

Syllabus for Ec721

Fall 2015 Boston University

TOPICS IN DEVELOPMENT ECONOMICS

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Course website: <http://people.bu.edu/dilipm/ec721/721hmpg.html>

This course provides an introduction to analytical approaches to the study of development economics. The aim is to expose you to models which provide a conceptual framework for thinking about development questions, and also guide empirical analysis. It should be useful to those interested in theoretical development *per se*, as well as those who intend mainly to do empirical research. It does not provide any training in empirical methods. It serves as a prelude to Ec 722 which will focus on empirical analysis of development issues.

The first part of the course deals with market failures. Topics include (i) market imperfections in credit and insurance; (ii) their implications for misallocation, TFP, human capital investments, growth and inequality; (iii) financial development policies; (iv) models of farms and households, including gender relations and child labor.

The second part of the course deals with governance failures. Topics covered include (vi) models of political competition and interest groups; (vii) clientelism, ethnicity and gender in politics; (ix) dynamics of democratic institutions.

Class: TTh 11-12.30, SSW546, Sept 3--Dec 10

Office Hours: W3.30-5, Th2-330

Prerequisites: First Year PhD courses in micro and macro (Ec701-704) or equivalent

Exams and Grading: Grades will be based on a midterm exam, class participation and a research proposal for a 2nd year paper.

You are expected to know and understand the provisions of the CAS Academic Conduct Code. Cases of suspected academic misconduct will be referred to the Dean's Office.

TOPICS AND READINGS

Papers marked * are core readings which will be covered in detail in the lectures. Non-starred articles are supplementary.

Background Texts

P Bardhan and C Udry (BU), *Development Microeconomics*, Oxford University Press, 1999.

A Banerjee, R Benabou and D Mookherjee (BBM), *Understanding Poverty*, Oxford University Press, 2006.

D Mookherjee and D Ray (MR), *Readings in the Theory of Economic Development*, Blackwell, 2001.

Journal Abbreviations: *AER* (American Economic Review), *AEJM* (American Economic Journal: Micro), *AEJA* (American Economic Journal: Applied), *EJ* (Economic Journal), *ETA* (Econometrica), *JDE* (Journal of Development Economics), *JEEA* (Journal of European Economic Association), *JPE* (Journal of Political Economy), *JEL* (Journal of Economic Literature), *JEP* (Journal of Economic Perspectives), *RES* (Review of Economic Studies), *JPubE* (Journal of Public Economics) *QJE* (Quarterly Journal of Economics)

1. Credit Market Imperfections; Implications for Misallocation, Inequality and Growth (Sept 3, 8, 10, 15, 17)

*P. Ghosh, D. Mookherjee and D. Ray, "Credit Rationing in Developing Countries: An Overview of the Theory," Chapter 11 in MR.

*M. Eswaran and A Kotwal, "Access to Capital and Agrarian Production Organization," *EJ* 1986, 96, 482-498.

*O. Galor and J. Zeira, "Income Distribution and Macroeconomics," *RES*, 60(1993), 35-52.

A. Banerjee and A. Newman, "Occupational Choice and the Process of Development," *JPE* 1993.

*M. Ghatak and J. Jiang, "A Simple Model of Inequality, Occupational Choice and Development," *JDE* 2002.

*B. Moll, "Productivity Losses from Financial Frictions: Can Self-Financing Undo Capital Misallocation?" *AER*, 2014, 3186-3221.

2. Insurance Market Imperfections (Sept 22, 24, 29)

P Bardhan and C Udry, "Risk and Insurance in an Agricultural Economy," Ch. 8 in BU.

S. Coate and M. Ravallion, "Reciprocity without Commitment: Characterization and Performance of Informal Insurance Arrangements," *JDE* 1993, 40, 1-24. (Chapter 14 in MR)

E. Ligon, J. Thomas and T. Worrall, "Informal Insurance Arrangements with Limited Commitment: Theory and Evidence from Village Economies," *RES* 2002, 69(1), 209-244.

R. Townsend, "Risk and Insurance in Village India," *ETA*, 1994.

*C. Kinnan, "Distinguishing Barriers to Insurance in Thai Villages," working paper, Northwestern University. <http://faculty.wcas.northwestern.edu/~cgk281/BtI.pdf>

*D. Karlan, R. Osei, I. Osei-Akoto and C. Udry, "Agricultural Decisions After Relaxing Credit and Risk Constraints," *QJE* 2014, 129(2), May.

