economics* 114 (3): 1047 - 1084.
- [E] (*) Dulfo, Esther. (2001). "Schooling and labor market consequences of school construction in Indonesia: evidence from an unusual policy experiment," *American Economic Review* 91 (4): 795 - 813.
- [S] Glewwe, Paul and Michael Kremer. (2006). "Schools, teachers, and education outcomes in developing countries," *Handbook of the Economics of Education 2*: 945-1017 (E. Hanushek & F. Welch, Eds). Amsterdam: North-Holland.
- [E] (*) Hsieh, Chang-Tai and Miguel Urquiola. (2006). "The effects of generalized school choice on achievement and stratification: Evidence from Chile's voucher program," *Journal of Public Economics* 90 (8-9): 1477 - 1503.
- [E] Vegas, Emilianita, Ed. (2005). *Incentives to Improve Teaching: Lessons from Latin America*. Washington D.C.: The World Bank.

Infrastructure

- [E] (*) Duflo, Esther and Rohini Pande. (2007). "Dams," *Quarterly Journal of Economics* 122 (2): 601 - 646.
- [E] (*) Jacoby, Hanan G. (2000). "Access to markets and the benefits of rural roads," *Economic Journal* 110 (465): 713 - 737.

Social networks & learning

- [T] DM, Chapter 12
- [T] (*) Coate, Stephen and Martin Ravallion. (1993). "Reciprocity without commitment : Characterization and performance of informal insurance arrangements," *Journal of Development Economics* 40 (1): 1 - 24.
- [T] Jackson, Matthew O. (2007). "The economics of social networks," *Advances in Economics and Econometrics: Theory and Applications, Ninth World Congress I*: 1 - 56. (R. Blundell, W. Newey & T. Persson, Eds.). Cambridge: Cambridge University Press.
- [E] (*) Munshi, Kaivan. (2003). "Networks in the modern economy: Mexican migrants in the U.S. labor market." *Quarterly Journal of Economics* 118 (2): 549 - 597.
- [E] (*) Foster, Andrew D. and Mark R. Rosenzweig. (1995). "Learning by doing and learning from others: human capital and technical change in agriculture," *Journal of Political Economy* 103 (6): 1176 - 1209.
- [E] Munshi, Kaivan and Jacques Myaux. (2006). "Social norms and the fertility transition," *Journal of Development Economics* 80 (1): 1 - 38.