*M. Mobarak and M. Rosenzweig, "Selling Formal Insurance to the Informally Insured," working paper, Yale SOM, Nov 2012.
<http://faculty.som.yale.edu/mushfiqmobarak/papers/insurance.pdf>

-----, "Risk, Insurance and Wages in General Equilibrium," working paper, Yale SOM, June 2014.
<http://faculty.som.yale.edu/mushfiqmobarak/papers/geneqm.pdf>

3. Financial Development Policies (Oct 1, 6, 8, 15)

Collateral and Enforcement

*T. Besley, K. Burchardi and M. Ghatak, "Incentives and the De Soto Effect," *QJE* 2012.

U. Lilienfeld-Toal and D. Mookherjee, "The Political Economy of Bonded Labor," *AEJM*, 2010.

*U. Lilienfeld-Toal, D. Mookherjee and S. Visaria, "The Distributive Impact of Reforms in Credit Enforcement: Evidence from Indian Debt Recovery Tribunals," *ETA* March 2012.

Microfinance

*M. Ghatak and T. Guinnane, "The Economics of Lending with Joint Liability: Theory and Practice," *JDE* 1999, 60, 1-34.

C. Ahlin and R. Townsend, "Using Repayment Data to Test Across Models of Joint Liability Lending," *EJ* 117, 2007.

*A. Banerjee, D. Karlan and J. Zinman, "Six Randomized Evaluations of Microcredit: Introduction and Further Steps," *AEJA*, January 2015, 7(1), 1-21.

J Kaboski and R. Townsend, "A Structural Evaluation of a Large Scale Quasi-Experimental Microfinance Initiative," *ETA* 2011.

4. Intra-household Decision-Making (Oct 20, 22)

S. Lundberg and R. Pollak, "Bargaining and Distribution in Marriage," *JEP* 1996, 10(4), 139-158.

*E Duflo and C Udry, "Intra-household Resource Allocation in Cote d'Ivoire," working paper. http://www.econ.yale.edu/~cru2/pdf/ivoire_RES_comp.pdf

*J-M Baland and J Robinson, "Is Child Labor Inefficient?" *JPE* 2000, 108(4), 663-679.

5. Modeling Political Competition (Oct 27,29, Nov 3)

*T Persson and G Tabellini, *Political Economics*, Chapter 3.

*T Besley and S Coate, Sources of Inefficiency in a Representative Democracy, *AER* 1998

A. Dixit and J. Londregan, "Redistributive Politics and Economic Efficiency," *American Political Science Review* 1995, 89(4), 856-866.

*E Grossman and G Helpman, "Electoral Competition and Special Interest Politics", *RES* 1996.

6. Clientelism and Vote-Buying (Nov 10,12)

*S. Stokes, 'Perverse Accountability: A Formal Model of Machine Politics with Evidence from Argentina,' *American Political Science Review* 2005, 99(3), 315-325.

F. Finan and L. Schechter, "Vote-Buying and Reciprocity," *ETA* 2012, 80(2), 863-882.

*J. Robinson and T. Verdier, "The Political Economy of Clientelism," *Scandinavian Journal of Economics*, 2013, 115(2), 260-291.

P. Bardhan and D. Mookherjee, "Political Clientelism-cum-Capture: Theory and Evidence from West Bengal," working paper, 2012.

<http://people.bu.edu/dilipm/wkpap/clientcapaug2012f.pdf>

7. Ethnicity and Gender in Politics (Nov 17,19; Dec 1)

*R. Chattopadhyay and E. Duflo, "Women as Policy-Makers: Evidence from a Randomized Experiment in India," *ETA* 2004.

*A Banerjee and R. Pande, "Parochial Politics: Ethnic Preferences and Politician Corruption," working paper, Harvard Kennedy School, 2007.

http://scholar.harvard.edu/files/rpande/files/parochial_politics_0.pdf

*K Munshi and M Rosenzweig, "Networks, Commitment and Competence: Caste in Indian Politics," working paper, University of Cambridge, 2013.

http://www.econ.cam.ac.uk/people/faculty/km619/wp/Munshi_Rosenzweig_2013.pdf

8. Institutional Multiplicity and Dynamics (Dec 3, 8, 10)

*A.Lizzeri & N. Persico, "Why Did the Elites Extend the Suffrage? Democracy and the Scope of Government, with an Application to Britain's Age of Reform," *QJE* 2004, 119(2), 705-763.

*D. Acemoglu and J. Robinson, "Persistence of Power, Elites and Institutions," *AER* (2008), 98, 267-93.

R Benabou, "Unequal Societies: Income Distribution and the Social Contract," *AER* 90(1), 2000, 96-129

*F Borghignon and T Verdier "Oligarchy, Democracy, Inequality and Growth" *JDE* 62, 285-313, 2000.

